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Business & Finance

World-Wide

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Financial shares pulled U.S. and European indexes lower but a continuing drop in oil prices helped soften downward pressure. **Page 18**

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Oil prices continued to drop despite conflict in Georgia. Crude futures fell 1.3% to \$113.01 a barrel in New York. **Page 23**

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Tesco will join forces with Tata Group to set up wholesale stores in India. **Page 5**

Thomson Reuters reported slower revenue growth in its markets division as investment-bank clients cut spending. **Page 5**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11642.47	-139.88	-1.19
Nasdaq	2430.61	-9.34	-0.38
DJ Stoxx 600	291.84	-1.22	-0.42
FTSE 100	5534.5	-7.3	-0.13
DAX	6585.87	-23.76	-0.36
CAC 40	4518.48	-20.01	-0.44
Euro	\$1.4909	-0.0091	-0.61
Nymex crude	\$113.01	-1.44	-1.26

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Russia declared a provisional cease-fire in its war with Georgia under which it would withdraw part of its forces, dictating terms in the Caucasus region. Medvedev agreed with France's Sarkozy, visiting Moscow on behalf of the EU, on a six-point cease-fire plan that confirms Georgia's sovereignty but not its territorial integrity. **Pages 1, 2**

Musharraf lost more ground, as lawmakers in Pakistan's northwest demanded he resign a day after Punjab legislators passed a similar resolution. **Page 10**

A roadside bomb destroyed a Pakistani air-force truck, killing up to 14 people. The Taliban said it was retaliation for recent military operations in the northwest.

Three people were killed by assailants with knives at a roadblock in northwest China, amid a surge of deadly antigovernment violence in predominantly Muslim Xinjiang this month. **Page 10**

Zimbabwe opposition leader Morgan Tsvangirai left power-sharing talks with President Robert Mugabe, but an aide denied talks had broken down.

Lebanon's parliament overwhelmingly approved a national unity cabinet that gives Iranian-backed Hezbollah a more powerful role in running the country.

Indian forces shot and killed at least 13 Muslim protesters as thousands of people defied a total curfew in Indian Kashmir.

A suicide bomber hit an Iraqi convoy in Diyala province's capital, killing two people and narrowly missing a provincial governor and an army commander.

Cambodia's genocide tribunal indicted an ex-prison chief of the Khmer Rouge, the first suspect to be charged for war crimes and crimes against humanity.

Muslim guerrillas withdrew from several southern Philippine villages after fierce fighting with government troops.

The U.S. imposed economic sanctions on five Iranian firms accused of helping Tehran pursue what the U.S. deems ambitions to develop a nuclear weapon.

A Chinese Christian activist, detained while heading to a Beijing service Sunday attended by Bush, escaped from police and is in hiding, his brother said.

EDITORIAL & OPINION

A real 'war for oil'
 The West has played an unwise role in Russia's energy grab. **Business World. Page 13**

Russia declares cease-fire in conflict with Georgia

Provisional truce requires both sides to pull out troops

Russia declared a provisional cease-fire in its five-day war with Georgia under which it would withdraw part of its forces, dictating terms to Georgia and the West in the strategically vital Caucasus region.

After announcing a unilateral cease-fire and saying Russia had

By **Jeanne Whalen and Alessandra Galloni** in Moscow, **Marc Champion** in Tbilisi, Georgia, and **Andrew Osborn** in Tskhinvali, Georgia

achieved its military goals, Russian President Dmitry Medvedev said he had agreed to a six-point cease-fire plan with French President Nicolas Sarkozy, visiting Moscow on behalf of the European Union. Moscow reserved the right to respond to any hostile action by Georgian forces.

The plan requires Georgia and Russia to withdraw their forces from Georgia's breakaway province of South Ossetia. The plan confirms Georgia's sovereignty, but notably, not its territorial integrity—a key

Please turn to back page

UBS revises its practices to reduce risk

By **CARRICK MOLLENKAMP AND KATHARINA BART**

ZURICH—UBS AG has trumpeted for years that operating an aggressive investment bank together with a private bank for wealthy clients would be a revenue machine. On Tuesday, the Swiss banking company conceded that was a bad idea.

Now, UBS says it plans to apply a little tough love. It will make it more expensive for the investment bank to borrow. That unit's new chief, Jerker Johansson, will be more accountable for its bottom line, but he will also be freed up from having to spend time on UBS's money-management unit and private bank. Plus, his compensation, and that of his managers, will be more closely tied to the investment bank's performance. The moves are part of a plan to scale back the bank and take on less risk.

UBS, one of the banks worst hit globally by the credit crisis, stopped short of the more drastic moves that investors and analysts had pushed for, such as selling its U.S. money-management arm and its investment bank. But there would be few buyers for its investment bank today, with few banks in a position to make acquisitions. By starting to operate the unit separately, UBS

Please turn to page 31



France's Nicolas Sarkozy, left, and Russia's Dmitry Medvedev discuss the Georgian cease-fire plan. "We couldn't solve all of the problems today," said Mr. Sarkozy.

In scarred South Ossetia, Kremlin reveals its might

By **ANDREW OSBORN**

TSKHINVALI, Georgia—The Kremlin said Tuesday it was suspending military action in the separatist enclave of South Ossetia inside Georgia, but huge Russian military convoys still snaked toward the scarred capital, Tskhinvali.

After five days of fighting—Russia's biggest use of force outside its borders since the 1991 Soviet collapse—a victorious Russian army offered a small group of foreign journalists a carefully controlled glimpse of some of the roughly 80-kilometer-square territory it went to war over. Those who spoke to reporters highlighted the hatred at the heart of the conflict.

"Look at what they [the Georgians] did," said Taimraz Pliev, 62 years old. "It's Stalingrad." Mr. Pliev said he and his family had spent five nights in their cellar while a battle raged above ground.

"Who will compensate for all this?" he asked, his eyes glassy with emotion. But other neighborhoods further off the official tour seemed to have sustained much less damage, with most buildings intact, raising questions about Russian assertions Tskhinvali was essentially leveled in the Georgian attack.

Russian soldiers atop armored personnel carriers and tanks smiled and waved triumphantly as they patrolled the capital's streets, causing traffic jams.

The traffic on South Ossetia's roads Tuesday suggested the Russian army isn't planning to leave anytime soon. The sole two-lane road that snakes from Russia through plunging mountain passes was clogged with military hardware. Heavy battle tanks, armored personnel carriers, supply trucks and howitzers rumbled toward the capital. MIG helicopter gunships

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LEADING THE NEWS

U.S. deals with criticism

Top diplomats seen as more focused on Mideast affairs

BY JAY SOLOMON AND MARY JACOBY

WASHINGTON—As Russian troops halt their military attack on Georgia, criticism is mounting that the Bush administration didn't do enough to manage its strategic relationship with Georgian President Mikheil Saakashvili—and keep him out of trouble.

U.S. officials have stressed in recent days that the White House and State Department repeatedly warned Mr. Saakashvili and his government against responding to Russian military provocations in ways that could spark a broader conflict.

The State Department, in particular, said its special envoy to Georgia, Deputy Assistant Secretary of State Matthew Bryza, made trips to Tbilisi in recent months to convey the message that Washington could do little for Mr. Saakashvili if a war with Moscow broke out.

"We've been quite clear. ... Don't take the bait and don't respond," said a senior U.S. official working on Georgia.

A Georgian official confirmed that the U.S. had warned Tbilisi not to respond to Russian provocations. But the official said Moscow's military buildup in South Ossetia grew so large that the Georgian government eventually had to respond. "We were restrained for a long time," the official said.

Despite the U.S. warnings, many officials in the U.S. government who have worked on the Russia relationship in recent years said President George W. Bush lionized Mr. Saakashvili as a model for democ-

racy in the region to the point that the Georgian leader may have held unrealistic expectations about the amount of support he might receive from the U.S. and the West.

These officials also point to a lack of clarity governing the U.S.-Georgia military relationship, which was increasingly close but not yet a formal alliance. About 130 American military trainers have been stationed in Georgia to train local troops, and Tbilisi deployed 2,000 soldiers in Iraq before this month's fighting with Russia forced them home. But the U.S. wasn't formally committed to protecting Georgia against outside aggression.

Finally, these officials said, Secretary of State Condoleezza Rice seemed so preoccupied with Iraq, Iran and the Arab-Israeli conflict that she didn't have time to fashion an effective response to Russia's muscle flexing on its borders.

They note that Ms. Rice, herself a Russia scholar, was largely wrapped up with Middle East affairs and that, as a result, policy involving the former Soviet states was largely delegated to more junior officials.

This occurred despite the importance Washington placed on democracy in the former Soviet states, and despite growing signs in recent months that an increasingly confident and oil-rich Moscow wasn't going to allow pro-Western governments to flourish on its doorstep.

"The vast majority of the time, this administration is not focused on Georgia or Russia," said Sarah Mendelson, a senior fellow at the Center for Strategic and International Studies, a Washington think tank.

The U.S. official working on Georgia denied that the administration wasn't focused on managing its relationship with the country. The official added that Washington couldn't ask Mr. Saakashvili not to protect

his troops from attacks by South Ossetian insurgents and Russian forces.

In a Bush administration that espoused the promotion of democracy as among its principal tenets, Mr. Saakashvili became one of Washington's closest allies after the Georgetown University-educated lawyer came to power in the 2003 "Rose Revolution."

Georgia was among a handful of former Soviet states that backed the U.S. invasion of Iraq that year, and contributed troops. And Mr. Saakashvili was a regular on the Washington diplomatic circuit, attending black-tie events and contributing to U.S. foreign-policy journals.

President Bush responded by making a state visit to Tbilisi in 2005, where he was greeted by 150,000 Georgians. And the American president became a supporter of Georgian membership in the North Atlantic Treaty Organization, although its membership hasn't advanced.

Still, some analysts say the U.S. didn't seem to contemplate the darker sides of Mr. Saakashvili's leadership. His government has been charged by the Georgian opposition with corruption and crack-downs on competing political parties. And economists have warned that Tbilisi was spending too much on defense.

CORRECTIONS & AMPLIFICATIONS

Apple Inc. recognizes as revenue 30% of the value of iPhone software sales through its App Store. A Marketplace article Tuesday incorrectly implied that Apple recognizes the total value of iPhone software sales before sharing 70% with developers of the software.

McCain hardens stance on Russia's 'aggression'

BY ELIZABETH HOLMES AND AMY CHOZICK

John McCain, seeking to keep foreign-policy issues at the fore of the U.S. presidential campaign, is taking an increasingly hard line against Russia over its military operations in Georgia.

In Erie, Pa., Monday, the Republican presidential hopeful referred to "Moscow's path of violent aggression," and said that "Russian President Medvedev and Prime Minister Putin must understand the severe, long-term negative consequences that their government's actions will have for Russia's relationship with the U.S. and Europe."

On Tuesday, Russia announced a provisional cease-fire in its war with Georgia, withdrawing part of its forces.

Sen. McCain's comments on Monday were consistent with his long-held stance toward Russia, including his calls to have the country ejected from the G-8, the Group of Seven leading nations plus Russia. The senator has taken a relatively hard line on many foreign policy issues, including supporting further sanctions on—and possible military action against—Iran and a no-negotiating policy toward North Korea.

Monday's tough rhetoric reflects a strategy by the McCain campaign to keep Georgia and foreign policy, which is seen as the senator's strength, at the forefront of the debate.

In a Wall Street Journal/NBC poll conducted in July, 53% of respondents said Sen. McCain would make a better commander in chief, while 25% said the same about Democratic presidential candidate Barack Obama.

Sen. Obama Friday initially responded to Russia's attacks by calling for an end to the fighting without blaming either side. A day later, while vacationing with his family in Hawaii, Sen. Obama hardened his approach and blamed Russia for in-

vading Georgia.

Sen. Obama on Monday issued a statement from Hawaii calling for an end to the violence and again blaming Russia. "No matter how this conflict started, Russia has escalated it well beyond the dispute over South Ossetia and invaded another country. There is no possible justification for these attacks."

For much of the summer, Sen. Obama has dominated the news. But the Republicans have played up recent voter concerns over high gasoline prices and growing interest in off-

shore drilling to their advantage. The violence in Georgia could be another issue that would favor them.

What remains to be seen is whether voters want such tough language from the White House, after eight years of an aggressive foreign policy that has made the Bush administration unpopular among voters.

"What John McCain is trying to do is to remind people of what he's been telling them all along: 'It is a



John McCain

Some analysts think showing restraint is a smart political calculation.

dangerous world out there," said James Lindsay of the University of Texas at Austin. He added, "You can overplay your hand and come across as too bellicose for your own good."

The Arizona senator's language has been even tougher than that coming from President George W. Bush. "Russia's actions this week have raised serious questions about its intentions in Georgia and the region," Mr. Bush said Monday evening. "These actions have substantially damaged Russia's standing in the world."

INDEX TO BUSINESSES

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

Table listing various companies and their page references, including Addeco, ArcelorMittal, BNP Paribas, Intel, Renault, etc.

INDEX TO PEOPLE

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



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

Table listing names of people and their page references, including Al Nator, Agnagos, Applebaum, etc.

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THE RUSSIA-GEORGIA CONFLICT

McCain's Georgia ties

Candidate's adviser served as a lobbyist for ex-Soviet republic

BY MARY JACOBY

John McCain's top foreign-policy adviser, Randy Scheunemann, is a leading expert on U.S.-allied Georgia—and was a paid lobbyist for the former Soviet republic until March, in the run-up to what has become a major battle between Georgia and Russia.

Democratic rival Barack Obama's presidential campaign was quick to try to paint Mr. Scheunemann's dual roles as a conflict of interest after Sen. McCain swiftly took Georgia's side in the dispute, and cited it as evidence that Sen. McCain is "ensconced in a lobbyist culture," as Obama spokesman Hari Sevagan told reporters over the weekend.

But given the rapid escalation of the fighting, and the fact that Georgia is being viewed as a victim of its neighbor's aggression, Mr. Scheunemann's ties to the small nation and its pro-Western Georgian President Mikheil Saakashvili may look less like a weakness and more like a strength in the first foreign-policy crisis of the general election campaign.

"In a major international crisis, what is their response?" Mr. Scheunemann said of the Obama campaign in an interview Sunday. "To take a cheap shot at me, as if helping a struggling democracy is somehow wrong." Mr. Scheunemann took a formal leave of absence from his two-person lobbying firm earlier this year amid controversy over Sen. McCain's ties to lobbyists.

Mr. Scheunemann's firm, Orion Strategies, continues to represent Georgia in Washington, and signed a new \$200,000 contract with the country in April. Mr. Scheunemann remains an owner of the firm, though he is no longer registered to lobby for it. Mr. Scheunemann said he has made more than a dozen trips to Georgia since he began lobbying for the country in 2004.

The crisis puts a spotlight on Mr. Scheunemann, 48 years old, who has long been a leading neoconservative voice in the American foreign-policy debate. He played a prominent role advocating for toppling Saddam Hussein, serving in 2002 as executive director of the Committee for the Liberation of Iraq. At a key moment before the war, he helped to line up allies in "New Europe"—notably former Soviet bloc states like Latvia—to write a letter in support



Sen. John McCain, right, speaks with Randy Scheunemann, the Republican presidential candidate's top foreign-policy adviser and an expert on Georgia.

of the invasion. That came as "Old Europe" American allies like France and Germany resisted.

Mr. Scheunemann has made a career in lobbying for countries, including Georgia, that aspire to join the North Atlantic Treaty Organization. Russia's objections to expansion of the Western military alliance are a factor in the current assault in the Caucasus.

As a foreign-policy aide to then-Senate Majority Leader Trent Lott in 1997, Mr. Scheunemann accompanied Sen. McCain on a trip to the newly independent former Soviet republic. At a dinner, Sen. McCain first met Mr. Saakashvili, who had been a law student in Washington, and was then a young reform-minded Georgian parliamentarian, Mr. Scheunemann said.

In 2003, Sen. McCain returned to Georgia and gave a speech calling on then-President Eduard Shevardnadze to conduct fair presidential and parliamentary elections. The elections weren't perceived as fair, however, and democratic activists launched the protests known as the Rose Revolution that led to Mr. Saakashvili's gaining power.

In August 2006, Sen. McCain returned to Georgia on another congressional delegation, visiting Mr. Saakashvili at a presidential villa on the Black Sea. While Mr. Scheunemann watched from a dock, Sen. McCain and the Georgian leader rode jet skis together, Mr. Scheunemann said.

"He knows all the top players" in Georgia, Zeyno Baran, an analyst on

energy and the Caucasus region at the Hudson Institute in Washington, said of Mr. Scheunemann.

Mr. Scheunemann is an architect of the U.S.-led expansion of NATO to include former Soviet satellite states, a bipartisan policy begun under the Clinton administration intended to contain Russia.

But in the 1990s and early 2000s Russia had little economic and diplomatic power to stop its former satellites and republics—including Poland, the Czech Republic, Latvia, Lithuania, Estonia and Romania—from joining the Western alliance.

Sen. McCain has said that NATO leaders' failure to advance Georgia's application for membership at a summit of the alliance in Romania earlier this year emboldened Russia to invade.

Mr. Scheunemann said he had foreseen the possibility of a Russian attack on Georgia. He had long counseled President Saakashvili to avoid overreacting to provocations from the Russian-backed breakaway regions of South Ossetia and Abkhazia that are at the center of the current conflict, these people say.

"At all sort of critical moments, when there have been repeated Russian provocations, Randy was a calming influence" advising Georgians against responding to Russia with military action, Ms. Baran said.

Mr. Scheunemann's firm has earned more than \$2 million since 2004 lobbying U.S. officials, including Sen. McCain and his staff, on behalf of various clients including Georgia, records show.



Cease-fire

Russian soldiers in Tskhinvali, below, the capital of Georgian breakaway enclave of South Ossetia. Russian President Dmitry Medvedev ordered a halt to military action Tuesday.



A glimpse of South Ossetia

Continued from first page
flew overhead in the same direction.

In the opposite direction, minibuses ferrying refugees motored toward the Russian border. At one hillside cemetery, a funeral was taking place. Men in camouflage and women clad in black looked on as an open coffin was unloaded from a truck.

Tskhinvali is a town with an official population of 30,000 and long dusty roads, low-rise apartment blocks and many individual detached houses with large yards.

The first stop on the Kremlin tour was a busy road junction on the edge of town. The charred remains of two Georgian T-72 tanks lay beached in the center of the junction, a mass of twisted metal and ash. Nearby, in a crater lay an unexploded tank shell. A little farther away, a severed human foot lay on a detritus-strewn sidewalk.

Surrounding apartment blocks, shops and a cultural center were riddled with bullet holes and shell impacts. As an almost continuous stream of Russian armor trundled past, the tiny number of civilians left in the area emerged to tell their stories.

Alla Begayeva, a mother of three, was one of many South Ossetians who said she was grateful to Russian forces. "If Russia hadn't come, the Georgians would have slit our throats like pigs," she said. "Russia is a great power." She said she hoped South Ossetia would soon become part of Russia proper. At least half a dozen civilians said Georgian tanks had fired on apartment blocks as well as women and children. The same people said they were cowering in their basements at the time, and that they had been told about what had happened by local fighters.

Russian officials charge the Georgians with "genocide" against the Ossetians. Tbilisi denies that claim and accused Russia of ethnic cleansing. Russian officials say nearly half the region's roughly 70,000 residents have fled across the border into Russia itself.

The pale facade of Tskhinvali's

hospital was pocked with bullet holes. Doctors led the way to a dark fetid basement where they said they had been forced to operate on patients as fighting continued outside.

Staff said Georgian forces had struck the hospital with a Grad missile. The point at which the missile entered the hospital wasn't visible. A Russian officer said that was because it had come in through the roof.

Standing on the front porch cradling three shards of shrapnel she said had been removed from patients Dr. Tina Zakharova railed against Georgia and its president, Mikheil Saakashvili.

"This is the kind of humanitarian aid Georgia has sent us," she said, her voice rising with anger. "How can you fire a Grad missile at a hospital?"

A short drive away an entire neighborhood had been flattened by a squall of Grad missiles. In many cases only fragments of facades had been left standing. Some houses were little more than rubble.

An elderly man, Nodar Tskhovrebov, stared at what was left of his house. Nothing remained but the walls. "What am I going to do," he said poking the remains of the missile with his shoe. Nearby vans punctured with dozens of bullets had been abandoned in the street.

In other places, overturned cars blackened by fire still lay in the road. The main government building, a large grey structure, was wrecked. Local people said they had no water or electricity.

Colonel Igor Konashenko said 500 bodies had been pulled from the area the previous day. The streets had been littered with corpses and some civilians had been shot in the back of the head, he said. He had also seen at least one decapitated body, he added. As the tour wound up, mortar fire resounded in the distance and sporadic gunfire could also be heard. As armored personnel carriers whisked the tour's participants back to Russia proper, they passed large houses in flames on both sides of the road.

Georgia says cyberattacks joined shooting

BY SIOBHAN GORMAN

WASHINGTON—Georgian officials and international security experts say the Georgian government was hit by repeated cyberattacks just as Russia launched military action against the country on Monday, a move that illustrates the potential of cyberwarfare to augment a military attack.

The leading suspect behind the attacks, which disabled critical government Web sites, is a cybercriminal organization known as the Russian Business Network, according to one person briefed on the subject. That organization, however, is believed to act only as a carrier for

criminal activities online. It may not be possible to determine who is ultimately responsible.

Lauri Almann, the deputy minister of defense of Estonia, which is helping Georgia formulate its response to the cyberattacks, said in an interview it appears likely the Georgian government and local media outlets were hit by what is known as "denial of service" attacks, which shut down their Web sites.

It isn't clear how significant a problem the cyberattacks posed for the Georgian government, which has been aggressive in documenting its grievances against Russia. It is also hard to trace such efforts, given how the Internet makes it easy for people

to cover their tracks.

The attacks, which appear to have begun Thursday and have repeated over the past few days, targeted several government Web sites, said Scott Borg, president of the think tank U.S. Cyber Consequences Unit.

Cybersecurity experts say this appears to be the first time cyberattacks have been employed so publicly alongside a military assault.

Georgian government officials attributed the attacks broadly to Russia.

Russian embassy spokesman Yevgeniy Khorishko denied any Russian government involvement.

CORPORATE NEWS

BANKING

Santander, RBS, Fortis to sell an ABN business



BANCO Santander SA, Royal Bank of Scotland Group PLC and Dutch-Belgian financial-services company Fortis NV agreed to sell the vast majority of ABN Amro's private-equity business to a consortium led by Goldman Sachs Group Inc., according to a Fortis spokeswoman.

She declined to comment on the value of the deal, which includes 21 investments in Northern Europe, but a person familiar with the matter put the price at around €600 million, or nearly \$900 million.

The investments will continue to be managed by AAC Capital Partners, which was spun out of ABN Amro's private-equity arm last September.

ENERGY

Gazprom's oil arm offers majors a swap of assets



RUSSIA'S OAO Gazprom Neft offered Chevron Corp., Eni SpA and Royal Dutch Shell PLC the chance to swap some of their overseas assets for some of Gazprom Neft's Russian production assets.

The offer would give the companies the chance to increase their reserve base and Russian operations, while helping Gazprom Neft, the oil arm of state-controlled gas giant OAO Gazprom, become a global oil player, analysts say.

Boris Zilbermintz, deputy general director for exploration and production, said: "We're waiting until the end of September for responses." Chevron, Eni and Shell declined to comment. —Jacob Gronholt-Pedersen

TRADING

Van der Moolen publishes results early after breach



DUTCH securities trading and brokerage firm Van der Moolen Holding NV said it published its second-quarter results two days early, following the loss of a copy of the draft news release.

In light of "the risk of early knowledge in the market of the content of the release," Amsterdam-based Van der Moolen decided to report net profit of €9.6 million (\$14.3 million), compared with a loss of €9.6 million a year earlier, on Tuesday instead of Thursday.

It added that it will terminate its online-trading platform because of underperformance.

—Roundup

Irked eBay sellers trade elsewhere

Niche online sites charge lower fees; buyers still face risks

BY MYLENE MANGALINDAN

SOME ONLINE RETAILERS are moving away from eBay. Irked by February's changes in fees and the feedback-rating system, merchants who once sold wares exclusively at the online-auction site can now be found on a number of smaller alternative sites that have sprung up. With names like Wigix, Silkfair, Etsy and Oodle, these sites aim to offer more hand-holding for sellers—and charge lower fees—than the behemoth eBay.

Some of these new sites target niche markets, such as Etsy, which focuses on handmade crafts, where small sellers say their products can stand out better than they do at a soup-to-nuts-to-carburetors site like eBay. And many offer free features, such as how-to videos and blogs designed to improve communication between merchants and shoppers. Some sites are even tapping into the social-networking trend—where items for sale can show up on sites like MySpace or Facebook.

"I don't need a million people to see my things, just the right people who have hopefully good taste to buy my things," says Cathleen McLain, a 58-year-old jewelry maker who began selling her handmade necklaces on Silkfair earlier this year.

Shoppers must beware when buying on newer Web sites. It's hard to know the merchants' track record, whereas eBay displays sellers' positive and negative feedback ratings. And some of these sites don't offer buyer protections, such as Amazon's "A-to-Z" guarantee, which covers buyers for up to \$2,500 each should their purchases be defective or incorrect. Shoppers who use PayPal on eBay are covered for up to 100% of purchase price.

"You're always taking a risk with sellers from sites like these," says Scharita Mulpuru, an analyst at Forrester Research. "Unless there are guarantees or some seller ratings like the ones eBay has accumulated over



A brooch (left) by Cathleen McLain is for sale on Silkfair

On Wigix, a Delftware pitcher (left) from seller bargainsurfing; Sew Gracious Boutique Bags has a tote (right) on Etsy.com

time, there will always be some bad experiences."

Alternatives for eBay Inc. sellers have existed for some time. One of the best known is Amazon.com Inc., which offers several services for merchants. But sellers are increasingly gravitating to these newer and smaller e-commerce sites.

Ms. McLain switched to Silkfair in part because she found it increasingly hard to compete with cheap overseas merchandise. She says it didn't help that eBay instituted a policy that allows only buyers to rate sellers—a change from its traditional system of letting buyers and sellers mutually rate each other. Also, when a buyer searches for an item, the results are weighted to show the highest-rated sellers first, a system that smaller merchants argue hurts mom-and-pop operations. Finally, sellers who use PayPal, the online-payment service owned by eBay, may not get their funds for as long as 21 days. It's an effort to protect buyers from transactions eBay considers "risky" or "suspicious"—mostly big-ticket items or transactions with low-rated sellers.

These recent changes have made the use of eBay "questionable" for small retailers like herself, says Ms. McLain. She says she hears about Silkfair on eBay-seller online-discussion boards. The site, which started operat-

ing in March, showcases her handmade jewelry with large images—larger than those on eBay. Still, fewer people will view her merchandise. "It's never going to be as big as eBay," says the Hartford, Conn., resident.

An eBay spokeswoman says that the company is no stranger to competition from other Web sites, and that it expects many of its savvy users to sell on multiple sites. The company says its recent changes are designed to offer competitive pricing and the best overall value for merchants. For now, though, only eBay offers the volume of auction-style and fixed-price listings, which generated second-quarter transactions valued at \$15.7 billion, and audience of users, with 84.5 million in the second quarter.

Entrepreneurs have been trying to displace eBay for years and haven't managed to do so, says Ms. Mulpuru of Forrester Research. She estimates that nearly one in every five dollars spent online goes to either eBay or Amazon.

Besides Silkfair, there's Etsy, another site that attracts artists who want to display and sell handmade goods. Here, shoppers can see large images updated every few minutes with the most recent products listed for sale—eBay doesn't offer promotional slideshows on its home page of newly listed products. The site also offers online workshops for crafters and in-

structional articles on topics like woodcarving and crocheting.

Another site drawing sellers is Oodle, a classified-ad site started in 2005 by former executives of eBay and Excite. Oodle aggregates classified ads from more than 80,000 Web sites and publishes listings on its Web site network. Merchants can advertise their listings on Oodle's network and choose different payment options, mostly commission-based. Some sellers say they prefer to list items on classified-ad sites because their items, like secondhand mattresses or strollers, can be picked up in person by local buyers.

Wigix targets shoppers who like fixed-price transactions, not auction-style trading. Co-founded March 2007 by James Chong, who helped develop Charles Schwab's original Web-trading application, Wigix is trying to offer easier navigation. On eBay, for example, prospective buyers looking for an iPhone must scroll through individual listings that might run over several pages to see the prices offered for various models of the phone. Wigix designates one page for a specific iPhone model where all individual offers to buy and sell the device are posted in one place. The site also allows sellers' items to appear on social-networking sites.

Wigix's system appeals to online merchant Jerod Husvar, a seller of used-car parts for sport-compact. He's moving his e-commerce operations from eBay, partly because of the customer service he got.

Mr. Husvar says eBay only recently started offering phone support. Before, he was such a small seller he didn't qualify for personalized attention through an eBay account manager. He often searched to find an eBay person to call and would be put on hold 30 minutes or longer just to speak to someone.

"We built our business around eBay," says Mr. Husvar. "They lost focus. All their money comes from sellers. Buyers are what drive the market, but you need quality and protection for the sellers or else they don't even want to deal with the buyers."

An eBay spokeswoman declined to comment specifically about his complaint but said that the company tries to balance the needs of buyers and sellers for the overall good of the entire community.

Tiffany appeals court judgment in eBay's favor

BY MYLENE MANGALINDAN

Tiffany & Co. said it has appealed a federal district court judgment that found eBay Inc. isn't responsible for policing its auction Web site for counterfeit jewelry.

The New York-based jeweler, which sued eBay in 2004, filed an appeal with the U.S. Court of Appeals for the Second Circuit, saying it disagreed with the district court's ruling that trademark holders such as Tiffany bore the main responsibility for monitoring eBay's auction site for fake goods. The company said the court's ruling failed to apply established principles of trademark law.

"The effect of this is that eBay can continue to profit at the expense of consumers and trademark holders," said Patrick Dorsey, Tiffany's general counsel.

"In our view, this approach makes no sense as a matter of law or policy," he added. "Once eBay has reason to know that a specific brand like Tiffany & Co. is being widely counterfeited and sold, eBay should be compelled to investigate and take action to protect its customers and stop the illegal conduct."

Ebay, of San Jose, Calif., won a significant victory July 14 when U.S. District Judge Richard Sullivan ruled that the e-commerce company responds appropriately in removing listed items once Tiffany identifies them to eBay as counterfeit. He rejected Tiffany's contention that eBay should bear more responsibility by refusing to post listings that it could "reasonably anticipate" might be counterfeit.

The July judgment marked the first U.S. ruling in litigation about eBay's responsibility regarding the sale of fake goods on its site, and it was the first ruling in eBay's favor after a series of legal setbacks in Europe.

Separately, eBay said Tuesday that a Belgian tribunal had dismissed one of several suits against eBay filed in several European countries by French personal care products giant L'Oreal SA. L'Oreal has alleged that eBay allowed the sale of counterfeit cosmetic products and perfumes on its Web site. L'Oreal said it would appeal.

—A.H. Mooradian contributed to this article.

CORPORATE NEWS

Tesco sets sights on India

British retailer teams with Tata Group on wholesale outlets

Tesco PLC, one of the world's largest retailers by sales, is joining forces with Indian conglomerate Tata Group to enter India's large but undeveloped retail market.

Tesco is part of a global retail race into India. Wal-Mart Stores

By Eric Bellman in Mumbai and Aaron O. Patrick in London

Inc. plans to open its first warehouse store with its Indian partner, Bharti Enterprises Ltd., early next year.

Tesco and Tata designed their deal to meet India's strict regulations: Foreign companies aren't allowed to buy an Indian retailer outright, or open their own stores selling multiple brands. Tesco said Tuesday that it will build three warehouses to supply Tata stores and help fuel Tata's expansion. Tesco's warehouses will also sell fresh food, groceries and other products to India's small shopkeepers and other businesses, in a so-called cash-and-carry business.

The first warehouse store—which will include the Tesco brand in its name—is planned to open at the end of next year in Mumbai. Tesco plans to spend about £60 million (\$115 million) over two years on the project.

Retailing revenues in India are more than \$350 billion annually, and that figure could double in the next seven years, industry analysts say.

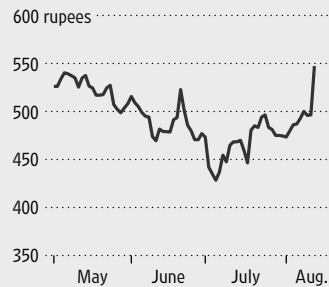
But many retailers are discovering it isn't as easy as they hoped to

DAILY SHARE PRICE

Trent

On the Bombay Stock Exchange

Tuesday's close: 545.85 rupees, up 10%
Change since the end of April: up 3.7%



Source: Thomson Reuters Datastream

make money in India. Indian consumers haven't been spending enough to sustain all the newcomers, and some retailers are scaling back big expansion plans.

Modern Western-style retailing has become a hot political issue in India. Small stores and their suppliers have been protesting the rapid expansion of big modern retailers, complaining that they can't compete on price and will lose their livelihoods.

Tesco's foothold could help the British retailer learn more about Indian shopping habits, preparing it for a bigger move if restrictions on foreign investment are eased. The Indian government is expected to do more to open markets following the departure last month of Communist parties from the ruling coalition government.

The deal with Tata "gives us access to one of the most important economies in the world," said Lucy Neville-Rolfe, Tesco's director of corporate and legal affairs, in an inter-

view Tuesday. "We would like to open up [Tesco's own stores] in India," she said. If that is allowed, "we will have had the benefit of working with an experienced partner."

Tesco is the largest retailer by revenue in its U.K. home market and is looking to expand overseas. Last year it opened its first U.S. stores, called Fresh & Easy, and plans to open 150 more in the U.S. this year. With 3,740 stores in 13 countries, Tesco generated sales of £52 billion in the fiscal year that ended Feb. 23.

As part of the deal, Tesco will send two executives to India to work for Tata's retail unit, Trent, helping to streamline its supply chain and open large stores, Tesco and Tata executives said.

Tata, an acquisitive conglomerate, has businesses ranging from steel to cars and telecommunications. It recently bought the Jaguar and Land Rover brands from Ford Motor Co. as part of a global expansion in the car industry. It exports some coffee to Starbucks Corp., and its programmers write computer code for many U.S. companies. It operates four hypermarkets—sprawling stores selling everything from food to housewares—under the name Star Bazaar in India, and plans to open an additional 46 stores in the next five years.

One of the biggest problems facing Tesco, Tata and other retailers in India is stocking their huge new stores with produce that must travel India's rickety roads in open trucks. The standard Indian supply chain involves large trucks, piled high with bags of potatoes and carrots roasting in the midday sun. Up to 40% of some produce is ruined or lost along the way.

—Harsh Joshi
contributed to this article.

Union, U.S. Steel accord boosts wages, benefits

By KRIS MAHER

U.S. Steel Corp. reached a tentative labor agreement with the United Steelworkers that boosts wages and benefits for workers and retirees. The agreement, which would run for four years, reflects strong industry profits and previous worker concessions that helped restructure the industry.

By reaching an accord more than two weeks ahead of the contract's Sept. 1 expiration, the company, one of the world's largest steel producers, will avoid any disruption in operations, which could derail the industry's momentum. The agreement was described by the union as its best in more than two decades.

The union expects that the contract, which must be ratified by members, will set a pattern for negotiations with other steelmakers, including ArcelorMittal. Adam Warrington, an ArcelorMittal spokesman, said the company and the union recessed from negotiations last week, but expect to resume them this week. "The parties have made a lot of progress and remain committed to the process of concluding an agreement before the Sept. 1 expiration of the current agreement," he said.

The U.S. Steel agreement comes just after the U.S. industry posted record second-quarter profits amid strong global demand. Soaring costs for iron ore and other raw materials have dwarfed labor costs recently, analysts say. As a result, union demands for better wages and pay seem small in comparison.

"Labor's cost is so small compared to raw-material costs," said Michelle Applebaum, a steel analyst in Highland Park, Ill. Although details haven't been provided, she said she doesn't expect the new contract will be so generous as to hurt U.S. Steel's profitability.

In addition to annual wage in-

creases, a bonus and pension improvements, the contract will reduce health-care premiums for the union's 57,000 retirees from U.S. Steel while expanding their options for medical coverage, according to union officials.

"It really is the best labor agreement we've done in steel in 30 years," said Tom Conway, the union's chief negotiator with U.S. Steel. He declined to provide wage and benefit details before the agreement is mailed to members for a ratification vote.

The agreement, which covers 16,000 workers in eight states, requires U.S. Steel to invest capital in U.S. facilities to ensure that they remain competitive with facilities around the world. A separate but similar agreement was reached covering 900 workers at its tubular subsidiary.

"We are pleased to have reached a tentative agreement with the United Steelworkers on a competitive four-year contract well in advance of the expiration of our current contract," U.S. Steel Chief Executive John P. Surma said.

Analysts said they weren't surprised by the early settlement, given the strong industry dynamics, the good working relationship between the union and the company, and the fact that steel buyers could be scared off by the threat of a production interruption.

Union officials view the agreement as making up for past concessions. In 2003, the union agreed to a work-force reduction in which 20% of its members at U.S. Steel retired early, and the union also agreed to numerous changes in work rules.

Unionized steel workers are getting a raise while wages are flat for most other workers, and falling when inflation is considered. In June, the average weekly earnings of U.S. workers were 2.4% lower than a year earlier on an inflation-adjusted basis, according to the U.S. Labor Department.

Ford promises reliable small cars

By MATTHEW DOLAN
AND JEFF BENNETT

Long troubled by consumers who questioned its ability to build dependable vehicles, Ford Motor Co. pledged that small cars due to arrive in a few years will have substantially fewer problems during their first three months on the road than models from other auto makers.

The Dearborn, Mich., company promised at a conference in Traverse City Mich., Monday that its new compact and subcompact vehicles—due out in 2010—will beat the industry average when it comes to quality.

The auto maker will keep the number of quality problems at 800 per 1,000 vehicles, which would be well below the industry average, Ford Vice President of Global Quality Bennie Fowler said.

In 2007, Ford reported 1,058 problems per 1,000 small cars, while the industry average was 1,512.

Ford, General Motors Corp. and Chrysler LLC have markedly improved the quality of their vehicles after years of lagging behind foreign competitors including Toyota Motor Corp. and Honda Motor Co. But many consumers still doubt the quality of Detroit's models, leaving a gap between their actual performance and the public's perception of the vehicles.

"Ford has to build vehicles that not only have quality, but give the perception of quality," Laurie Har-



Ford is using new virtual-reality tools that can identify quality problems before a car is built. The 2008 Ford Fiesta, in its European version, is pictured above.

bour-Felax, an automotive industry consultant, said on the sidelines of the Management Briefing Seminars, an annual gathering organized by the Center for Automotive Research.

To improve quality, Ford is employing an "army" of quality-trained hourly workers to spot problems before a vehicle makes it to the showroom. Workers are taking quality-control classes at a college in Detroit and seeing strictly enforced standards on the factory floor.

Ford is also using new virtual-reality tools that can identify quality problems before a car is built, Mr. Fowler said. "As a result of our virtual technology, we've cut time to market

by eight to 14 months," he said.

In another reflection of the new direction Ford is taking, the new study of relations between auto makers and their suppliers showed that Ford made steady gains this year.

The annual Working Relations Study conducted by Planning Perspectives Inc., of Birmingham, Mich., reported that suppliers prefer working with Ford more than its cross-town rivals GM and Chrysler. GM was the least preferred.

Ford, however, still lags far behind Toyota and Honda, which ranked equally as the most preferred auto maker manufacturing in North America.

Thomson Reuters reports slow growth in key division

A WSJ NEWS ROUNDUP

Media company Thomson Reuters reported slower second-quarter revenue growth in its key markets division as the U.S. credit crisis forced spending cutbacks at investment-bank customers, sending its shares lower.

The company, the result of the April purchase of London-based Reuters Group PLC by Thomson Corp. of Canada, said its profit fell to \$172 million, or 22 cents a share, from \$375 million, or 58 cents a share.

Revenue climbed 73% to \$3.13 billion by having nearly a full quarter of Reuters results under its belt. The acquisition for about \$16 billion in cash and stock closed on April 17.

On a pro forma basis, comparing the latest results to those as if the company were merged a year earlier, operating profit rose 15% to \$708 million and revenue rose 11% to \$3.4 billion.

Markets division revenue rose 12% to \$2.1 billion, but the closely watched organic growth rate—which excludes the impact of currency exchange fluctuations and acquisitions—was 7%, slower than the first quarter's 9%.

Analysts had been looking for organic growth of 7% to 8% in the markets division as the U.S. subprime mortgage crisis and credit crunch have led to thousands of layoffs among firms that are Thomson Reuters' clients. The company said revenue growth in the markets division was driven by strength in sales and trading, investment and advisory, and enterprise businesses, particularly in Asia.

In London trading, Thomson Reuters shares fell 4.9% to £14.81 (\$28.30). "We are encouraged by the robust revenue growth which we achieved despite the backdrop of a challenging economic environment," said Thomas H. Glocer, chief executive officer of Thomson Reuters.

For the year, the company sticking to targets of revenue growth between 6% and 8% and an operating profit margin between 19% and 21%. In the second quarter, its operating margin was 20.7%, up 0.6 percentage points from a year ago. It said it is on track to meet goals from integration, with savings of \$490 million achieved as of June 30.

CORPORATE NEWS

Pepto ads stir up laughs

As sales lose gas, P&G hypes humor to rebrand pink brew

BY ROSS KENNETH URKEN

As Pepto-Bismol suffers from some indigestion of its own, it is counting on a man in a pink sweater vest to help get the brand back on track.

Procter & Gamble's trademark pink Pepto-Bismol, which has been around for more than a century, is one of the market leaders in the stomach-remedy business. But in recent years, the brand that has long touted its ability to solve gastrointestinal issues from

heartburn to diarrhea is losing sales amid competition that includes an array of specialty products. Some 130 new stomach remedies or brand extensions of existing treatments landed on drugstore shelves between 2001 and 2006, according to market researcher Mintel International Group.

The Imodium Advanced tablet for diarrhea, made by Johnson & Johnson subsidiary McNeil-PPC Inc., had sales of \$109 million in 2007, up from \$101 million in 2006. Meanwhile, sales of Pepto-Bismol liquid were flat at \$61 million last year and in 2006, according to market-research firm Information Resources Inc.

Enter the man in the pink sweater vest. P&G's new print and TV campaign revolves around a fictitious Pepto-Bismol phone-hotline

operator—sporting a pink tie and sweater and sitting in an office adorned with pink accoutrements—who fields calls from people complaining of stomachaches.

In one TV spot, a woman with a dog on her lap calls the hotline to asking about “Rex’s” symptoms related to eating too many dog biscuits. When the operator tells the woman Pepto doesn’t cover dogs, the camera cuts to the real Rex, the woman’s husband—incapacitated on an armchair and holding his stomach.

In one spot promoting cherry-flavored Pepto-Bismol, a woman whose friend has overindulged in foods from cherry pie to “chicken cherryaki” (with a cherry-flavored teriyaki sauce) calls the hotline to ask whether Pepto-Bismol can cover the problem. The operator reassures her with the tagline, “Yup,



Pepto-Bismol

To combat declining sales in recent years of its Pepto-Bismol brand, Procter & Gamble this week launched a TV ad campaign featuring a phone operator in a pink sweater.

you’re covered,” as the friend sips a cherry slush. The ads were created by Publicis New York, a unit of Publicis Groupe.

The new ads began airing this

week during morning news shows and daytime soap operas in an effort to reach parents and caretakers, who often end up buying medicines for the household, says Bertrand Garbassi, creative director at Publicis New York. P&G plans to spend between \$12 million and \$15 million on the new campaign, according to a person familiar with the matter. The company declined to comment on its ad spending.

Pepto-Bismol, whose active ingredient is bismuth subsalicylate, was invented in 1901 as a treatment for infant cholera. It became the property of Procter & Gamble when the company acquired Norwich Eaton Pharmaceuticals in 1982. The iconic pink bottles have popped up in such movies as “The Devil Wears Prada” and “Ferris Bueller’s Day Off.”

The brand won some acclaim for its last campaign, “Singing the Praises,” which ran from 2003 through 2007. The ads featured everyday people—from office workers to teenagers on a basketball team—singing the different symptoms Pepto-Bismol can treat. Some fans choreographed their own renditions of the “Pepto Dance” and posted them on YouTube.

Pepto-Bismol isn’t just going after parents. To appeal to college kids with its new smaller bottles, earlier this year, the company set up nine toilets near the campus of New York University with pink bath mats. On the underside of the open lid were the words, “Upset stomachs can happen anywhere.”



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DOWJONES

AMD introduces graphics card in comeback bid

BY DON CLARK

Advanced Micro Devices Inc.’s best-known business has been struggling lately. But the chip maker’s other unit seems to be keeping pressure on its chief competitor.

AMD, which lags behind Intel Corp. in the market for microprocessors, diversified into computer graphics by buying ATI Technologies in 2006. It introduced a new graphics card Tuesday that some reviewers are calling the most powerful on the market, helping to solidify the reputation of a business that has fallen behind rival Nvidia Corp. in technology and market share.

“It pretty much finalizes AMD’s comeback from the dead to lead horse,” said Kelt Reeves, president of Falcon Northwest, a maker of gaming PCs that expects to use the new cards extensively.

GLOBAL BUSINESS BRIEFS

BHP Billiton**Australian regulator delays its ruling on Rio Tinto bid**

Australia's competition regulator said it will hold off ruling on the US\$148.2 billion **BHP Billiton** bid for **Rio Tinto** while it awaits more information from BHP. The Australian Competition and Consumer Commission had originally said it expected to announce its finding on the proposed takeover by Wednesday, but a spokesman said Tuesday that it has now amended that date while it waits to receive further information it has requested from BHP. Both the ACCC and BHP declined to comment on the nature of the information requested. BHP Chief Executive Marius Kloppers has said it will take until the end of the year for the miner to secure approval for the megadeal and that European Union, U.S. and Australian approvals are key.

Sanofi-Aventis SA

Sanofi-Aventis SA has launched legal action against Canadian generic-drug maker **Apotex Inc.**, which is planning to sell a low-cost version of the cancer drug **Taxotere** in the U.S., a spokesman for the French pharmaceutical company said. In a lawsuit filed Aug. 8, Sanofi-Aventis claims Apotex has infringed two U.S. patents of the drug, which racked up €1.87 billion (\$2.79 billion) in sales last year, making it Sanofi-Aventis's fourth-best-selling product. Taxotere is used to treat breast, lung and prostate cancer. Sanofi-Aventis's action will trigger a 30-month stay, which will put on hold the approval of generic Taxotere by the U.S. Food and Drug Administration. This period will expire at the end of 2010, the Sanofi-Aventis spokesman said. Apotex couldn't be reached for comment.

Barr Pharmaceuticals Inc.

Barr Pharmaceuticals Inc. agreed to settle two patent disputes with **Boehringer Ingelheim GmbH** over the German company's Parkinson's drug **Mirapex** and stroke medication **Aggrenox**, winning the go-ahead to make generic versions ahead of the patent's expiration. The agreements allow U.S.-based Barr to push ahead with its aggressive pipeline of generic competitors to strong-selling brand drugs. Early this year, Barr got final approval from the U.S. Food and Drug Administration for its generic version of **Mirapex**. But that generic couldn't hit the market until the patent dispute was settled. In June, Barr said the U.S. District Court for Delaware had ruled in its favor in the **Mirapex** patent case. Barr will be allowed to launch its generic **Mirapex** no later than Jan. 1, 2010. That is 10 months earlier than the expiration of the **Boehringer** patent.

Enel SpA

Italy-based utility **Enel SpA** said it bought a 10% stake, or some 333 million shares, in coal miner **PT Bayan Resources** of Indonesia for €138 million (\$205.7 million). **Bayan** sold 833 million shares, or 25% of its total equity, at 5,800 rupiah (63 U.S. cents) each in an initial public offering on Aug. 6 to Aug. 8. **Enel** said it also signed an agreement with **Bayan** providing for the Indonesian company to supply it with an undisclosed amount of coal until December 2019. The purchase falls within **Enel's** plan to increase its coal-fired power-generation mix in Italy to 50% from the current 30%.

Adecco SA

Switzerland-based **Adecco SA**, the world's largest recruiting company in terms of sales, reported a 4.5% decline in second-quarter net profit because of a weak performance in the U.S. and France. The company, which last week launched a takeover attempt on U.K. recruiter **Michael Page International PLC**, also warned of a challenging second half in light of weakening global job markets. Net profit fell to €212 million (\$315.9 million) from €222 million a year earlier. Revenue was down 1.5% to €5.2 billion from €5.28 billion. To achieve its medium-term targets, **Adecco** said it will pursue acquisitions, especially in the professional staffing market. The company said it has about €1.4 billion in cash for acquisitions. Chief Executive **Dieter Scheiff** said talks with **Michael Page** were still at an early stage.

Daimler AG

Daimler AG plans to invest 1.5 billion Brazilian reals (\$925.8 million) over three years to increase production at its truck, bus and components factory in the metropolitan region of São Paulo, the German auto maker said. Mercedes-Benz do Brasil, the unit making the investment, will increase production by 25% to meet local demand. Currently, the auto maker's plants are working at close to capacity. Mercedes-Benz accounts for 31% of the local truck market and is also a major exporter from Brazil, selling trucks and buses to more than 50 countries. Brazil is seeing surging demand for vehicles due to brisk economic growth and the expansion of credit, resulting from increased economic stability. Brazilian motor-vehicle output is expected to rise 15% this year.

Toyota Motor Corp.

Toyota Motor Corp. is exploring whether to export its U.S. pickup and sport-utility vehicles to other countries. The auto maker, which produces the **Tundra** pickup and **Sequoia** SUV, is looking at other markets around the world, although no decision has been made, **Steve St. Angelo**, president of **Toyota Motor Manufacturing Kentucky Inc.**, said following a speech at an annual automotive conference. **Toyota** spokesman **Curt McAllister** declined to identify the areas being considered. **Toyota**, like rivals **Ford Motor Co.** and **General Motors Corp.**, is finding it difficult to sell the larger vehicles amid high gas prices. Automotive executives say there has been a fundamental shift away from the vehicles and that sales will never return to the levels they once reached.

GOME Electrical Appliances

GOME Electrical Appliances Holdings Ltd. said first-half net profit nearly tripled amid store openings. The Chinese retailer, listed in Hong Kong and controlled by Chinese billionaire **Wong Kwong-yu**, said net rose to 1.15 billion yuan (\$167.7 million) from 395 million yuan a year earlier. Revenue rose 18% to 24.87 billion yuan. President **Chen Xiao** said **GOME** is optimistic about the consumer market in the second half and has raised its 2008 store-opening target to 160 stores from 120 stores. The company said it had a net increase of 102 stores in the first half, bringing the total number of outlets under management to 828 stores at the end of June. **GOME's** sales at stores open at least a year rose 0.5% in the first half, and its gross profit margin widened to 9.5% from 9.2% in the period.

InterContinental Hotels Group

InterContinental Hotels Group PLC, the world's largest hotel operator by number of rooms, posted a 26% drop in first-half net profit as taxes and administrative costs escalated. Net profit dropped to \$163 million from \$219 million a year earlier, when asset sales boosted the bottom line. Administrative costs were up 21% to \$206 million from \$170 million, the result of a special dividend the company paid to shareholders last year. These factors more than offset a 14% increase in sales to \$952 million from \$832 million, thanks to a booming market in the Middle East. The operator of **Holiday Inn** and **Crowne Plaza** hotels said revenue per available room, a key performance indicator for the industry, was up 4% when stripping out currency fluctuations. However, for July, that figure slowed to 3.4%, and to 1.5% in the U.S.

BNP Paribas SA

France's **BNP Paribas SA** is close to acquiring a brokerage in Russia, said **Pierre Rousseau**, chief executive of **BNP's** Asian securities unit. **Mr. Rousseau**, speaking at a media briefing in Hong Kong, declined to name the brokerage or specify the size of the deal. The acquisition is part of the investment bank's initiative to expand in rapidly growing emerging markets, including India, China, the Middle East and Russia. Last month, **BNP Paribas Securities Asia** said it will set up a brokerage joint venture in India with **Geojit Financial Services Ltd.** to serve foreign institutional clients and extend its reach to the Middle East. **Mr. Rousseau** said **BNP Paribas** is still seeking a partner to set up a securities joint venture in China, which doesn't allow foreign brokerages to establish wholly owned units.

Chrysler LLC

Chrysler LLC is talking to the United Auto Workers union about putting some plants on four-day, 10-hour work days in order to cut costs. The auto maker wants to put five assembly, three engine and four component plants on the special work week, **Chrysler** spokesman **Ed Saenz** said Monday. A decision will be made within a few weeks. "This is not expected to be temporary," **Mr. Saenz** said. **Chrysler**, owned by **Cerberus Capital Management LP**, is pushing cost-cutting as far as possible as it deals with a slumping U.S. market that is dragging down revenue and intensifying costs. Some businesses and governments across the U.S. are switching to a shortened work week to cut energy costs. News that **Chrysler** was considering such a move was reported previously by **Automotive News**.

TJX Cos.

TJX Cos., which operates the **T.J. Maxx** and **Marshalls** stores, said its fiscal second-quarter profit more than tripled from a year earlier, when the discount fashion retailer digested a charge for a security breach. The **Framingham, Mass.**, company, the first major U.S. retailer to report results for the period, also boosted its fiscal-year earnings forecast. **TJX** reported net income in the quarter ended July 26 of \$200.2 million, or 45 cents a share, up from \$59 million, or 13 cents a share, a year earlier when the company recorded a 25-cent-a-share charge from computer intrusions that resulted in the theft of credit-card numbers. Sales rose to \$4.62 billion from \$4.31 billion. Same-store sales, or sales at stores open at least a year, rose 4%.

Liberty Media Corp.

Liberty Media Corp., which is controlled by cable magnate **John Malone**, said second-quarter revenue rose in all three of its business units. Revenue from **Liberty Interactive Group**, which includes **QVC Shopping Network**, rose 9%. "The challenging economic environment continues; however, we are pleased with our disciplined approach to margin, expense and capital management," said **Mike George**, **QVC** chief executive. Revenue from **Liberty Entertainment group**, which includes **Starz Entertainment LLC**, rose 32%. Revenue from **Liberty Capital Group**, including the **Atlanta Braves** baseball team and interests in **Time Warner Inc.** and **Sprint Nextel Corp.**, rose 33%. Results were boosted by the acquisition of the **Braves** in May 2007.

QAO Mobile TeleSystems

QAO Mobile TeleSystems, Russia's biggest cellular operator by users, said second-quarter net profit grew 30%, as users spent more time on calls and a stronger ruble enhanced dollar-denominated earnings. Net profit at **MTS**, a unit of conglomerate **QAO AFK Sistema**, rose to \$659 million from \$508 million a year earlier. Revenue was up 34% to \$2.64 billion, mainly thanks to Russian users, who account for two-thirds of the operator's total and talked for an average of 207 minutes a month, up from 151 a year earlier. **MTS's** revenue increase reflected its success in winning new subscribers to its Russian network as well as growth in neighboring markets such as **Uzbekistan**. The operator ended the period with 87 million users, 12 million more than a year earlier.

Petroleo Brasileiro SA

Aided by higher oil and oil-product prices and a break on federal taxes, Brazilian state-run energy giant **Petroleo Brasileiro SA** said its second-quarter profit rose 29% to 8.78 billion reals (\$5.42 billion). Revenue rose 30% to 54.57 billion reals. The company released its quarterly figures under Brazilian accounting standards. "The significant rise in oil prices on world markets as well as rising oil and gas production and prices in the domestic market all contributed to record profits this quarter," the company said. On May 2, **Petrobras** raised its domestic gasoline prices 10% and diesel prices 15%. Earlier in the year, **Petrobras** had raised naphtha and jet-fuel prices. **Petrobras** Chief Financial Officer **Almir Barbassa** noted that the company's price strategy "takes a long-term view."

APN News & Media Ltd.

APN News & Media Ltd. said its first-half profit was flat year-to-year, weighed down by a weaker performance at its New Zealand business, with its full-year earnings likely to fall. The group, which publishes 23 regional daily newspapers and more than 100 nondaily titles across Australia and New Zealand, including the **New Zealand Herald**, said net profit for the six months to June 30 fell 0.7% to 71.9 million Australian dollars (US\$63.5 million) from A\$72.5 million, in line with market forecasts. Revenue during the half fell to A\$624.5 million from A\$627.5 million as the slowdown in New Zealand hit advertising revenue there. "These are a good set of results against the background of the global credit crisis," **APN** Chief Executive **Brendan Hopkins** said.

Parmalat SpA

A U.S. federal judge dismissed a class-action suit against **Bank of America Corp.**, **Citigroup Inc.** and others filed on behalf of investors who bought shares of Italy's **Parmalat SpA**. U.S. District Judge **Lewis A. Kaplan** knocked down the argument that **Bank of America** owed a duty of disclosure to investors, saying that would be true only in private placements. He also said the plaintiffs failed to show that any defendant's conduct was deceptive. **Parmalat** is involved in dozens of legal cases after **Enrico Bondi**, who was appointed chief executive shortly after the firm's collapse, accused banks and former auditors of helping prior **Parmalat** management hide debt and inflate results.

Pininfarina SpA

Italian niche car designer and manufacturer **Pininfarina SpA**, roiled by the recent death of Chairman and Chief Executive **Andrea Pininfarina**, reported a narrower first-half net loss and nominated **Andrea's** older brother, **Paolo Pininfarina**, as its new chairman. **Pininfarina's** net loss narrowed to €14.1 million (\$21 million) from €21.2 million a year earlier, as the company, which designs **Ferraris** and produces the **Ford Focus Coupe Cabriolet** and **Volvo C70**, continued its restructuring plan. Revenue fell 33% to €345.2 million, mostly because of a cut in production volumes. **Pininfarina** warned full-year sales would be about 16% lower than last year.

Death Row Records Inc.

Two companies battling for ownership of **Death Row Records Inc.'s** assets reached a settlement to share the **Compton, Calif.**, record label's assets, including the rights to recordings by well-known hip-hop artists. Representatives of **Global Music Group Inc.** of Delaware said Monday that the company dropped a lawsuit alleging that it, not **Global Music Group Inc.** of New York, was the rightful purchaser of **Death Row's** assets at an auction in June. In exchange, **Global Delaware** will get a share in those assets. "The parties reached a settlement to share the assets equitably," said **Michael Collesano**, an attorney for **Global Delaware**.

SachsenLB

Officials in Germany and Ireland searched apartments and offices in an investigation of alleged wrongdoing by former managers of **SachsenLB**, a German bank hard hit by the subprime lending crisis, German federal police said. **SachsenLB**, a public-sector wholesale bank, was sold to larger peer **Landesbank Baden-Württemberg**, or **LBBW**, last August. Germany's Federal Criminal Police Office said that 28 properties in several parts of Germany and in the Irish capital, **Dublin**, were searched, including the offices and apartments of people under investigation. "These are matters related to the past of **SachsenLB**," said a spokesman for **LBBW**. "We support the investigations."

—Compiled from staff and wire service reports.

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ECONOMY & POLITICS

BELGIUM

Strike at airport grounds flights for a second day



Associated Press

SCORES of arriving and departing flights were canceled or delayed at the Brussels airport Tuesday as luggage handlers struck for better working conditions for a second day.

Brussels Airport said it hoped for "a quick end" to the strike but said its offer to hire more handlers was rejected in overnight talks with workers at one of the two airport baggage-services companies.

The airport was a scene of thousands of stranded travelers, heaps of luggage and signs listing delayed, diverted or canceled flights. Airport officials said it may take a few days before all luggage has been removed.

—Associated Press

EURO ZONE

Economy will stay weak, ECB board member says



European Central Bank

EUROPEAN Central Bank executive-board member Lorenzo Bini Smaghi, left, said the slowdown in the euro-zone economy is sharper than the ECB had expected.

"In the next few quarters, we may have a phase of protracted weakness," Mr. Bini Smaghi told Rome daily *Il Messaggero*. Italy last week became the first big euro-zone country

to report that its economy shrank in the second quarter. The news raised expectations that Germany will report Thursday that its economy also contracted.

But Axel Weber, another Governing Council member, who heads Germany's central bank, said inflation remains the ECB's main priority.

—Luca Di Leo

GEORGIA

BP shuts down a pipeline as precautionary measure



BP PLC said it shut down an oil pipeline that runs through Georgia as a precautionary measure but added it is unaware of any Russian bombings on pipelines in the region.

BP said the 90,000-barrel-a-day pipeline to Supsa on Georgia's Black Sea coast from Baku, Azerbaijan will remain closed indefinitely. Another pipeline operated by the London-based oil company in the former Soviet Republic, the larger Baku-Tbilisi-Ceyhan pipeline, is already out of action after a fire last week. The BTC pipeline usually provides around one million barrels of Caspian crude to international markets.

—Associated Press

Charismatic Scot is winning over voters

Salmond broadens appeal of the SNP at Labour's expense

BY ALISTAIR MACDONALD

ALEX SALMOND wants to be the next King of Scotland. And as head of the Scottish National Party, or SNP, he's riding high on the unpopularity of a fellow Scot: U.K. Prime Minister Gordon Brown.

Mr. Salmond is broadening the appeal of the SNP after years when it was dismissed as a one-trick party: It was pushing for Scotland to be independent of the U.K. While Mr. Salmond wants to give Scots the chance to vote in 2010 on independence, a referendum that, from recent polls, appears unlikely to pass, he, in the meantime, is pushing policies such as lower corporate taxes and greater government support for health-care and university tuition fees.

The charismatic Scot's popularity is eroding a long-held base of support for Mr. Brown, creating two fronts that the embattled prime minister must fight: the rival Conservative Party in England and Wales and the SNP up north. Mr. Brown, who was born in Glasgow, is seeing his popularity hit historic lows as the U.K. economy slows after more than a decade of growth.

Last month, the SNP won a parliamentary seat in Glasgow that had long been held by the Labour Party, in what Mr. Salmond called a "political earthquake." Mr. Salmond turned the contest into a vote on his leadership of Scotland vs. Mr. Brown's of the U.K.

Scotland's rising insouciance reflects some broader economic shifts. While London, and England overall, is suffering, Scotland's economy is proving slightly more resilient. After decades of steep decline, the once-manufacturing-heavy Scottish economy has picked up, and over the past three quarters has narrowly outperformed the wider U.K. economy.

Unemployment is falling in Scotland, even as it rises in England. Scotland's population has reached

its highest level in 25 years, reversing years of declines, as immigrants from Eastern Europe arrive and more young Scots stay. Edinburgh has created financial-service jobs; the country has wealth from oil; and Scotland is pushing heavily into "green" energy, taking advantage of its extensive coastline and famous blustery wind.

Mr. Salmond has been winning voters with a well-argued populist message and his easy charm. In January, for example, he visited Britannia Spice, an Asian restaurant in Edinburgh, says Wali Tasar Uddin, the restaurant's co-owner. "He talked to everyone in the room, moving from table to table and going into the kitchens, and everybody wanted to shake his hand," Mr. Uddin says.

Rival politicians are taking note. "He is a formidable political performer and opponent," says David Cairns, a Labour Party minister in

the government's Scottish office. The downside is that SNP has become a one-man band, he adds.

Former members of the SNP complain Mr. Salmond doesn't tolerate dissenting views within the party.

They also say that by making Scotland work well under its new powers, Mr. Salmond has inadvertently weakened the case that it needs to be independent and hasn't explained well why the country needs to be independent.

To those critics, Mr. Salmond quotes Robert Burns, Scotland's national poet: "The mair they talk, I'm kend the better," he said in an interview. Or "the more they talk, the better I am known."

Mr. Salmond, who often invokes Scottish imagery, and sometimes wears a tartan tie, says he is an effective champion of independence for the country of five million. "The old argument would be that you needed to be part of a wider economy to

guarantee your marketplace. Now that is no longer the case. You guarantee your marketplace by being part of the European Union and by virtue of world trade agreements," he said.

Mr. Salmond was speaking on his cellphone on his way to the battlefield of Culloden, where in 1746 a mainly English force defeated a Scots-backed claimant to the British crown, in what was the last battle of the two warring nations. Mr. Salmond was visiting the site while in the area for a meeting, a spokeswoman said.

The 54-year-old says he was inspired as a child by his grandfather's stories of Scottish lore and history, and as a young economist by reading how late 19th-century Scotland, per capita, was the richest place in the world.

After a career as an economist, Mr. Salmond became a member of parliament in 1987. In 1999, he be-

came leader of the SNP in the Scottish Parliament, a governing body for Scotland set up that year by the Labour government to give Scots control of domestic issues such as education and agriculture. In 2004, he helped the SNP topple Labour as the majority party in the Scottish Parliament.

Going forward, the SNP needs to prove that recent successes are more than just protest votes against Mr. Brown's Labour government.

The SNP is aiming to win an additional 20 parliamentary seats at the next general election to add to its current tally of seven, most of which would come out of the 37 seats held by Labour in Scotland.

"In terms of comparing the two administrations, north and south of the border, by and large people like what they see in Scotland and don't like what they see in London," Mr. Salmond said.



Alex Salmond



Gordon Brown

U.K. inflation rate jumps to a 16-year high

BY NATASHA BRERETON

LONDON—Consumer inflation hit a 16-year high last month in the U.K., rising to more than double the Bank of England's target.

Consumer prices rose 4.4% from a year earlier, after rising 3.8% in June, the Office for National Statistics said. Last month was the third in a row in which inflation was more than a percentage point above the central bank's 2% target.

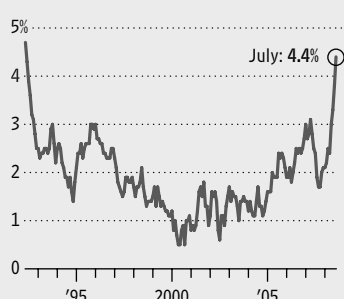
The report deepens the quandary faced by policy makers, who also face a growing recession risk amid dropping house prices and the global credit crunch.

But many economists say falling commodity prices and the slowing economy will help cut inflation to about 2% by the middle of next year and lower still by year end.

"Further ahead, we expect weakening demand, as the economy falls into recession, to keep a lid on core

Inflation rises in the U.K.

Harmonized consumer-price index, year-to-year percentage change



Source: Office for National Statistics, U.K.

inflation," said Vicky Redwood, U.K. economist at Capital Economics. "This should allow headline inflation to drop sharply next year as energy and food inflation ease on the back of the recent drops in commodity and oil prices."

While the drop in the oil price should start to come through in August's inflation data, analysts say that the decline could take up to six months to come through in full, with inflation continuing to rise to as high as 5% before falling off sharply.

Bank of England watchers will have a close eye on the release of the central bank's quarterly Inflation Report Wednesday, which will be based on the Monetary Policy Committee's latest projections for price and activity growth.

Any suggestion that the Bank of England also sees inflation cooling sharply next year will be interpreted as a sign that interest-rate increases are off the table and that rates might actually be cut.

An early sign came Monday, when producer-input prices, an early indicator of consumer-price inflation, unexpectedly con-

tracted by 0.6% month-on-month in July, suggesting that inflation pressure in the pipeline might be subsiding.

The broad consensus is that the central bank will remain on hold until it has collected more ev-

Central Bank officials face a quandary as the risk of recession grows.

idence that inflation has broken. But that isn't expected to be soon.

For July, the 4.4% annual gain in the CPI was the largest since April 1992 based on a retrospective index. The 0.6 percentage point increase in the annual inflation rate marked the largest rise since April 1991.

ECONOMY & POLITICS

Three Republicans defect

Backing of Obama by moderates shows divisions in party

BY ELIZABETH HOLMES
AND AMY CHOZICK

A trio of U.S. Republicans defected from party nominee John McCain and kicked off an effort to garner support for Democratic presidential candidate Barack Obama.

The group, called Republicans for Obama, is led by two former moderate Republicans—James Leach, a former U.S. representative from Iowa, and Lincoln Chafee, a former U.S. senator from Rhode Island—along with Rita Hauser, a prominent Bush fund-raiser.

Their reasons for crossing party lines are diverse, ranging from the war in Iraq to overspending in Washington, and they signal unhappiness not just with Sen. McCain's candidacy but the Republican Party as a whole.

"Thousands of other Republicans are going to be picking country over party in this election," predicted Mr. Leach, who served in the House of Representatives for three decades before losing his re-election bid in 2006 to an unknown Democrat.

There was no word yet on whether Chuck Hagel, the Republican senator from Nebraska and a rumored contender to be Sen. Obama's running mate, will join the group.

Republicans responded by touting Sen. McCain's bipartisan accomplishments. "Obama can roll out whoever he wants," said senior McCain adviser Nicolle Wallace, but for Sen. McCain, compromise "is in his DNA. It's who he is."

Yet the departure furthers the evolution of the Republican Party as it struggles to define itself in the shadow of an unpopular president from its ranks and following a crushing defeat in the 2006 mid-term election.

Messrs. Leach and Chafee represent a faction of the Republican Party that is on the decline. Other moderate Republicans who haven't done well in their re-election bids include Wayne Gilchrest, a U.S. representative from Maryland since 1991 who lost this year's primary bid to a state senator. Former U.S. Rep. Charles Bass from New Hampshire, also a moderate Republican, lost his re-election bid in 2006 to a Democrat.

Republicans for Obama plans to start a Web site outlining the policy



The defection of three Republican senators to Sen. Barack Obama's camp furthers the evolution of the party as it struggles to define itself.

differences between the two candidates. Beyond that, it isn't clear what role Republicans for Obama will have in the general election. An Obama spokesman declined to comment on whether the group would attend the Democratic National Convention this month.

Sen. McCain has his own cadre of former Democrats supporting him. The most prominent is Connecticut Sen. Joe Lieberman, the Democratic vice-presidential nominee in 2000. Sen. Lieberman, who lost his state's Democratic primary and has since registered as an independent, endorsed Sen. McCain in December.

Sen. Lieberman joined Sen. McCain at a town-hall meeting Tuesday in York, Pa. "Why am I, an independent Democrat, supporting the Republican candidate this year?" Sen. Lieberman asked the crowd. "It's important if you're a Democrat or a Republican, but there's something much more important, and that's the fact that we're all Americans."

Explaining why he decided to support the Republican candidate, Sen. Lieberman said the decision is between "one candidate, John McCain, who has always put country first, worked across party lines to get things done, and one candidate who has not."

Sen. McCain echoed the same sentiment in his opening statements. "I know Americans are tired of the partisanship," he said before opening the floor to questions. "I have a record of reaching across the aisle, reaching across the aisle and working with my friends whether it be Joe Lieberman or Ted Kennedy."

The Arizona senator's com-

ments were reinforced by the Republican National Committee, which responded to the news of Republicans for Obama by accusing the Illinois senator of a lack of bipartisan accomplishments. Among the opposition research it distributed to the press: a list of what it called Sen. Obama's liberal actions in the three years since he joined the U.S. Congress and links to a tally by Congressional Quarterly, which revealed Sen. Obama has voted with the Democratic Party upwards of 96% of the time.

Despite Sen. McCain's bipartisan activity, including on the hot-button issues of campaign finance and immigration, the Republicans behind the Obama support group express dismay with how McCain's candidacy has evolved.

In July 2007, Mr. Leach commented on the battle between "individual-rights conservatives versus the social-issue conservatives" and called the split "an exceptionally interesting phenomenon." At that time, toward the beginning of the primary campaign, Republican contenders ranged from Mike Huckabee, the former Baptist minister and governor of Arkansas, to Rudy Giuliani, with a pro-choice position on abortion.

Tuesday, Mr. Leach said that he respected Sen. McCain's service to the country but that he was concerned about "the prospect that we'll have more of the same," meaning a continuation of President Bush's policies. "That is, I think, the sense of angst of many, many Republicans throughout the country," he said.

Mr. Chafee said that he supported Sen. McCain on a number of issues while he was in the senate but that he had seen a sharp change. "It's a different John McCain," Mr. Chafee said, pointing to the candidate's reversal to support for offshore drilling and the Bush tax cuts. "Seeing the two different John McCain's is a fracture in his credibility."

It remains to be seen whether a string of Republican supporters will translate into Republicans' actually voting for Sen. Obama in November. Larry Copenheaver, a 62-year-old traveling salesman in York, said he hasn't considered supporting Sen. Obama. "Democrats have a tendency to reach into my pocket," Mr. Copenheaver says. "Philosophically, they are just too different."

U.S. trade deficit shrinks as exports hit record high

BY TOM BARKLEY

WASHINGTON—The U.S. trade deficit unexpectedly narrowed in June as exports registered their biggest gain in nearly 4½ years.

The deficit in international trade of goods and services narrowed to \$56.77 billion from May's revised \$59.2 billion, the Commerce Department said. The May trade gap was originally reported as \$59.79 billion.

Economists surveyed by Dow Jones Newswires had estimated a \$62.7 billion shortfall for June.

Meanwhile, the government's budget deficit nearly tripled in July, pushed wider partly by failed financial institutions.

The Treasury Department said Tuesday the government ran a monthly deficit of \$102.77 billion in July, up from \$36.45 billion in July 2007.

Trade has been one of the few bright spots of the U.S. economy, adding 2.42 percentage points to second-quarter growth in gross domestic product, according to an initial estimate.

"The trade balance improved in June despite a sharp increase in the oil import bill because of a surge in exports," said Insight Economics chief economist Steven Wood, who estimates the trade data will push up second-quarter GDP growth by another 0.8 percentage point when that figure gets revised. Mr. Wood expects the trade gap to continue to narrow, given the recent drop in oil prices.

By August, "the bottom might fall out of the trade deficit," said Ken Mayland of ClearView Economics. "With trade volumes getting some help from growth abroad, I suspect U.S. competitiveness—resulting from a cheaper dollar—is the more dominant influence now," he said.

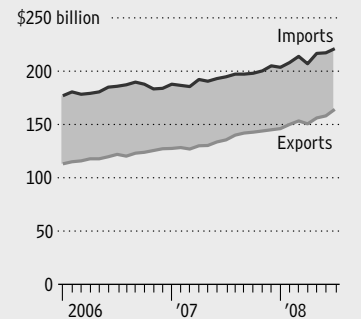
U.S. exports jumped 4% in June from a month earlier to a record \$164.42 billion, logging the biggest gain since February 2004. Imports also set a high, rising 1.8% to \$221.19 billion.

The U.S. bill for crude-oil imports increased to a record \$34.85 billion from \$31.25 billion in May as oil prices soared. The average price surged \$10.85 a barrel to \$117.13, registering its biggest monthly price gain. Crude import volume rose to 297.53 million barrels from 294 million.

The U.S. paid \$45.21 billion for all types of energy-related imports, up from \$40.36 billion in May.

Rising exports

The U.S. trade balance has narrowed partially due to a boom in exports.



Source: U.S. Commerce Department

The trade deficit with China expanded to \$21.43 billion from \$21.05 billion the month before, as exports to China declined \$200 million. Critics accuse China of unfair trade practices, such as artificially depressing the value of its currency to boost the competitiveness of Chinese products. The White House has been prodding China to move more quickly to allow its currency to rise against the dollar and head off moves by Democrats in Congress to impose tariffs on Chinese goods over the currency issue.

The deficit with Japan expanded to \$6.13 billion from \$5.05 billion.

The trade gap with the euro zone widened to \$7.2 billion from \$6.5 billion, while the deficit with Canada expanded to \$7.16 billion from \$5.39 billion.

Meanwhile, the U.S. gap with Mexico decreased to \$5.7 billion from \$6.58 billion.

Imports of industrial supplies rose \$5.6 billion in June. Auto and related parts imports increased \$60 million.

Imports of foreign-made consumer goods, like clothing and household appliances, decreased \$576 million. Imports of capital goods, such as computers and accessories, fell by \$1.37 billion. Food and feed imports also decreased \$144 million.

U.S. exports of consumer goods, including art and stereos, increased by \$722 million during June. Capital-goods exports rose by \$1.19 billion. Auto exports increased \$576 million.

Sales of industrial supplies, such as fuel oil, jumped \$2.76 billion. Exports of food, feed and beverages also went up by \$853 million.

—Jeff Bater
contributed to this article.

Lamy optimistic on Doha talks

BY GAURAV RAGHUVANSHI
AND C.R. JAYACHANDRAN

NEW DELHI—The Doha Round of World Trade Organization negotiations can still be concluded by the year-end deadline, despite the collapse of talks last month in Geneva, WTO Director-General Pascal Lamy said in New Delhi.

Indian Commerce Minister Kamal Nath said his country is keen to complete the round. "The Geneva talks weren't a failure, but a pause and hope that the talks will go forward," he said.

The latest talks collapsed after the U.S. failed to agree with China and India on their right to impose emergency tariffs on agricultural products to protect farmers from a sudden surge in imports.

India said future talks must focus on protecting farmers, which analysts say presents a major challenge to negotiations.

"India is committed to the multilateral trading system, but it's a development round and the developed countries should not come to the table looking for what they can get, but what they can give," Mr. Nath said.

India Tourism Development Corporation Ltd.

EMANELMENT OF LIGHTING / ILLUMINATION CONSULTANTS

India Tourism Development Corporation Ltd. (ITDC), a Government of India Undertaking, invites applications for empanelment of Consultants for Lighting / Illumination of World Heritage Sites, Heritage Monuments, Historical Monuments and Important landmark buildings of National and International importance. The complete details are available on India Tourism Development Corporation Limited, New Delhi (INDIA) website www.theashokgroup.com and Government Tender site <http://tenders.gov.in> or contact Senior Manager (E&M), India Tourism Development Corporation Ltd., Scope Complex, Core 8, 5th Floor, Room No. 530, 7 Lodi Road, New Delhi -110003 (INDIA), Tel: 91-11-24360303 Extn. 530 for any information. The last date of receipt of applications is **4th September, 2008.**

ECONOMY & POLITICS

Musharraf's hold wanes

A second province calls for his ouster; supporters back off

BY ZAHID HUSSAIN

ISLAMABAD, Pakistan—De-septed by many of his former supporters, Pakistan President Pervez Musharraf lost more ground in his struggle to stay in office, as lawmakers in the country's North West Frontier Province overwhelmingly passed a resolution demanding he step down.

The vote came a day after legislators in Pakistan's largest province of Punjab passed a similar resolution, with Mr. Musharraf's former allies joining the call for his removal. The other two provinces, Sindh and Baluchistan, are expected to follow suit when their provincial legislatures meet Wednesday.

The pressure from the provinces comes as Pakistan's ruling coalition government moves to complete impeachment charges it is preparing against Mr. Musharraf, a former general who ruled the country with military backing for almost nine years before democracy was restored earlier this year.

"This tidal wave against President Pervez Musharraf shows that

all democratic forces are together for his impeachment," federal Information Minister Sherry Rehman told reporters here in the capital.

But there is no clear sign yet that Mr. Musharraf is ready to give up. Monday night, he celebrated his 65th birthday by throwing a party at his official residence in Rawalpindi that was attended by top military brass, including army chief of staff Gen. Ashfaq Kayani. Mr. Musharraf "looked relaxed," said a guest who attended the affair.

According to a close aide, Mr. Musharraf has considered stepping down. But the aide said Mr. Musharraf's position hardened after Asif Ali Zardari, the head of the Pakistan People's Party, the senior partner in the coalition government, accused the former general of siphoning off part of the American military aid sent to Pakistan after the Sept. 11, 2001, terrorist attacks in the U.S.

In an interview with Britain's Sunday Times newspaper, Mr. Zardari alleged that Mr. Musharraf diverted U.S. funds meant to aid the war on terror into a slush fund to support clandestine operations by Pakistan's military-intelligence agency. The allegation also has in-

fluenced the army, which Mr. Musharraf headed for more than nine years. "The allegation has...dragged the army into the controversy," said a close associate of Mr. Musharraf.

Chaudhry Shujaat Hussain, president of the pro-Musharraf Pakistan Muslim League said Tuesday that the president is determined to defend himself against Mr. Zardari's allegations. "He will not quit," he said.

No Pakistani leader has been impeached. But impeachment proceedings against Mr. Musharraf appear inevitable if he stands his ground against the coalition government. Government leaders have said they plan to introduce an impeachment motion this month, but political analysts said it could take several weeks before such a motion is voted upon in a joint sitting of the country's bicameral Parliament.

The chances of Mr. Musharraf surviving the vote are becoming increasingly slim, with several of his old allies ready to switch sides. "This is no time for confrontation and we want to strengthen the democratic process. That's why we have decided to support the impeachment motion," said Sikandar Sherpa, a leader of a small party that backed Mr. Musharraf for years.



Pervez Musharraf

China's inflation rate eases to 6.3%

BY ANDREW BATSON

BEIJING—China's headline inflation rate last month fell to its lowest level since last September as food prices steadied, though the costs of other goods are expected to remain a concern in coming months.

The consumer-price index for July was 6.3% higher than a year earlier, the National Bureau of Statistics said. That was lower than most forecasts and down from 7.1% in June and inflation's recent peak of 8.7% in February.

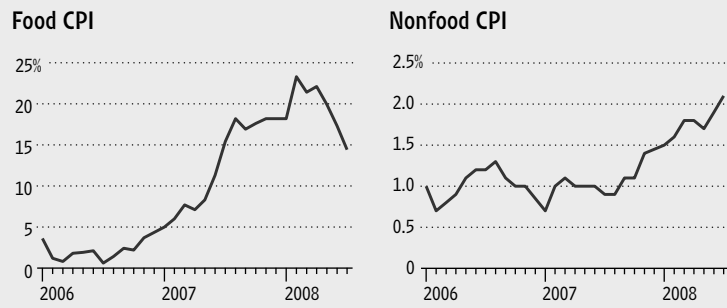
Still, the reading did little to raise investors' spirits. The benchmark Shanghai Composite Index fell 0.5% Tuesday to a 19-month low. Investors remain concerned by the impact high raw-material prices could have on corporate profits and about signs economic growth is slowing.

Food prices remain the biggest driver of headline inflation, accounting for about one-third of the index. And in recent months, food prices have been mostly flat after surging late last year and early this year.

Yet consumer-price inflation ex-

Diverging trends

Food prices in China are moderating after an upward spike, but other prices are steadily climbing. Monthly consumer-price indexes, change from a year earlier:



Source: National Bureau of Statistics, China

cluding food, China's closest equivalent to a "core" measure of price trends, rose to 2.1% last month from 1.9% in June. That was less than some analysts had expected, given that the figures are the first to reflect the June 20 increase in state-set prices for electricity, gasoline and diesel.

Much of the uncertainty over future inflation now involves nonfood prices. With power shortages in

many parts of China worsening, analysts expect another increase in energy prices this year. That would feed into higher costs for many goods. And other price controls—imposed early this year when inflation spiked—could also be eased.

"With food inflation normalizing, many of the 'temporary' price-intervention measures can be phased out," said Qian Wang, an economist for J.P. Morgan Chase.

Japanese corporate-goods prices increase 7.1%

BY TOMOYUKI TACHIKAWA

TOKYO—Soaring energy and commodity costs caused Japan's corporate-goods prices to rise 7.1% last month from a year earlier, deepening worries that inflation could further hurt consumer sentiment.

The jump marked an acceleration from June's revised 5.7% increase. The Bank of Japan's index shows the prices of domestically produced and used goods traded among companies.

Consumer prices so far aren't

rising as fast as prices in the corporate sector, suggesting that companies are still finding it hard to pass on higher costs to consumers. But companies will likely have to raise prices eventually, souring the mood among consumers, who are already unhappy about food and energy bills.

Goldman Sachs said in a report that the data imply two negatives for Japan's economy: downward pressure on corporate earnings because of higher costs, and downward pressure on consumption be-

cause of a decline in real income.

The combination of worsening inflation and deteriorating economic conditions will keep the Bank of Japan in a bind. "As recent inflation is not led by strong domestic demand, a rate hike by the BOJ won't help ease the pain of consumer-price hikes," said Yasuo Yamamoto, a senior economist at Mizuho Research Institute. He added that a credit tightening is unlikely unless workers' wages increase and consumption shows signs of picking up.

Three killed in Xinjiang in latest deadly attack

BY GORDON FAIRCLOUGH

SHANGHAI—Knife-wielding assailants killed three volunteers manning a roadblock in northwestern China on Tuesday, police said—the third incident of deadly antigovernment violence this month in a predominantly Muslim area that is turning into one of Beijing's biggest domestic security problems.

An unknown number of attackers jumped from a vehicle and stabbed villagers who were examining identity cards at a checkpoint, according to police and the state-controlled Xinhua news agency. Police said the assailants and their victims were Uighurs, members of a Turkic-speaking and largely Muslim ethnic group.

Tuesday morning's attack is part of a surge in violence in the Xinjiang region since the run-up to the opening of the Beijing Olympics last week. The assault took place near the Silk Road city of Kashgar, where on Aug. 4 attackers killed 16 border-patrol police.

On Sunday, militants detonated homemade bombs at shops and government buildings, killing two people and injuring others in another Xinjiang city, Kuqa, which is more than 3,300 kilometers from Beijing. Ten more died in an ensuing battle between the police and the suspected bombers, according to Xinhua.

"These attacks are the most serious we've seen in a decade" in Xinjiang, said Nicholas Bequelin, a China researcher for Human Rights Watch, a New York-based advocacy group. And they indicate "there is a new generation of militants" bent on defying the Chinese government.

No one has claimed credit for the attacks. But government officials and the state media have blamed the violence in Kuqa and Kashgar on terrorists. China has for decades battled Uighur (pronounced: WEE-ger) groups waging sporadic and at times violent campaigns for independence from Beijing's rule.

Before the Olympics began last week, Chinese security officials said Uighur separatist groups posed the biggest threat to the Games. But in recent days, authorities have played down the danger, despite the repeated attacks, and insisted that the Olympics are safe.

In Beijing, authorities said they had stepped up efforts to prevent attacks at tourist sites in the city, where a Chinese man stabbed an American visitor to death Saturday and then took his own life. Olympic venues remained under heavy guard, ringed by armored cars and armed police.

Militant Uighurs could be trying to take advantage of the Olympic spotlight now on China to draw attention to their cause. Many Uighurs complain of government limits on civil rights and religious liberties as well as social and economic discrimination by members of China's majority Han ethnic group.

The range of targets chosen by the Uighur attackers has broadened—from paramilitary police in the first assault, to commercial as well as government interests in the second, to Uighurs cooperating with the authorities in the latest incident. Some Uighurs who view Chinese rule in Xinjiang as illegitimate detest those who work with the state.

Uighur exile organizations and human-rights groups condemned the attacks, which they said could erode international support for Uighurs. Uighurs' human-rights complaints have received far less attention than those of Tibetans, thanks in part to the charisma of the Dalai Lama, Tibetans' spiritual leader.

"We condemn all types of violence," said Amy Reger, a spokeswoman for the Uyghur American Association in Washington.

Human Rights Watch's Mr. Bequelin said the recent attacks, which he termed "a strong act of defiance," were "unjustifiable" and "likely to trigger a harsh and indiscriminate response" from the government in Beijing.

The last major wave of antigovernment unrest in Xinjiang—including large-scale rioting and bomb attacks on buses in the regional capital of Urumqi as well as in Beijing—occurred in the late 1990s and prompted a wide-ranging security crackdown that effectively crushed militant groups.

The Chinese government also stepped up its monitoring of local people and moved to strengthen its control all the way down to the village level. More Han Chinese Communist Party officials were deployed and the government stepped up its regulation of imams at local mosques, rights groups say.

At the same time, Beijing has worked to boost economic development in the strategically sensitive oil-producing region, which borders Central Asia and accounts for a sixth of China's territory. The government has invested heavily in road and rail links and other infrastructure.

In the months ahead of the Olympics this year, China has progressively tightened security in Xinjiang, Uighur-exile and human-rights groups say, placing greater restrictions on Uighurs' freedom of movement among other things.

The roadblock that was attacked Tuesday was part of the new measures. Tuer Sunjiang, a police officer in the village where the assault occurred, said the checkpoint had been set up in March as part of pre-Games security. He said checkpoints had been set up on all roads connecting villages in the county.

Mr. Tuer Sunjiang said the forces of terrorism, separatism and religious extremism "are serious in this region," adding, "we have been on high alert." He said the volunteers manning the checkpoint were local villagers. One of the four survived the attack, and the assailants were still at large, he said.

The violence of the past week has worsened already strained relations between Uighurs and Han Chinese, who have migrated to Xinjiang in increasing numbers and now account for about 40% of the region's population.

"We have to be very careful. Han and Uighur rarely associate in daily life," said a Han Chinese businessman from Shandong province in eastern China who now lives in the county where Tuesday's attack took place.

The man, who was interviewed by phone and declined to be named, said, "Uighurs think that everything here is theirs," adding, "our policy is too lenient for them. They are spoiled."

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