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BHP said profit rose 15%, which should help in its bid for Rio Tinto. The miner stressed the need for synergies as costs mount and was upbeat on key commodities, citing demand from emerging economies such as Brazil and Russia. **Page 19**

BP stopped using a railway line that exports Azeri oil through Georgia, following reports of damage to a crucial bridge along the line. **Page 2**

France aims to present a plan on how to prevent the euro zone from falling into recession at next month's meeting of EU finance ministers. **Page 8**

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German engineering union IG Metall plans to demand inflation-busting wage increases during fall talks that will affect 3.6 million workers. **Page 7**

The growth in labor costs picked up in the first quarter, the OECD said, a trend likely to concern central banks. **Page 22**

Electronic Arts will hear a presentation from Take-Two's management, a step that could lead to a friendly merger of the U.S. videogame makers. **Page 7**

MUFG and UnionBanCal reached a pact under which the Japanese bank will buy out the California unit's minority holders for \$73.50 a share. **Page 21**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11479.39	-180.51	-1.55
Nasdaq	2416.98	-35.54	-1.45
DJ Stoxx 600	286.95	-0.30	-0.10
FTSE 100	5450.2	-4.6	-0.08
DAX	6432.88	-13.14	-0.20
CAC 40	4448.84	-4.78	-0.11
Euro	\$1.4967+0.0272	+1.85	
Nymex crude	\$112.87	-0.90	-0.79

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Russia's military raised new doubts over whether Moscow intends to abide by a cease-fire accord in Georgia. There was little sign of a pullback, and some Russian units thrust deeper into Georgia. Rice and other NATO ministers meet Tuesday to debate how to respond to Russia's actions in Georgia. **Pages 1, 2**

Pakistani President Musharraf said he will resign immediately, handing leadership to a divided government struggling to tackle an Islamic militancy and economic downturn. **Page 1**

A suicide bomber detonated explosives outside a U.S. base in eastern Afghanistan, killing 10 Afghans. Independence Day festivities in Kabul were muted after a U.S. general warned of attacks.

Masked gunmen ambushed a bus in southern Iraq, killing two provincial election officials and wounding a third worker.

Israel said two of its most prominent Palestinian prisoners will be among 199 inmates to be freed as a goodwill gesture to Abbas's government.

Sudanese President al-Bashir arrived at a Turkey-Africa economic summit, his first overseas trip since an international court indicted him on genocide charges.

Zimbabwe's Mugabe and opposition officials said they would keep talking about a power-sharing deal at the urging of southern African leaders.

Philippine troops retook several southern towns after Muslim rebels killed at least 23 civilians and three soldiers.

Muslims marched in Srinagar, demanding that India give up its Kashmir claims, in what separatists said was the largest demonstration in two months.

Sri Lankan civilians displaced by intensified civil-war fighting will be cared for, a government official said. The U.N. said thousands were living under trees.

Turkey's energy minister plans to visit Iran to discuss natural-gas and pipeline investments, in a rebuff to the U.S., which opposes energy deals with Tehran.

China's defending Olympics hurdles champion Liu Xiang, a national hero, was forced to withdraw due to an injury. **Page 5**

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Europe can't assume Moscow wants to stop Tehran's bomb. State of the Union. **Page 12**

NATO faces divisions on Georgia military aid

Some members seek more-neutral stance on Russian incursion

The U.S. and Europe face a diplomatic minefield as NATO ministers gather in Brussels Tuesday to debate how to help rebuild Georgia and respond to Russia's largest foreign military intervention since the breakup of the Soviet Union.

In one of NATO's weightiest sessions in years, the 26 foreign minis-

By **John W. Miller** in Brussels, **Marcus Walker** in Berlin and **Gregory L. White** in Moscow

ters in the alliance are hoping to craft a unified stance toward the Russian incursion into Georgia despite divisions within the group over whether to risk antagonizing Moscow.

The emergency session, which was called last week by the U.S., comes as Russian forces have so far shown little sign of ending their 10-day occupation of Georgia. Moscow has promised to pull its troops and tanks back from positions deep within the country, but disagreements remain over the terms of a French-led cease-fire deal.

The ministers of the North Atlantic Treaty Organization will first discuss the situation. *Please turn to page 3*

Musharraf resigns office under pressure

By **PETER WONACOTT** AND **ZAHID HUSSAIN**

ISLAMABAD, Pakistan—Pakistan's president, Pervez Musharraf, under pressure from his political opponents and even some allies, said he will resign immediately, handing leadership of this volatile nuclear-armed nation to a divided government that is struggling to tackle an Islamic militancy and a sharp economic downturn.

Mr. Musharraf's resignation, announced in a national television address Monday, marks a victory for the governing coalition of his political opponents that was preparing to impeach him. Yet it also deprives the government of its scapegoat for the country's woes, leaving the coalition to deliver on the promise of better governance in a new democratic era that Mr. Musharraf *Please turn to back page*



Pervez Musharraf

Asking for help

Georgia will formally request help from the NATO military alliance Tuesday.

It's asking for ...

- Humanitarian aid
- High-level visits from NATO leaders
- A civilian emergency-planning team to prepare rebuilding of public infrastructure
- Repair of Georgian radar capabilities

... and assessment of:

- Any Russian use of cluster bombs, banned in most countries
- Georgian military bases and other infrastructure
- Environmental damage caused by forest fires near Gori

Source: U.S. and Georgian missions to Nato

Missing from action:

- ▶ A Russian soldier inspects a line of allegedly seized Georgian armored vehicles in Tskhinvali, South Ossetia.



Russia shows few signs of pulling out of Georgia

Despite Russia's vow to withdraw its forces from Georgia, implementing a French-brokered cease-fire, there was little evidence of such a pullback on Monday, and some Russian units thrust even deeper into Georgian territory.

Russia's military moves in Georgia, a former Soviet republic and a

By **Yaroslav Trofimov** in Igoeti, Georgia, and **Guy Chazan** in Senaki

staunch U.S. ally, raised new doubts as to whether Moscow intends to abide by the cease-fire agreement that ended a short but intense war over the breakaway republic of South Ossetia last week. Russian forces have since fanned through-

out Georgia proper, destroying infrastructure in the Black Sea port city of Poti and coming within 30 kilometers of the capital, Tbilisi.

A Russian government spokesman in Vladikavkaz said the first small columns of military personnel had begun to withdraw on Sunday. He said the main withdrawal would start on Tuesday. "It takes a long time to pack up a tank," he said.

A trip from Vladikavkaz in Russia through South Ossetia to the Georgian town of Gori and back turned up few signs that Russian troops were withdrawing. A correspondent for The Wall Street Journal spotted only 16 troop trucks heading toward Russia. Their tarps were battered down and it was im-

Please turn to page 3

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THE RUSSIA-GEORGIA CONFLICT

U.S., Europe reassess relations with Russia

NATO talks to weigh peacekeeping role; debate on expansion

BY JAY SOLOMON, NEIL KING JR. AND SIOBHAN GORMAN

WASHINGTON—As the West presses Russia to withdraw its troops from Georgia, the Bush administration and its European allies are also exploring actions that could alter their post-Cold War relationship with Moscow.

U.S. officials over the weekend said Russia's actions inside Georgia in recent weeks were forcing Washington and Europe to examine measures that could result in isolating Russia from the West. Among these, they said, are potentially blocking Russian participation in global bodies such as the World Trade Organization and the

Group of Eight forum for industrialized nations.

U.S. Secretary of State Condoleezza Rice will attend an emergency session of the North Atlantic Treaty Organization in Brussels on Tuesday to fashion a more detailed response to Russia's actions in Georgia and the disputed territories of South Ossetia and Abkhazia. "The damage to Russia's reputation and the damage to people's views of Russia's suitability for some of these institutions, that damage can't be undone," Ms. Rice said Sunday on television. "Georgia can be rebuilt. Russia's reputation is going to take a while, if ever."

Among the most immediate issues to be addressed at the NATO meeting, said U.S. and European officials, will be the need to deploy peacekeepers to the Caucasus to oversee a cease-fire between Russia and Georgia. NATO members are expected to address longer-term issues that could further heighten tensions with Moscow, such as the expansion of NATO member-

ship to additional former Soviet states, as well as moves to deploy a missile-defense shield across Europe.

The conflict in Georgia is already forcing a broader reassessment of Europe's relationship with Russia, said European diplomats. One said he hopes the conclusion from the NATO meeting will be that "we cannot go on with business as usual" with Moscow. In recent days, NATO has canceled a number of scheduled joint-military exercises with Russian forces because of the Georgia conflict.

And the Bush administration and Poland accelerated the signing of an agreement last week that will allow the U.S. to deploy American missile-interceptors on Polish soil. Washington committed to stationing Patriot-missile batteries in Poland as part of a greater U.S. commitment to defending the country from attack.

Saturday, Ukrainian President Viktor Yushchenko announced that Kiev would be willing to assist a regional missile-defense system by providing early-warning information from its satellites.

"You wouldn't expect Ukraine to try to attach itself to the missile-defense project," said the European official. "It's probably reflecting their general concern about Russia."

Moscow immediately criticized the missile-defense agreement between the U.S. and Poland as designed to target Russia, something neither American nor Polish officials have attempted to refute in recent days.

Still, many American and U.S. diplomats said it remains unclear just how fundamentally the Georgian conflict is going to reshape Europe's strategic map.

NATO's willingness to expand its membership and include countries such as Georgia and Ukraine, is unlikely to be discussed in depth Tuesday and may not get a more thorough airing until the organization's December summit. But even then, it could take a considerable amount of time before either Tbilisi or Kiev became NATO members, said U.S. and European officials.

A White House spokesman, Gor-

don Johndroe, said NATO countries are likely to put Georgia and Ukraine on the track to becoming members at a meeting of foreign ministers in December, although the U.S. failed to persuade other NATO members to do that at an alliance summit earlier this year. He held out the possibility that the time frame could even be accelerated. "We'll see if there is a move to do it earlier," he said.

The decision involves creating a membership action plan for each country. It has typically taken a few years for aspiring member countries to join

Moscow criticized a missile-defense agreement between the U.S. and Poland.

after they have received such plans. Countries such as Germany and France have held that Georgia shouldn't join NATO until it resolves all of its territorial disputes, while Ukraine must build greater domestic political support for its membership. The fighting in Georgia isn't expected to change this calculus.

The timing of the deployment of a U.S. missile-defense system for Europe is also in question. In addition to the U.S. agreement with Poland, the Czech Republic agreed last month to host a radar station. Approval of the move by the Czech Parliament later this year seems likelier now, in part because many Czech officials are comparing the war in Georgia to Moscow's invasion of Prague 40 years ago.

Still, many European states are concerned that deployment of the missile-defense program will further militarize Europe and possibly antagonize Moscow. A number of European diplomats said it remains unclear how the conflict in Georgia might shift opinion in countries such as Germany and France. "Russia may have set the conditions for [the missile-defense] program to be accelerated," said a European official. "We'll have to see."

—John D. McKinnon contributed to this article.



Condoleezza Rice

BP confirms halt of Azeri-oil line

ASSOCIATED PRESS

LONDON—BP PLC said it stopped using a railway line that exports Azeri oil through Georgia, following reports of damage to the line.

The closure of the railway line—which runs from the Georgian capital of Tbilisi through the city of Gori before splitting in three to head to the ports of Batumi and Poti on the Black Sea and a third location just shy of the Turkish border—further limits the U.K.-based oil company's options to export Caspian oil through the troubled region.

BP spokesman Toby Odone confirmed that exports had stopped on the line, which can carry between 50,000 and 70,000 barrels of Azeri oil to Batumi per day.

Georgian officials accused Russia of blowing up a crucial railway

bridge on the line on Saturday, severing the country's main east-west rail route. Officials later vowed to restore the link within a week.

The problems on the railway line compound BP's decision last week to shut down its Baku-Supsa oil pipeline—which runs through the center of Georgia from Baku in Azerbaijan to Supsa on Georgia's Black Sea coast—because of security concerns.

BP hasn't indicated when it might restart the Baku-Supsa line, which had only reopened a few weeks ago after 18 months of inaction. It has the capacity to pump up to 150,000 barrels a day, but has recently been pumping around 90,000 barrels a day.

However, there was some potentially positive news as Turkey's oil minister said that the major Baku-

Tbilisi-Ceyhan oil pipeline, which has been closed since a fire on the Turkish stretch almost two weeks ago, might reopen within days.

Oil Minister Hilmi Guler said the pipeline, which usually provides about one million barrels of Caspian crude oil to international markets, was being fixed and the oil flow could resume "in a few days."

Murat Lecompte, a BP spokesman in Turkey, was more circumspect, saying it was too early to say when the pipeline would be operational.

BP has reduced its production in oil fields in the Caspian Sea because of the pipeline closures. Analysts say it has likely been reduced by a third from the 800,000 barrels a day before the Baku-Tbilisi-Ceyhan line was damaged.

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British Airways PLC and AMR Corp's American Airlines have limited links between their frequent-flyer programs. An Aug. 11 *Leading the News* page article about airline alliances incorrectly stated that American and BA have been unable to link their programs.

Lincoln Chafee, a former Republican U.S. senator from Rhode Island, left the Republican Party after losing his re-election bid in the fall of 2006. An *Economy & Politics* page article Wednesday failed to make that clear when noting his role in the group Republicans for Obama.

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THE WALL STREET JOURNAL EUROPE (ISSN 0921-99) Boulevard Brand Whitlock 87, 1200 Brussels, Belgium

Telephone: 32 2 741 1211 FAX: Business: 32 2 732 1102 News: 32 2 741 1600 Editorial Page: 32 2 735 7562

SUBSCRIPTIONS, inquiries and address changes to: Telephone: +32 2 741 1414 International freephone: 00 800 9753 2000 Website: www.services.wsje.com

Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01

Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürryet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampo Centro Italia s.r.l. Printed in Spain by Belmont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basinevi.

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THE RUSSIA-GEORGIA CONFLICT

Russian moves in Georgia cast doubt on the cease-fire

Continued from first page possible to see who, if anyone, was in the back.

When asked when Russian troops would withdraw, government officials became irritable. Russian Army Capt. Vladimir Ivanov said it was "a process." It had taken a long time for them to deploy and it would take them a long time to withdraw, he added.

Late Monday afternoon, a column of Russian tanks and armored personnel carriers, dozens of soldiers sitting atop every vehicle, rumbled up to the town of Igoeti, the farthest line of the Russian advance on the main highway from Gori to Tbilisi. A Russian colonel came out to announce that all Georgian police and civilian vehicles had three minutes to clear out. The column then roared toward the previously unoccupied Georgian village of Lamiskana, one tank shearing off the side of a Georgian police patrol car that tried to block the way.

"We don't see any significant movement of the regular Russian army to north, that is to Russia, but we do see significant maneuvers south, to Georgia," said Georgia's deputy interior minister, Eka Zghuladze. "We are still waiting for the pullout."

The cease-fire agreement, negotiated by French President Nicolas Sarkozy and signed by both sides in the conflict, requires Russian forces to withdraw from Georgia proper, but allows them to maintain a peace-keeping presence in the pro-Russian breakaway enclaves of South Ossetia and Abkhazia, and to patrol a security zone along the enclaves' borders pending the arrival of European observers. Plans to dispatch these observers hit a new snag on Monday because Russia indicated it is "not inclined to accept" the mission, French Foreign Minister Bernard Kouchner said.

Russia's deputy head of general staff, Col.-Gen. Anatoly Nogovitsyn, said at a news conference in Mos-



Russian soldiers man a checkpoint in Khurvaleti, near Gori, Georgia, on Monday. In spite of a cease-fire agreement brokered by France and signed by both sides of the conflict, Russian troops show few signs of withdrawing from Georgia.

cow that Russian forces had already started moving out of Georgia proper to South Ossetia and Abkhazia. "We are talking only about a pullback. I hope you have noticed the nuance: We are not talking about a pullout," he said.

U.S. Secretary of State Condoleezza Rice, who is to meet North Atlantic Treaty Organization allies in Brussels on Tuesday, has said Russia must withdraw all of its forces from Georgia proper immediately, and that Moscow "is currently not in compliance with this cease-fire."

Ms. Rice said Monday that Russia is playing a "dangerous game" with the U.S. and its allies and warned that NATO wouldn't allow Moscow to win in Georgia, destabilize Europe or draw a new Iron Curtain through it, the Associated Press reported. She added that by flexing its military muscle in Georgia and elsewhere, including the resumption of strategic-bomber patrols off the coast of Alaska, Russia was engaged in high-stakes brinkmanship that could backfire.

"We are not going to allow Russia to draw a new line at those states

that are not yet integrated into the trans-Atlantic structures," she said, referring to Georgia and Ukraine, which haven't joined NATO or the European Union but would like to.

Inside Georgia, there were signs of solidifying Russian control. In the western Georgian crossroads town of Teklati, a Russian soldier sitting atop an armored personnel carrier said his unit had just escorted a convoy of military trucks and fuel tankers from Abkhazia. The soldier declined to give his name.

The trucks were deployed in an unused factory in Teklati that has emerged as the headquarters of Russian forces in the area. Georgian officials say they have noticed a big buildup of Russian armor there. "They just brought several trucks full of potatoes into Teklati, enough to last them three days at least," said Zaza Gorozia, Georgian President Mikheil Saakashvili's representative in western Georgia. "They don't seem to be going anywhere."

Some Russian officers interviewed Monday at forward troop positions said they have been told that President Saakashvili hasn't signed

a correct version of the cease-fire agreement, adding modifications that rendered the document invalid.

A Russian lieutenant colonel who identified himself as Nikolai and said he is part of the command staff of the 42nd Motorized Rifle Division said no orders have been issued to his troops to move in either direction. "If they'll tell us to go back, we'll go back. If they'll tell us to go to Tbilisi, we'll go to Tbilisi," he said after meeting fellow officers at a roadside shed in Igoeti. "We should have gone straight to Tbilisi from the beginning—we would have been home by now," he said.

Soldiers from the division's 70th Motorized Regiment who manned a checkpoint some 15 kilometers behind Russian lines said they have received orders not to let pass any journalists without Russian government press accreditation. "This is a zone of Russian interests, foreign documents are not valid here," said a sergeant who commanded the checkpoint.

Farther down the road, at the military roadblock at the entrance to

Gori, which Russian officials insist is no longer held by Russian forces, even reporters with Russian accreditation were turned back.

Interviewed in Gori on Sunday, Gori's Georgian governor, Lado Vardzelashvili, said he doubted the Russian soldiers will leave anytime soon. "The Russians like it here. They like our wine, our fruits, our food. Who's going to give them all this back where they come from?" he said in his headquarters overlooking a square dominated by a statue of Gori's most famous native, Joseph Stalin.

Closer to Tbilisi, in the wheat fields abutting the city of Kaspi, dozens of tanks and armored vehicles from the 42nd Division dug in, their turrets facing Georgia's capital and their tops covered by camouflage netting. The carefully spaced line of armor stretched from Georgia's only east-west railway line, where Russian forces blew up a bridge over the weekend, according to Georgian officials, to the hilltops near the main highway to Tbilisi. Nearby, soldiers—some of them wearing flip-flops—relaxed eating a watermelon after finishing digging their trenches.

"We all want to go home, and we'll probably be told to do so tomorrow," said a lieutenant who identified himself as Kolya. "You can't pull out all of our troops all at once. There are five divisions in Georgia—all the road would be clogged."

In Georgia's western regional center of Zugdidi, Russian troops were still ensconced in the sprawling Georgian special-forces base, a huge, heavily fortified facility surrounded by high, barbed-wire-topped walls. They also still hold President Saakashvili's Zugdidi residence, an elegant villa in the center of town, and several other government buildings.

"They came to these places five days ago and said to people there: You have 10 minutes to leave," said Mr. Gorozia. He said the Russians have been busy removing equipment from the Senaki base, once a showcase for the American-trained and -equipped Georgian forces. More than 100 military trucks had left the base in recent days, first ferrying out arms, fuel and equipment, but later moving on to furniture and even toilets, Mr. Gorozia said.

Angela Sengelia, the wife of a Georgian officer, was gathering her belongings from Senaki's officers' quarters and taking them away in a truck. She said the Russians have already looted the place, removing anything of any value including clothes, television sets, DVD players and music centers. "They will only leave when they have nothing left to steal," said Shota Odisharia, the deputy mayor of Senaki.

—Andrew Osborn
in Vladikavkaz, Russia,
contributed to this article.

NATO prepares for a pivotal debate on Georgia

Continued from first page bade a wish list from the Georgian government. Beyond standard humanitarian aid, which the U.S. military is already increasing, Tbilisi is eager to have NATO send in a series of assessment teams to evaluate the damage that Russian troops have done to its military bases, its anti-aircraft radar system and its overall military infrastructure.

The list poses some delicate questions for the alliance, which must now decide how deeply it wants to wade into offering direct military aid to Tbilisi. Some countries within NATO want to see the group help Georgia rebuild its armed forces, while others, including Greece and Turkey, are reluctant, arguing that such aid should come directly from individual countries instead of NATO itself. These countries may be betting that a more neutral stance toward Russia will earn them favors down the road from the energy-rich giant.

Georgia wants to join NATO, but at its April summit meeting in Bucharest the alliance didn't put Tbilisi on a membership fast track.

U.S. Secretary of State Condoleezza Rice, who arrived in Brussels late Monday, will support calls to help Georgia's military. Kurt Volker, the U.S. ambassador to NATO, said,

"As a sovereign, democratic country, Georgia has an army, and it has a right to have an army. It will now have to rebuild that military, and we should all look at how we can help."

Meanwhile, the U.S. Defense Department has announced plans to dramatically ramp up the airlifting of humanitarian supplies into Georgia, a move clearly meant to show increased U.S. solidarity.

Estonian Foreign Minister Ur-

Some NATO countries want to see the group help Georgia rebuild its armed forces, while others argue that such aid should come from individual countries.

mas Paet said it isn't clear whether a consensus will emerge within NATO on assisting Georgia militarily. But Estonia is among a number of NATO countries, including Poland and several other former Eastern Bloc countries, that support the call for NATO to help rebuild Georgian bases, ports and airports.

NATO's ties with Moscow are now more strained than at any time since the breakup of the Soviet Union in 1991. After years of seeking

to incorporate Moscow as an outside partner to the alliance, NATO ministers are at this point weighing how to curtail or even cease interactions with Russia.

How tough a stance NATO takes toward Moscow will depend in large part on whether Russia honors its pledge to withdraw its forces from Georgia. While the U.S. has hinted at ejecting Russia from the Group of Eight leading nations, or blocking

its entry into the World Trade Organization, Germany and the other big European Union countries remain reluctant to threaten Russia with immediate consequences of that order over the Georgian invasion.

Moscow is far less shy. Dmitry Rogozin, Russia's emissary to NATO, told reporters Monday that Moscow's interactions with the alliance could be jeopardized by steps NATO takes this week.

"We will be watching very

closely what decision will be taken," he said. "If it is not in line with the reality, we will not be able to maintain the quality of cooperation with NATO the way it has been so far."

The Kremlin blames Georgia for starting the war this month with what Russian President Dmitry Medvedev described as "aggression" against the Russian citizens who populate the enclave of South Ossetia. Russian officials have been critical of the U.S. and NATO for arming and training the Georgian military, which the Kremlin accuses of committing atrocities against the civilian population there.

Russia has provided little proof so far for its claim that Georgia was carrying out genocide. But even Western officials concede Georgian forces used weapons such as Grad missiles, which cause damage over a wide area, on the South Ossetian capital of Tskhinvali, where civilians were caught in the crossfire.

Monday, Mr. Medvedev continued his thinly veiled criticism.

"It's beyond the bounds of comprehension when one civilized state, the armed forces of which were supplied by another highly civilized state, uses that military machine against peaceful citizens, including those it called its own," he said.

Career Journal

Go your own way

More business-school graduates forgo on-campus recruitment > Page 29



CORPORATE NEWS

MINING

Evraz halts production at mine following deaths



RUSSIAN coal and steel producer Evraz Group SA said it has temporarily halted production at its Mine 12 in Siberia's Kemerovo region after an accident killed three workers on Sunday.

It could be "a matter of days" before production would be resumed at the mine, which last year produced 893,000 metric tons of coal, said an Evraz spokesman. Seven other miners, who were also in the mine when a roof collapsed, were safely evacuated, the company said.

Russian authorities are currently investigating Evraz and other mining companies for allegedly fixing the prices of coking coal. —Jacob Gronholt-Pedersen

AIRLINES

BA won't surrender slots at Heathrow in AMR pact



BITISH Airways PLC said it won't surrender runway slots at London's Heathrow Airport in order to secure its proposed alliance with AMR Corp.'s American Airlines.

"We shouldn't have to give up airline slots because of this," a spokesman said.

British Airways and American Airlines are planning to apply for antitrust approval to form a marketing alliance to link their global flight network. There is an expectation that in order to approve this alliance, competition regulators will demand that the two airlines give up runway slots.

—Erica Herrero-Martinez

WSJ.com

Rising fuel prices give car-sharing idea a boost



A COMBINATION of high energy costs, urban congestion and changes in the way people feel about cars is increasing interest in the concept of car-sharing—buying the right to use a car instead of

the car itself.

Sanjay Rishi, leader of IBM Corp.'s global auto-industry consulting practice, says this interest reflects a dwindling passion for automobiles in some parts of the world, such as Europe.



WSJ.com subscribers can read more about car-sharing in Joseph White's Eyes on the Road column, at WSJ.com/Autos.

Airlines are increasing minimum-stay rules

Step is effort to force business travelers to pay more for trip

BY SCOTT MCCARTNEY

GET READY for a wave of airlines rules requiring travelers to stay at their destinations a minimum number of days or over a Saturday night—if they want the cheapest tickets.

The move is an effort to force business travelers—who usually need the most flexibility and want to be home on the weekends—to pay more for their flights.

Airlines have increased restrictions on cheap fares by raising overnight requirements, upping what had commonly been only a one-night stay requirement to two and three nights. The overnights can be weeknights, so those tickets aren't as onerous as Saturday-night stay tickets. But the three-night requirement does limit the utility of discounted fares for road warriors.

A recent check by Farecompare.com found 64% of the 5,335 round-trip air fares for sale at United, for example, had some sort of minimum-stay requirement. Most were two- and three-night stay requirements.

Fare consulting firm Harrell & Associates compared restrictions on round-trip tickets on 280 routes at six big airlines and found the number of weekend-stay requirements was actually down 10% compared with a January sample, while the number of three-night stay requirements was up 87%.

"That's a new phenomenon," said Bob Harrell, president of the firm. "It's not the dreaded Saturday-night stay—it's three nights. The three-night thing is sort of a backdoor way to try to block business travelers."

Airlines tried to bring back Saturday-night stay requirements earlier this year—but were thwarted. UAL Corp.'s United Airlines added the requirement to its cheapest tickets, and some competitors matched.

Travelers feared the worst; stories abounded about the return of the hated Saturday-night stay requirement.

But the change didn't stick, mostly because discounters compete on so many routes these days, and United and others have had to remove the restriction this summer from most fares. "We were unsuccessful in a broad-based introduction of Saturday-night stay requirements," said John Tague, chief operating officer at United. "We do continue to try to expand the Saturday night stay."

Now, airline executives say they will try again, and again.

The airlines are going back to their old playbooks. For many years the Saturday-night stay requirement was a prime tactic that airlines used to separate business travelers from leisure customers. But as discount airlines spread into more markets and brought their simpler pricing that often don't have such onerous restrictions, incumbent carriers lost customers and were ultimately forced to simplify their pricing to stay competitive.

Historically, the Saturday-night stay forced many business travelers to either pay hundreds of dollars more for each ticket, or spend an extra night or two on the road to save money. If the choice was a \$300

Stay awhile longer

Airlines have been raising the number of nights passengers must stay over for discounted round-trip tickets. Below, changes in the total number of round-trip fare categories offered by six airlines.

	January	August	Change
One Night	204	117	-42.6%
Two Nights	97	137	41.2
Three Nights	159	298	87.4
Sat Night	102	92	-9.8

Source: Harrell Associates.

Fares offered are for Aug. 11 compared to Jan. 28, for 280 routes on six airlines: American, United, Delta, Continental, Northwest and US Airways.

ticket or a \$2,000 ticket, many companies would ask travelers to stay over Saturday night at a nice hotel, have a nice meal and still save hundreds.

In early 1995, Delta Air Lines Inc. overhauled its pricing structure with "Simplifares," capping its highest domestic fare at \$499 one-way and removing many restrictions on tickets. Other airlines matched, putting their pricing in line with dis-

count airlines, and business travelers had easy choices. By booking in advance, they could still get discounted tickets even if their itinerary didn't include a weekend.

High fuel prices spelled the end of simplified pricing, and now airline executives have business travelers in their crosshairs. Because they may not be as price-sensitive as vacationers or people flying off to visit friends or relatives, airlines are scrambling for ways to get business travelers to spend more.

"Simplifares was unsuccessful," says Delta's chief executive, Richard Anderson. The fare structure gave Delta only 86% of the industry's average revenue per aircraft seat-mile, a standard measure in the airline business averaging revenue over each seat flown one mile. With the return to more traditional pricing, Delta is up to about 100% of the industry's average revenue per available seat-mile, he said.

"You really have to have a differential," said Mr. Anderson. "We offer different products to different customers based on their attributes. That's better for an international carrier offering frequency and utility and different products on the same airplane."

As airlines ground airplanes this fall and tighten the supply of seats, they will be looking for opportuni-

ties to get business travelers to pay more, and may revert back to wider imposition of Saturday-night stay requirements.

In terms of Saturday-night stay requirements, Mr. Anderson said Delta is "working on doing that. Our belief is that is the structural way in the market to differentiate" between types of customers. Doing that allows Delta to offer lower fares to price-sensitive customers, by charging higher prices to those with bigger wallets.

Mr. Tague of United agrees. "I think the pricing structure needs to be segmented," he said. Fares have to still go up to cover fuel costs, and one way to do that is to get business travelers to buy more-expensive tickets without raising prices on discounted tickets so high that leisure travelers stop buying.

"The industry is in no position to view fuel pressure as temporary," Mr. Tague said.

Of course, the problem the industry has is that discount airlines continue to grow and business travelers see them as a more-viable alternative as the price gap widens in fares. If big airlines run their prices up too high by making discounted tickets unavailable to business travelers, they risk losing customers. That's been the history, likely to repeat this fall.

Bidders show interest in BAA airport assets

BY MARIETTA CAUCHI

LONDON—Several bidders have signaled interest in assets of U.K. airport operator BAA Ltd. in case British regulators call for the company to sell one of its airports.

Meanwhile, BAA said it had completed its £13.3 billion (\$24.8 billion) debt refinancing, which its bondholders approved earlier this month.

The Competition Commission is expected to rule on Wednesday that BAA, a unit of Spain-based Grupo Ferrovial SA, break up its ownership of Heathrow, Gatwick, Stansted, Glasgow and Edinburgh airports.

Manchester Airports Group, Frankfurt-based airport operator Fraport AG and German construction company Hochtief AG have each indicated interest. MAG said it is prepared to join U.S. investors or private equity to buy a London airport, with Gatwick the most likely to hit the market.

"We have a strong track record when it comes to running airports—we have a lot of skilled people who have developed very good relationships with airlines and other partners," Geoff Muirhead, chief executive of Manchester Airports Group, said Sunday.

Hochtief said it was "generally interested" in buying a U.K. airport

and was monitoring the BAA situation. This position was largely echoed by a Fraport spokesman, who said that the airport operator would look at the conditions of a potential sale and then review whether it would fit into its portfolio.

A consortium led by Grupo Ferrovial bought BAA for \$21.5 billion in October 2006. However, the operator has struggled to reduce buyout-finance costs amid the credit crunch and regulatory reviews of the U.K. airport market. On Monday, BAA said it had successfully completed a debt-refinancing initiative. It said £12.1 billion of debt has been migrated or raised against the company's regulated assets, while

£1.255 billion is secured against BAA's unregulated airports.

Neither BAA nor Ferrovial has appointed an investment bank to explore asset sales, according to a person familiar with the matter.

Global Infrastructure Partners expressed interest in BAA earlier this year. Australia's Macquarie Group is also likely to consider a deal, either through subsidiary Macquarie Airports or its airport and infrastructure funds.

A BAA representative declined to comment.

—Martin Rapp, Victoria Howley and Kaveri Niththyanathan contributed to this article.

CORPORATE NEWS



Liu Xiang warms up before having to drop out of the 110-meter hurdles. His injury was a blow to China and marketers.

A brand bearer goes lame

Sponsors, fans wince as China's Mr. Liu pulls out of Games

BY GEOFFREY A. FOWLER

BEIJING—One of the marketing world's best laid plans limped out of Beijing's Bird's Nest on Monday.

For the past four years, Chinese hurdler Liu Xiang, who shattered the myth that Asian athletes couldn't excel in track events by winning the 110-meter hurdles race in Athens, had come to represent the possibilities embodied in Beijing's Games for many Chinese.

Marketers flocked to Mr. Liu, and he took more of their millions in sponsorship money than any other Chinese athlete except basketball star Yao Ming. Right now, Mr. Liu stars in ads for Coca-Cola and Lenovo Group. Actors playing his parents appear in ads for Yili, a leading Chinese dairy-products company. Nike features life-sized statues of Mr. Liu wearing his branded gear in many of its Chinese stores. Visa hosts tents around the Olympic Green featuring a photo of Mr. Liu giving the victory symbol above the word "pride."

But a surprise injury took Mr. Liu out of the running for the 110-meter hurdles Monday, leaving tens of thousands of fans in the stadium, plus millions more watching on Chinese TV, in shock. The sudden letdown over Mr. Liu's withdrawal, in marked contrast to the record-setting eight gold medals of American swimmer Michael Phelps, is the biggest tarnish so far in China's otherwise awe-some Olympic performance.

At a news conference shortly after the aborted race, Mr. Liu's personal coach, Sun Haiping, apologized to the country and repeatedly broke down sobbing. Mr. Liu's injury was an old one that his coaches had controlled for several years but that suddenly flared up again on Saturday. Explaining why Mr. Liu got this far before pulling out, another coach said he was "very determined to compete," but the pain worsened steadily throughout Mr. Liu's warmup Monday morning, to the point where the hurdler was shaking with pain as he prepared to walk out to the track.

Athletes with big sponsorship contracts lose or get injured from time to time. But in China, Mr. Liu is special because so many marketers have placed their eggs in his basket.

Sponsoring an individual athlete is "like you are highly leveraged on one stock," said Marcus John, the managing director for sports-marketing company IMG Consulting in Asia.

Tom Doctoroff, the North Asia chief executive of WPP Group's JWT

ad agency, said Mr. Liu's withdrawal is a "big problem" for the brands that invested in him. JWT has made ads featuring Mr. Liu for Yili, the milk brand.

"Liu Xiang is an icon, and that icon did not come through," he said. "Results count in China, not the spirit."

At his ad agency's office, Mr. Doctoroff's staff had gathered around the TV to watch Mr. Liu's performance and were disoriented when he just walked off of the track. "For one man to carry the burden of a nation, from a brand perspective, was never a smart thing to do."

Many of the brands that Mr. Liu works for expressed their sympathy for him, and professed their continuing support. Pulling out of a sponsorship deal at a time like this would be seen as poor decorum, said sports-marketing experts. Spokesmen for Coke and Lenovo both said they have no plans to cut him from their marketing. Mr. Doctoroff said that Yili had already moved on to broader Olympic themes in its ads, even before Mr. Liu's injury.

Nike, perhaps more deeply invested in Mr. Liu's performance than any other brand, is left with the challenge of figuring out how to make his injury a useful part of his story.

"It is not all about winning. It is about performing, and performing at your best," said Nike spokesman Dean Stoyer. "The fact is that he prepared his entire life for this moment. That is the message—you can't give up and you have to continue."

In hindsight, some sports marketers said a more diversified portfolio of stars would have been a safer bet for marketers trying to tap China's growing middle class during the Beijing Olympics. "But in China you just don't have that many athletes of his stature. You have Yao and you have Liu Xiang," said Mr. John. China's creaking socialist sports system, in which the state—not athletes themselves—control their lives and commercial appearances, has been unable to produce very many camera-ready stars.

Nobody knows how much the stress of the endorsement deals and public expectations on him might have shaped Mr. Liu's injury. At a news conference, Feng Shugong, head coach of China's athletics squad, acknowledged that Mr. Liu was under enormous pressure from the fame and hope surrounding him in China. "That was a great encouragement," he said. "But the side effect was that everywhere he went he saw his own picture. That put great pressure on him." But Mr. Feng said the hurdler is a "great athlete whose psychological strength is very high."

"I believe that the Chinese people will understand the situation

and will encourage him to come back to the track and have a good performance again," Mr. Feng said.

Chinese fans certainly seemed to sympathize with him on Monday, though many of them left the stadium after his failed performance, even as other events continued inside.

"What a pity," said a 16-year-old Beijing student named Henry, outside the Bird's Nest right after Mr. Liu's performance. "Today's injury is a total accident. I will still support Liu Xiang. And I want to tell him, 'You are still the best,' and hope he gets better soon."

Even China's senior leadership made a rare comment on sports. The Xinhua news agency reported that Vice President Xi Jinping telegraphed the General Administration of Sport, saying, "We hope that after he recovers, he will continue to train hard and struggle harder for the national glory."

Minoru Shiraishi, a sports-medicine specialist at Jikei University in Tokyo, said it would have been dangerous—not to mention incredibly painful—for Mr. Liu to race with an injured Achilles' tendon. "If he strained it further and the tendon ruptured, that could endanger his entire career," Dr. Shiraishi said. "He was probably wise to pull out."

But as a marketing figure, Mr. Liu may have a harder time bouncing back than other athletes. When China's other athletic superstar, Mr. Yao, announced an injury to his left foot earlier this year, Adidas shoe brand Reebok rallied fans behind Mr. Yao via marketing that included a Web site where fans could register their support for him. Mr. Yao's foot did heal, and he has played at the top of his game in the Olympics.

Track stars, however, have fewer opportunities to come back into the public eye. The next international competition where Mr. Liu could regain his title comes next year at the world championships—and the next Olympics won't come around for another four years.

Marketers have already gotten their money's worth out of Mr. Liu, having splashed his image across their ads for the past four years. "A lot of this was about the anticipation, and they certainly did leverage that pretty well," said Chris Renner, the president of sports-marketing firm Helios Partners China. "What they're missing is the emotional payoff."

Another silver lining for marketers—and Chinese fans—is China's successful performance overall at the Games, so far pulling in more gold medals than any other country.

"Because China now has so many other heroes, we will have a wider field," said IMG's Mr. John.

—Juliet Ye, Jason Dean and Hiroko Tabuchi contributed to this article.

U.K. ad agency is seeking a golden Olympics tie-in

BY AARON O. PATRICK

LONDON—The Olympics are full of comeback stories. One advertising executive hopes Beijing will be the stage for his own.

Tim Delaney was once one of Britain's hottest ad writers, opening a U.S. office and working for clients such as London department store Harrods, auto maker Hyundai, and British Broadcasting Corp. But his agency, Leagas-Delaney, nearly went under in 2003 after losing one of its biggest accounts, Adidas.

Now, Mr. Delaney's fortunes are on the rise again. In the past three years, Leagas Delaney has roughly doubled annual revenue to \$30 million, rebuilding the independent agency. Recent new clients include the Body Shop, the cosmetics retailer owned by L'Oreal, and Dyson, a vacuum-cleaner manufacturer. In Beijing, he has some high stakes new business, a new ad for Timberland, the U.S. footwear and clothing maker.

A former managing director of BBDO London, a unit of Omnicom, the 62-year-old is known in the British ad industry for his strong views on advertising and his prickly personality. "He's one of the most commercially astute creatives in the world, in my opinion," says David Wethey, the chairman of Agency Assessments International, which helps marketers select agencies. "Can he be difficult? Yes."

Mr. Delaney says he can be tough to work with because he pushes his staff to be thorough, and to think

Delaney wrote ads for it in Europe during the early 1980s, including one comparing Timberlands to Native American footwear: "We stole their land, their buffalo and their women. Then we went back for their shoes."

But Mr. Delaney's tough message sealed the decision, Timberland executives say. He told them Timberland's chunky boots needed to shed their edgy image, created over years of being the footwear-of-choice for rappers, hip-hop artists and their fans, and said the company's promotion of environmental causes was distracting from its products.

"He said, 'look guys, you are a leading outdoor brand and you need to refocus'" on that, says Carol Yang, Timberland's vice president of global marketing.

On Thursday, Leagas Delaney's first ad for the company, called "Podium," was shown during Olympics coverage in the U.S. and China. The television spot will appear later in the U.K., Italy, Japan and France.

The campaign is an example of how marketers that can't afford to sponsor

the Olympics are piggybacking on the games. A Timberland-clad man runs, jumps, and hurdles through a forest to a mountain summit, as though on a winners' podium. A new slogan follows for the Stratham, N.H., company: "Take it All On." It replaces the previous slogan: "Make it Better."

The family-controlled company has never run a TV ad during such a high-profile event, and is spending \$30 million on air time for "Podium" and two follow-up ads, a big amount for the company.



Tim Delaney



Leagas Delaney created an ad for Timberland to cash in on interest in the Olympics.

like management consultants trying to make a company more profitable. "I am ferocious," he says. "We don't fudge communications."

He still writes a lot of the agency's copy. When long-time client InterContinental Hotels Group wanted to extend its Web site, Mr. Delaney says he directed three photo shoots for the chain and wrote articles for the site.

His biggest challenge may be the turnaround of Timberland, which chose Leagas Delaney this year over three U.S. rivals. Timberland was looking to reverse a slump. Revenue fell 6% in the quarter ended June 27 from the year-earlier period to \$210 million on lower shoe and clothing sales, mostly in the U.S.

The company liked that Mr.

High-profile campaigns carry big risks. If an ad fails, it can be a costly mistake. Timberland's quarterly sales will provide a report card of whether the campaign is working.

The ads are a chance for Leagas Delaney to rebuild its reputation in the U.S. The agency lost the Adidas account in 2002 after it was put up for review. Struggling financially, Leagas Delaney was forced to sell its San Francisco office a year later, ending its presence in the huge U.S. market.

Mr. Delaney says he is considering opening an office in New York and would like one in China but is waiting to win more international clients. Leagas Delaney has offices in Prague, Hamburg, Milan and Rome, as well as its headquarters in London.

CORPORATE NEWS

Macau casino king takes gamble

Besieged by rivals, Ho plans to replace his landmark Lisboa

BY BRUCE STANLEY

MACAU—With his grip on Asia's gambling capital slipping, Stanley Ho has gone on the offensive.

Last month, the Hong Kong-born gambling magnate announced plans to tear down his flagship Lisboa casino and hotel and build his biggest and most opulent showcase yet, at a cost of 12 billion Hong Kong dollars (US\$1.54 billion). The 86-year-old also pushed through a long-delayed initial public offering for the company he controls, **SJM Holdings Ltd.**, raising \$494 million despite stock-market jitters.

SJM shares closed at HK\$2.57 Monday, down 17% from the offering price of HK\$3.08.

Since 2002, when this former Portuguese colony allowed others to break into Mr. Ho's longtime monopoly here, Las Vegas heavyweights such as **Wynn Resorts Ltd.**, **MGM Mirage** and **Las Vegas Sands Corp.** have taken business from him as they pursue their own Asian growth strategies.

The combined gambling revenue for all Macau's casinos increased 80% to HK\$80.6 billion between 2005 and 2007, making it bigger than Atlantic City and the Las Vegas Strip combined. But over the same period, revenue at SJM's operating subsidiary, **Sociedade De Jogos de Macau S.A.**, fell to HK\$32.1 billion from HK\$33.4 billion, as business dropped off at its older, comparatively cramped casinos.

SJM owns 19 of Macau's 29 casinos and 29% of the market's gambling revenues. Las Vegas Sands, which owns two casinos, is close behind with 21%, according to a Citigroup assessment of data for the first half of this year.

SJM and Mr. Ho, its chairman, "seem to have been treading water," says David Green, who heads the gambling practice at PricewaterhouseCoopers in Macau.

The competitive challenge adds to questions surrounding Asia's largest gambling company by revenue. For 40 years, Mr. Ho was the uncontested casino king of Macau, amassing billions of dollars in profit from the gambling tables he controlled in this specially administered Chinese enclave. An accomplished ballroom dancer, Mr. Ho is worth \$9 billion, according to Forbes magazine.

He has yet to name a clear succes-

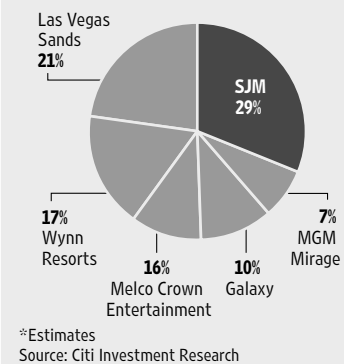
or, prompting speculation over who might end up on top from among the company's executives and a murky family arrangement believed to include at least three women generally referred to as his wives, as well as 17 children. One faction includes one of Mr. Ho's wives, Angela Leong—a former dance troupe member who is now a company director and Macau lawmaker—and SJM's chief executive, Ambrose So, said a person familiar with the matter. An opposing group includes small shareholders and senior managers who want to run SJM as a more transparent, Western-style business, this person says.

SJM denies any power struggle in its upper management. Mr. Ho, Ms. Leong and Mr. So declined to comment.

New Jersey gambling officials are still considering whether to approve a partnership between Mr. Ho's

Bigger slice

Share of Macau's mass-market and V.I.P. net-gaming revenue, first half of 2008:*



daughter Pansy Ho and MGM Mirage, which opened MGM Grand Macau, a \$1.25 billion casino and 600-room hotel, in December. New Jersey officials wouldn't comment further on the decision other than to say they have a pending investigation on the partnership, but cited a 2005 report in which they said they had been in contact with other regulators over what they said were "numerous public allegations" suggesting that Mr. Ho "has ties to Asian organized crime." Mr. Ho has consistently disputed such accusations. Both Ms. Ho and MGM say she is independent of Mr. Ho, and Nevada officials cleared the partnership last year.

For all the tumult, Mr. Ho looked secure in Macau, the one place in China where gambling is legal and a magnet, therefore, for the huge market of Chinese gamblers. One of SJM's strengths is its long-standing ties to promoters, so-called junket operators, who bring big-spending, so-called VIP players to Macau from mainland China. VIPs generate 70% of the territory's overall gambling revenue.

Nevertheless, Mr. Ho has lost market share to competitors who have opened grander and more luxurious Vegas-style palaces. SJM is absent so far from Macau's busiest commercial frontier, a strip of reclaimed land called Cotai where others are building enormous casino, hotel and entertainment complexes.

Instead, Mr. Ho is betting on a revitalization of the downtown area, the location of his landmark Lisboa. Mr. Ho and a few other like-minded rivals want to create a cluster of luxurious casinos in downtown Macau that can compete with the integrated resorts rising a 10-minute taxi ride away on Cotai.

SJM introduced its second-biggest casino by floor space, the 88,000-square-foot Ponte 16, in Macau's nearby Inner Harbour neighborhood in February, and a five-star Sofitel hotel managed by France's Accor SA opened at the property this month. But a new and improved Lisboa is the most crucial part of Mr. Ho's competitive strategy.

The company opened its all-new Grand Lisboa—an egg-shaped casino and a hotel tower resembling a golden lotus—across the street from the old Lisboa in February 2007. The old Lisboa houses a confusing honeycomb of gambling parlors with names like "Club Wealthy."

Building a successor to this landmark is arguably Mr. Ho's biggest gamble. SJM executives are reviewing proposals by architecture firms and expect to pick a winning design in September. Demolition of the existing building will begin next year, and the next-generation Lisboa will open in 2012, says SJM spokesman John Catt.

"They won't be No. 1 for too long, that's for sure. LVS will overtake them, if not this year then next year or the year after," says Billy Ng, an analyst in Hong Kong at J.P. Morgan Chase.



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CORPORATE NEWS

U.S. looks to widen wireless Web

As Google, others push for sharing, broadcasters fret

BY AMY SCHATZ

LANDOVER, Md.—After eight months of testing, a plan to employ unused TV channels to provide cheap, high-speed wireless Internet networks still faces determined opposition and an uncertain future.

The U.S. Federal Communications Commission will have the final say in the battle between the broadcasters—which fear interference on the airwaves they'll still be using—and the companies including Google Inc. and Motorola Inc. that want to share the television airwaves, using them for high-speed wireless service that could spur the development of new wireless gadgets.

In September, the FCC is expected to report its findings on tests of prototype "smart radios" that can pinpoint which local broadcast channels are being used and then avoid them. Shortly after that, its five commissioners are expected to take up the issue of whether those TV airwaves can be shared, with an eye to setting rules for their use by year end.

"Spectrum is very valuable and we want to make sure it's being used as efficiently as possible," says FCC Chairman Kevin Martin. "The idea of trying to utilize the 'white spaces' from a consumer perspective would be a good win for everyone."

White spaces are swaths of broadcast spectrum that will be left

open after TV stations switch to digital broadcasting in February. This spectrum is valuable because signals can travel great lengths on it, and because it allows them to penetrate buildings, unlike airwaves used by some wireless phones and devices. The slivers of airwaves currently set aside for cordless phones, Bluetooth devices and Internet Wi-Fi networks are also getting crowded, and tech companies want more unlicensed airwaves to use.

"I like to think of it as Wi-Fi on steroids," Google co-founder Larry Page told FCC lawyers, congressional staff and lobbyists in June during his first lobbying trip to Washington. "It would make a huge difference for everybody."

White-spaces fans see a world in which empty TV channels could be used to deliver cheap, high-speed wireless Web access to consumers without forcing them to buy a latte. They envision installing a few antennas over a wide area to create a "mesh" network that delivers wireless Internet service. Previous efforts to do that with Wi-Fi antennas haven't been that successful, because their signals are weak and as a result the networks required a large number of antennas.

Letting wireless gadgets share TV-station airwaves could unleash a boom in new consumer electronics not seen since Wi-Fi took off about a decade ago, say companies including Google and Intel Corp., which are lobbying heavily for sharing.

"We have medical devices, laptops, even toys that are starting to in-

corporate Bluetooth. We want the wireless revolution to continue, but the little spectrum we have won't get us there," says Neeraj Srivastava, director of technology policy at Dell Inc.

Broadcasters are fighting the effort, arguing that their signals will get messed up, along with their businesses. "The only way we operate as a business is if our viewers get a clear TV picture. Given the fact that there's been a series of failures (in testing) at the FCC it doesn't give us a lot of comfort," says Dennis Wharton, spokesman for the National Association of Broadcasters.

Wireless microphone companies have joined the opposition, worried the new devices could prompt their microphones to fail. Many of their users, including the Grand Ole Opry, Broadway theaters and the National Football League, have appealed to the FCC to proceed with caution.

The technology companies are trying to prove they can share some of those channels without harm. They say their wireless gadgets with "smart radios" can automatically sniff out local broadcast channels and avoid them.

So far, though, the FCC's tests of these prototypes—in labs, a football stadium and even a Broadway theater—haven't offered a clear conclusion. Recently, FCC engineers spent a day at FedEx Field, the home of the Washington Redskins football team. Several engineers roamed the stadium for hours, testing two prototype boxes designed to figure out which TV channels and

wireless microphones were in use.

Neither box worked perfectly. A prototype designed by Philips Electronics NV's Philips Electronics North America Corp. was too sensitive: It said every TV channel in the stadium was in use, which wasn't the case. The other, from a Singapore research group, picked up some channels in use in the area but not others.

On the sidelines, Bruce Franca, an engineer representing the Association for Maximum Service Television, a group that handles technical issues for broadcasters, argued with Monisha Ghosh, a Philips researcher who insisted that her company's device was doing what it was supposed to do: find TV channels in use.

"Our device is a little more sensitive," said Ms. Ghosh, to a snort from Mr. Franca. Nearby, representatives from the NFL, Walt Disney Co.'s ESPN and wireless-microphone manufacturer Shure Inc., crowded around the FCC engineers, some shaking their heads and muttering about the devices not working. For months, engineers from both sides have been claiming that the testing results prove their case.

Technology company executives argue that if the FCC simply sets broad rules for sharing TV airwaves, engineers will come up ways to use them without disrupting TV channels or wireless microphones. Regulators in the U.K. did that recently, issuing rough guidelines that would allow unlicensed devices to share TV airwaves.

Four devices designed to figure out which TV channels are in use have been submitted for FCC testing. So far, FCC engineers aren't talking about their conclusions.



Kevin Martin

German engineering union set for wage push

BY ROMAN KESSLER

FRANKFURT—Germany's powerful engineering union IG Metall is preparing to demand inflation-busting wage increases during negotiations this fall that will affect 3.6 million workers.

Armin Schild, head of the central German negotiating region for the union, Europe's largest, said in an interview that the union wants to boost buying power that has been sliced by a year of rising inflation. Consumer price inflation in Germany stood at 3.5% in July.

"Workers can't escape from energy, food and housing inflation. They need more money," Mr. Schild said.

The negotiations affect nearly every major German auto maker and their suppliers, including Daimler AG and BMW AG. Parts suppliers such as Robert Bosch GmbH, Siemens AG and Continental AG also could be targeted.

The union has threatened strikes that could start as early as Nov. 1, after its current wage contract expires. IG Metall demanded a 6.5% wage hike in spring 2007, even-

tually winning a 4.1% wage increase, which was supplemented with an additional 1.7% raise taking effect this summer.

Now, the union wants more. "This round's wage increase has to be higher than in 2007," Mr. Schild said. "We want to make an ambitious wage claim and get a beefy wage increase."

The contract affects nearly every worker in Germany's automotive, engineering and capital-goods sectors. For the first time, IG Metall also plans to include temporary workers in its campaign and let

them benefit from its wage deal.

Mr. Schild, who attended IG Metall's steering committee meeting last week to discuss strategy, said the board will present its recommendation for a wage claim Sept. 8.

IG Metall-organized walkouts hit German steel mills in January, enabling the union to secure a 5.2% pay rise.

Workers throughout Europe's largest economy and elsewhere on the continent have turned up the pressure for higher settlements this year, which has seen strikes by railway and aviation workers.

Electronic Arts, Take-Two plan talks as bid lapses

BY CHRISTOPHER LAWTON

Electronic Arts Inc. said it would let its \$2 billion unsolicited offer for videogame maker Take-Two Interactive Software Inc. expire but is exploring private talks to buy its rival.

EA said it was letting its tender offer to buy Take-Two shares for \$25.74 each expire Monday because the offer was conditional on being able to integrate Take-Two's top-selling Grand Theft Auto game franchise and other properties into EA's portfolio before the holiday selling season, something that is no longer possible.

The two companies had discussions over the weekend, according to EA, though no deal is on the table. Take-Two shares fell 90 cents, or 3.6%, to \$23.94 on the Nasdaq Stock Market after EA's disclosure. EA shares were down 69 cents, or 1.4%,

at \$47.55 on Nasdaq.

After a phone exchange Friday between EA Chief Executive John Riccitiello and Strauss Zelnick, chairman of the Take-Two board, EA said, it accepted an offer from Take-Two to view a presentation that will include product-release schedules, financial projections and other information intended to give EA a better understanding of the value of Take-Two.

The Friday phone call was followed by letters between the two executives cementing the coming talks, which are contingent on EA's signing a confidentiality agreement, both companies said.

"We continue to have great respect for Take-Two's creative teams and products and are hopeful that we can work together to reach a mutually agreed transaction," Mr. Ricci-

tiello said in a letter dated Monday. EA spokesman Jeff Brown said a deal at \$25.74 a share is still possible, but he added that the company plans to be "price-disciplined."

In a letter dated Sunday, Mr. Zelnick thanked Mr. Riccitiello for his interest in participating in Take-Two's "formal process to evaluate the Company's strategic alternatives."

Any deal would be contingent on an antitrust review by the U.S. Federal Trade Commission that is scheduled to be completed Thursday. Analysts point to the combination of the companies' sports-game portfolios as a possible point of contention with the FTC. EA says it is confident that antitrust issues won't delay a deal.

The talks are a new twist in a story that started last December, when EA first approached Take-Two. In February, EA offered to buy

it for \$25 a share. Take-Two, which owns Rockstar Games, the group behind the Grand Theft Auto videogames, rejected EA's bid and said the offer undervalued the company.

EA raised its bid to \$26 a share. Take-Two also rejected that as too low, and EA went hostile in March. It subsequently cut the bid to \$25.74. Since then, EA has refused to raise its price, despite extending the deadline to tender shares several times.

Michael Pachter, an analyst with Wedbush Morgan Securities, said EA's withdrawal of its tender offer is an indication that it wants to reach a friendly deal with Take-Two. He called EA's reason for pulling its bid a "red herring," and said, "I think they are doing this to allow Take-Two management to save face and negotiate a higher price." He said he believes a deal is possible at \$27 a share.

GLOBAL BUSINESS BRIEFS

Deutsche Bahn AG

Half's net profit rises 4.1% as fare increase is planned

Germany's national railway operator, Deutsche Bahn AG, posted a 4.1% increase in first-half net profit and said it will raise fares later this year because of higher fuel prices and personnel costs. Net profit rose to €904 million (\$1.33 billion) from €868 million a year earlier, mainly thanks to the good start of its DB Mobility Logistics AG unit. Total sales were up 8.2% to €16.6 billion, said Deutsche Bahn, which didn't provide last year's figure. Mobility Logistics, for which Deutsche Bahn reported earnings for the first time, saw net profit increase 6.7% to €864 million from €810 million, while sales rose 6.8% to €16.17 billion.

Michael Page International PLC

British recruitment company Michael Page International PLC posted a 24% rise in first-half net profit, thanks to strong international growth, as Switzerland's Adecco SA reiterated its interest in taking over the company. On Friday, Michael Page rejected Adecco's €1.3 billion (\$2.42 billion) bid for the second time. Net profit increased to £58.9 million from £47.4 million a year earlier, as revenue grew 26% to £500 million from £395.8 million. Adecco said Monday that while it wanted to keep its takeover bid friendly, it was "keeping all options open."

Woolworths Group PLC

British retailer Woolworths Group PLC rejected an offer from Iceland Foods Ltd. for its retail division, sending its share price to close 11% higher. Woolworths—which sells goods including electrical appliances, homewares and computer games—said Iceland's bid undervalued its assets, involved impractical restructuring and would have saddled the company with pension liabilities. The boost to shares was good news for Woolworths, which has suffered from reduced customer spending during the credit crunch. A takeover would have added 815 stores to supermarket chain Iceland.

Iberdrola SA

Spanish utility Iberdrola SA expects a decision next week by New York state regulators on its \$4.6 billion purchase of U.S. utility Energy East Corp. The New York Public Service Commission will have a discussion Wednesday and is to make a decision Aug. 27 about what conditions it will set. Iberdrola has said it will buy Energy East only if it can keep the company's wind-power assets. An administrative judge's nonbinding opinion recommends a series of conditions if the commission approves the deal, including limits on the generating plants Iberdrola may own.

—Compiled from staff and wire service reports.

THE WALL STREET JOURNAL

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ECONOMY & POLITICS

EUROPEAN UNION

Euro-zone trade deficit hit \$173.6 million in June



THE EURO ZONE recorded a foreign-trade deficit in June, defying market expectations as import growth outstripped the increase in exports.

The 15 countries that share the euro recorded a trade deficit of €118.3 million (\$173.6 million) with the rest of the world in June, compared with a €7.5 billion surplus in the year-earlier month, Eurostat said. In May, the deficit was €3.9 billion, and economists had expected it to bounce back to a surplus of €1.1 billion owing to strong exports in June. Monday's weaker-than-expected data suggest that the strength of the euro and weakening global demand are hitting the currency bloc's exporters.

—Emma Charlton

GERMANY

Central bank says prices in euro zone may still rise



INFLATION expectations are increasing in the euro zone and aren't in line with long-term price stability, the Bundesbank said in its August bulletin.

Although most market participants expect economic growth to slow in the euro zone, that may not be enough to moderate inflationary pressures, the German central bank said.

Money supply continues to grow at strong levels, it said. It also reiterated that monetary policy must ensure that price levels remain stable over the medium term.

"Given the sustained strong surge in external prices, the risks to price stability in the euro zone have risen further over the medium term," it said.

—Monica Houston-Waesch

POLAND

U.S. missile-defense pact garners growing support



SUPPORT for a missile-defense pact with the U.S. has soared in Poland in the wake of Russia's military campaign in Georgia, a poll showed. Fifty-eight percent of those surveyed back a pact the two nations are to sign this week, according to a poll published in the Rzeczpospolita daily. It is the first time a majority of Poles surveyed have

backed the plan, said lead researcher Maciej Siejewicz from the Gfk Polonia polling agency. Negotiations between Washington and Warsaw on placing 10 missile-defense interceptors in Poland began about a year and a half ago. They struck a deal last week, and U.S. Secretary of State Condoleezza Rice is expected in Poland this week to sign it.

—Associated Press

U.S.-Pakistan ties difficult after Musharraf

Washington officials fear loss of influence, cooperation on terror

BY JAY SOLOMON
Washington

THE BUSH administration praised the efforts of Pakistani President Pervez Musharraf after his resignation Monday but in the end did little to try to save its close ally in the war against al Qaeda.

Washington now faces mounting challenges in its crucial, and increasingly complex, relationship with Islamabad.

U.S. officials said their influence over Pakistan's new civilian government is diminishing as local politics have trumped Islamabad's focus on the hunt for Taliban and al Qaeda militants.

U.S. officials specifically cite the growing power inside Pakistan's rul-

The White House's willingness to defend Musharraf declined in recent months.

ing political coalition of former Prime Minister Nawaz Sharif, who has clashed with U.S. policy makers on major security and governance issues in the past.

Most troubling to Washington has been a significant fraying in counter-terrorism cooperation between American and Pakistani security forces in recent months.

Peace talks between Prime Minister Yousaf Raza Gilani's government and militant groups based in Pakistan's tribal areas have provided the Taliban with the space to significantly increase cross-border attacks on coalition forces inside Afghanistan, said U.S. officials.

American intelligence officials have raised with Mr. Gilani's government their concerns that members of Pakistan's intelligence agency,

the Inter-Services Intelligence branch, or ISI, have been actually assisting the Taliban insurgency.

This breakdown in U.S.-Pakistan cooperation has led to a growing willingness by the Pentagon and Central Intelligence Agency to unilaterally conduct operations inside Pakistan's tribal regions. And there are growing concerns within the U.S. intelligence community that the Pakistanis are willing to push back.

"The Americans are doing more unilaterally...and we're not really working with the Pakistanis," said a U.S. intelligence official who has worked extensively on Pakistan. "The Pakistanis are very nationalistic and proud...The won't stand back."

Indeed, the U.S.-funded Security Development Plan for Pakistan's tribal regions has largely broken down in recent months because of this growing discord between Washington and Islamabad, according to U.S. and Pakistani officials.

The Pakistani military froze a \$400 million program to train an ethnic Pashtun militia, called the Frontier Corps, after a U.S. air strike killed 11 members of the unit in June. Islamabad also has refused to build three border-control centers inside Pakistani territory in a bid to better coordinate cross-border secu-



The leader of the Pakistan People's Party, **Asif Ali Zardari**, left, greets former Prime Minister **Nawaz Sharif** on Monday, following President Pervez Musharraf's resignation.

rity operations with the U.S. and Afghan militaries, citing the threat of espionage.

The Bush administration regularly hailed Mr. Musharraf as among its closest allies in the fight against Islamic extremism once he sided with Washington after the September 2001 attacks on the U.S. Washington showered more than \$10 bil-

lion in aid on Islamabad during Mr. Musharraf's tenure, and defended him against mounting criticism that he wasn't returning Pakistan quickly enough to a democratic path after seizing power in a 1999 bloodless coup.

On Monday, U.S. Secretary of State Condoleezza Rice hailed Mr. Musharraf for his service, noting

that he has been "one of the world's most committed partners in the war against terrorism and extremism."

Still, the Bush administration's willingness to defend the Pakistani leader markedly diminished in recent months following his declaration of a state of emergency in November and his ordering many leading local politicians and lawyers detained.

As Pakistan's ruling coalition pushed forward the impeachment process against Mr. Musharraf this month, the Bush administration largely remained silent, said U.S. and Pakistani officials, though some American officials raised concerns about the added political turmoil the president's ousting could fuel.

When Mr. Gilani made his first visit to Washington this month as prime minister, talks at the White House and State Department focused on building a new U.S.-Pakistani relationship, rather than Mr. Musharraf's fate, said officials involved.

President George W. Bush steered clear of the Pakistani president in his last days in office and still hasn't decided if and when to call his close ally following his resignation. President Bush will likely call Mr. Musharraf, "at some point this week," a senior administration official said Monday.

France readies plan to keep recession from euro zone

BY GABRIELE PARUSSINI

PARIS—France aims to present a plan on how to prevent the euro zone, the world's second-largest economy, from falling into recession at next month's meeting of European Union finance ministers.

"What we need is to propose a method so that all European countries can build a response," French Prime Minister Francois Fillon said. "EU countries, and the Eurogroup in particular, [need to] take on this coordination effort." The Eurogroup is the name for the 15 countries that use the euro currency.

Last week, data showed that the euro-zone economy shrank

0.2% in the second quarter, the first quarterly contraction since records began in 1995.

At a news conference called after a special cabinet meeting Monday, Mr. Fillon said Finance Minister Christine Lagarde will present the plan to French President Nicolas Sarkozy and then to EU ministers in Nice Sept. 12-13.

Mr. Fillon called the cabinet meeting to discuss possible actions to reverse the country's sharp economic slowdown, after data showed the French economy, the euro zone's second largest, contracted 0.3% in the second quarter. Also Monday, the Bank of France said the economy will expand just 0.1% in the third quarter.

The extent and scope of any economic plan remains unclear, however. Mr. Fillon said the €20 billion (\$29.34 billion) injection of public funds devised by Spain to counter the economic slowdown there "would make no sense" and "wouldn't be effective" in the case of France. Economists said the French budget deficit makes a similar package unlikely.

"While fiscal margins of maneuver exist in the majority of other euro countries, they don't in France," said Laurence Boone, chief economist at Barclays Capital in Paris.

France's budget deficit is already running above forecast, and the gap widened further in the first half of this year.

Mr. Fillon also said Monday that the government would stick to its budget deficit target of 2.5% of GDP for this year. He said that if income shrinks due to diminished economic activity, the government will match the decline with expenditure cuts.

With the economy at best stagnating, some economists now estimate that the deficit could widen close to 3.0% of GDP.

The government is also sticking to its GDP growth forecast of at least 1.7% for this year, but a stream of data from the manufacturing and consumer sectors this summer make the target look ambitious.

—Arthur Moordian in Paris
contributed to this article.

U.S. PRESIDENTIAL ELECTION 2008

A U.S. debate preview

Event at church showcases contrasts in candidates' styles

BY LAURA MECKLER

LAKE FOREST, Calif.—John McCain and Barack Obama appeared back-to-back at an evangelical church here this weekend, showing very different styles in response to identical personal and policy questions.

When asked the classic question, "Why do you want to be president?" Sen. McCain's response was in line with a central theme of his campaign. "I want to inspire a generation of Americans to serve a cause greater than their self-interest," he said.

Sen. Obama's reply to the same question was "You know, I remember what my mother used to tell me. I was talking to somebody a while back and I said the one time that she'd get really angry with me is if she ever thought that I was being mean to somebody or unfair to somebody."

He went on to talk about the importance of empathy and said that what made America special is that "everybody's got a shot" and that Americans work to care for one another. "I want to be president because that's the America I believe in, and I feel like that American dream is slipping away."

It was one of several moments when Sen. McCain's reply was sharp and to the point. Sen. Obama, by contrast, took longer pauses after many of his questions, and his answers often came together slowly.

Still, the appearance with the Rev. Rick Warren, author of "The



In a potential preview of the fall presidential debates, John McCain and Barack Obama answered personal and policy questions at a forum led by Rev. Rick Warren, center.

Purpose-Driven Life," had upsides for both candidates, notably an opportunity to speak to a religious audience that will be key in the presidential election.

Sen. Obama spoke openly of his religious faith. He worked Biblical references into his answers and tried to show nuanced thinking on a range of touchy social issues.

Asked about America's moral failings, Sen. Obama replied: "We still don't abide by that basic precept of Matthew: 'Whatever you do for the least of my brothers you do for me.'"

Sen. McCain was brief in discussing his own faith. Asked about how faith impacts his life on a "daily basis," he told a story from his time as a prisoner of war. It was about a North Vietnamese prison guard who loosened the ropes binding Sen. McCain's arms behind his back and later, on Christmas Day, drew a cross in the sand in front of him.

In what served as a preview for the fall debates, Mr. Warren questioned each man separately at his Saddleback Valley Community Church, which is one of the largest in the U.S., with 22,000 members.

Mr. Warren asked each candidate the same questions. Sen. McCain, who appeared second, promised not to monitor Sen. Obama's appearance, and an aide said he didn't.

Sen. McCain's press secretary, Brooke Buchanan, said he prepared for the event much like he would prepare for a debate, with briefing books and practice questions. "It was a good warm up" for the fall, she said.

A spokeswoman for Sen. Obama said the candidate reviewed with advisers topics that might be raised, but didn't do a full debate preparation.

CAPITAL JOURNAL ■ GERALD F. SEIB

Georgian conflict highlights divide between McCain, Obama

IN THE WAKE of Russia's march into Georgia, much ink has been spilled analyzing the differences between the ways Sen. John McCain and Sen. Barack Obama responded to Moscow's brash move. That's all fine—and all misses the more important point.

Discussions with top foreign-policy advisers to both candidates suggest that the more intriguing question is what the two candidates would have done before the Russians moved. Whose approach toward Russia—indeed, toward diplomacy in general—might have prevented the Georgia move in the first place?

Put simply, would the McCain impulse to confront and isolate an increasingly expansionist Russia have done the trick by sending the right signals of Western resolve? Or would the Obama impulse to engage Russia more deeply have deterred the Russians by giving the Russians enough of a stake in the new international order that they wouldn't risk such a step?

If you're looking for the real difference between the two candidates in instinct and philosophy toward diplomacy, here is where you'll find it.

Instead, of course, debate has focused on how the candidates reacted once disaster struck. In the McCain camp's view, Sen. Obama's response to Russia's invasion was slow and soft. In the Obama camp's view, Sen. McCain's response was belligerent and reckless.

The reality, though, is that the two men have reached similar positions on what happens now: review all aspects of relations with Russia, and push ahead with a plan to open the way for both Georgia and sister former Soviet republic Ukraine into membership in the North Atlantic Treaty Organization, helping shield them from more Russian intrusions.

More revealing are the different paths the candidates might have pursued, say, a year ago.

THE MCCAIN VIEW for some time has been that Russia needed a good slap to the side of its head to produce an attitude adjustment. Look back at an article he wrote for Foreign Affairs magazine late last year, a signature statement of his world view:

"Today we see in Russia diminishing political freedoms, a leadership dominated by a clique of former intelligence officers, efforts to bully democratic neighbors, such as Georgia, and attempts to manipulate Europe's dependence on Russian oil and gas. We need a new Western approach to this revanchist Russia."

Sen. McCain argued, in that piece and elsewhere, that Russia should be excluded from the Group of Eight leading nations until it changed its behavior—indeed, that India and Brazil should be allowed into the group instead, making the affront to Russia even more pointed. Perhaps more provocatively, he argued for making it clear to Russia "that the solidarity of NATO from the Baltic to the Black Sea,

is indivisible and that the organization's doors remain open to all democracies committed to the defense of freedom."

He also has pushed for an even broader League of Democracies, uniting democracies from around the world—and presumably excluding Russia.

He hasn't exactly said that the U.S. was coddling Vladimir Putin's Russia, but he has come close. In that environment, Sen. McCain would argue, Russia had reason to think it could get away with moving into Georgia because the West too readily tolerated its re-emerging nationalist and expansionist impulses.

"I don't think any clear signals were sent to Russia," says Randy Scheunemann, Sen. McCain's top foreign policy adviser.

THE OBAMA CAMP'S VIEW is that the sin committed before Russia's move was more one of omission than of commission. It argues that the Bush administration simply squandered the opportunity in recent years to make Russia into a responsible world player with a well-defined role in the international system that it wouldn't risk by being so reckless as to move into Georgia.

This lack of engagement, in the Obama view, translated into a lack of leverage over the Russians at the crucial hour—and now translates into a lack of leverage to make Russia retract its move.

When it comes to consultation and communication with Russia, "we've done less of that than we did during the depths of the Cold War," argues Tony Lake, former Clinton national security adviser and a top Obama adviser now. "Which meant that they had less to lose in terms of their relationship with us than they would have otherwise. The fact is that we need all the leverage we can find on them, because their actions are outrageous and they need to pay a price."

In his own article in Foreign Affairs last year—an early and comprehensive explanation of his worldview—Sen. Obama explained his view of engaging Russia, albeit on another subject: reining in loose nuclear weapons.

"This will require the active cooperation of Russia," he wrote. "Although we must not shy away from pushing for more democracy and accountability in Russia, we must work with the country in areas of common interest—above all, in making sure that nuclear weapons and material are secure."

Bluntly stated, the Obama critique of Republican and McCain foreign-policy priorities is that a virtual obsession with fighting the war in Iraq has gotten in the way of engaging Russia in a way that might have produced a different outcome.

More important, though, you have on display here quite different views of the virtues of diplomacy and the advantages of confrontation. They frame an argument well worth having. Moderators of the fall presidential debates, please take note.

Vice-presidential hopefuls try out

BY AMY CHOZICK

With the Republican and Democratic Party nominating conventions just around the corner, vice presidential shortlisters hit the airwaves Sunday in an audition for the No. 2 spots.

Appearing on TV talk shows, the could-be running mates from both parties strived for a delicate balancing act—at once demonstrating their loyalty, appearing vice presidential and avoiding over-eagerness.

Sen. Barack Obama is expected to name his running mate in a matter of days, prior to the opening of the Democratic Party convention in Denver on Aug. 25. Sen. John McCain of Arizona is likely to identify his pick just before the Republican gathering opens in St. Paul, Minn., on Sept. 1.

Like his Republican rival, Sen. Obama has kept mum on whom he may pick, leaving pundits and voters to scrutinize such hints as the speaking lineup at the Democratic convention and the candidate's travel schedule.

Sen. Obama is scheduled to speak Aug. 27, the third day of the convention. The lineup that day includes several politicians rumored to be on the presumptive nominee's shortlist, including Sen. Evan Bayh of Indiana, Sen. Joseph Biden of Delaware and New Mexico Gov. Bill Richardson. Sen. Hillary Clinton, who is no longer seen as a possible running

mate, is slated to speak Aug. 26.

On Monday, Sen. Obama held a town-hall style event in Gov. Richardson's home state. On Wednesday he plans to campaign in Virginia, the home of Gov. Tim Kaine, another shortlister.

When asked whether he would accept the vice presidential nomination, Gov. Kaine said on NBC's "Meet the Press" that the prospect of Sen. Obama asking him was "very unlikely," but promised to aid the Obama campaign "in whatever way I can be helpful."

Gov. Kaine, who opposes abortion rights, argued Sunday that his views wouldn't be incompatible with Sen. Obama's pro-choice stance. Neither man, he said, wants to "criminalize" the personal decisions of women and their doctors.

Sen. Bayh, who helped deliver Indiana to Sen. Clinton in the Democratic primary, painted Sen. McCain as a loose cannon, particularly when it comes to the conflict between Russian and Georgia. "He's a good person, but he's a little bit given to the kind of bellicose rhetoric, which has a tendency to inflame conflicts rather than diffuse them," Sen. Bayh said on CBS's "Face the Nation."

Both Sen. Bayh and Gov. Kaine could help Sen. Obama attract the white working-class male voters who, according to recent polls, favor Sen. McCain. Sen. Bayh, a member of the Senate Armed Services Committee, could bring foreign-pol-

icy heft to the ticket, while Gov. Kaine could help deliver Virginia, a battleground state. The Obama campaign says winning Virginia is possible, though no Democratic presidential candidate has taken the state since 1964. A Rasmussen poll conducted last week shows Sen. Obama leading 46% to 45% in Virginia.

On the Republican side, former Massachusetts Gov. Mitt Romney took a swipe at Sen. Obama's foreign-policy credentials on Sunday, while former Pennsylvania Gov. Tom Ridge argued his pro-choice stance wouldn't make him a liability among party conservatives. Sen. McCain opposes abortion rights.

"The last time I checked, the vice president is not an independent voice," Gov. Ridge said on Fox News Sunday.

Sen. McCain is reportedly also vetting Virginia Rep. Eric Cantor, a little-known 45-year-old congressman who could help bring young voters to the Republican ticket.

Sen. McCain, 71 years old, would be the oldest president inaugurated for a first term and has said he may look for a relatively young running mate.

Minnesota Gov. Tim Pawlenty, 47, could also bring youth to the Republican ticket. On CBS's "Face the Nation" Gov. Pawlenty accused Sen. Obama of "a lack of sure-footedness" in the Georgia crisis. He declined to comment on his vice presidential prospects.

—Michael M. Phillips contributed to this article.

BEIJING OLYMPICS 2008

Javelin makers let pitches fly—to athletes

Companies jockey to get their gear used; 'very fussy' throwers

BY BARRY NEWMAN

BEIJING—Andreas Thorkildsen of Norway has a chance to win a gold medal when he hoists a javelin in Saturday's final and lets it fly. But whose javelin will he hoist?

The one decorated with a candy-cane spiral, made in Sweden by Nordic Sport AB? The one with the red tip, made in the U.S. by Gill Athletics Inc.? Or the one made in Hungary by Nemeth Javelins (it's purple).

Like shoes and swimsuits, javelins come in different makes with different markings, and with brilliant new designs that promise record-beating success. Unlike shoes and swimsuits, javelins don't come with fat contracts that commit javelin throwers to throw them.

Mr. Thorkildsen changes his javelins literally as the wind changes direction. In Athens, he won gold with a Nemeth 90 but threw a Nordic Airglider to qualify. This year, he paid a visit to Gill's factory in Champagne, Ill., and tried out its OTE.

Now all three companies are claiming him, with careful reservations, for their Beijing rosters.

"They shouldn't be so sure," says Ketil Tommernes, the sports director of Norway's athletics federation. "He could throw with any of them." Mr. Thorkildsen might even use a javelin from a local dark horse—Hebei Dingzhou Huanqui Sport Equipment Factory 4. "Andreas will look at the conditions and he will choose," Mr. Tommernes says. "He's not there to use only one javelin. A javelin isn't a swimsuit."

Neither is a bow-and-arrow, or a fencing foil or a pair of boxing gloves. But the Olympics crawl with impecunious equipment makers of all stripes touting "teams" of their own. A company that turns out pommel horses might have trouble taking credit for victories. Everybody else is in the game.

UCS Inc., a maker of vaulting poles in Carson City, Nev., crows about winning gold twice at the 2004 Olympics. "What we'd like to do," says Steve Chappell, its production chief, "is do away with the medals ceremony and just hang that medal around the pole."

At least it would spare him from having to cope with athletes, a luxury the javelin makers competing



British heptathlete **Kelly Sotherton** prepares to compete in the javelin throw.

against each other here would appreciate.

"A javelin thrower is a very fussy human being," says Miklos Nemeth, who won gold himself at the 1976 Games in Montreal and began producing javelins in Budapest 20 years ago. "They have their own imaginations about what's right for them," he says. "It practically never accords with the laws of physics and aerodynamics."

It does fit in with the laws of economics, though. In return for wearing Nike Inc.'s Zoom LeBron Low ST sneaker, LeBron James is getting \$90 million. In return for throwing an OTE Composite FX Headwind Javelin from Gill Athletics, Mr. Thorkildsen is getting...an OTE Composite FX Headwind Javelin. It retails for \$785.

Not only that: If his javelin comes off an airplane all bent up, as one did last year, Gill will send him another one.

Gill's "promotional budget" for its elite team covers about 25 javelins a year. The athletes who get them sign

releases to let Gill use their pictures in ads, catalogs and Web sites. Gill pays them nothing. It won't give them clothes or shoes or airplane tickets. "That's not who we are," says its sales manager, Mike Willard.

Gill does make medicine balls. Mike Hazle, one of its U.S. throwers, works out with medicine balls. Gill gives him a couple. (Mr. Hazle evidently has a sweeter deal on his shoes; in the trials that won him an Olympic slot, his affiliation was listed as Nike.)

The other javelin companies are similarly generous toward their teams. Nordic supplies javelins and "contacts," Nemeth supplies javelins and "advice." As Gill's Mr. Willard says with some distaste: "We don't make anyone throw our javelins by using dollars and cents."

What else is there? Nothing but friendly persuasion that one javelin really does fly farther than the next. But physics and fickle athletes present obstacles to stretching a flight path. So does the International Association of Athletics Federations. Its design rules force every javelin maker to jump through hoops.

Javelins, remember, started out as spears that were meant to kill people. Barely a year passes when one doesn't. A 1950s innovation shifted weight from the tip to the middle and enabled East German Uwe Hohn to throw 104.80 meters in 1984, the all-time record. However, those javelins landed flat and skipped, or overshot the field and skewered the crowd. They were banned in 1986, and a fresh record book opened from scratch.

Three years later, Mr. Nemeth came up with a new way to keep a javelin flying: He roughened the tail's surface, adding lift even if the nose, as the rules required, had to hit the ground first.

The holder of the world record at the time was Jan Zelezny, a Czech

who had thrown 87.66 meters in 1987. "I convinced him to take my javelin into his hand," Mr. Nemeth says now. "It made him famous and it made me famous." But in 1991, the rough surface was banned.

Quickly, Mr. Nemeth came up with another design: a javelin wrapped in carbon fiber to reduce vibration. Mr. Zelezny threw a new world record with it. Then the carbon wrap was banned. Carbon is legal again today, but Mr. Zelezny's record was wiped off the books.

"Jan was very upset," says Mr. Nemeth. "Everybody was going off Nemeth javelins." Mr. Nemeth has since immersed himself in perpetual design-fiddling as he and his opponents compete to draft new Olympic throwers onto their company line-ups.

Mr. Zelezny went on to set the current world record, 98.46 meters, with Gill. In 2000, he set an Olympic record with Nordic. To Gill's displeasure, Breaux Greer of the U.S. (and Adidas AG) throws Nordic, too. But Robert Oosthuizen, a South African, has switched from Nordic to Gill. Nordic claims a javelin monopoly in Cuba—the U.S. embargo shuts Gill out—but Nemeth insists that Cuba's Osleidys Menendez, the women's record holder, belongs to Team Nemeth.

"We don't look at what country an athlete is from," says Dennis Osterberg, Nordic's marketing director. "We'd say, 'Oh, the Gill team is doing pretty good right now.' We don't say, 'Oh, Canada is doing pretty good.' No, no. Countries don't matter."

As Saturday's men's final approaches, it looks likely that for the gold, Andreas Thorkildsen will be up against Tero Pitkamaki, who happens to be a Finn. Mr. Pitkamaki has agreed to throw a Nordic—if it suits him. Mr. Thorkildsen has agreed to throw a Gill—if he feels like it. And either of them may—or may not—throw a Nemeth.

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Terracotta-statue visits repay J&J

Inside Olympian sneakers in Beijing surely rages a case or two of athlete's foot.

But that fungus no longer plagues a handful of 2,000-year-old

By Jason Leow in Beijing and Shirley S. Wang and Kelly Crow in New York

statues on display in Beijing, which explains why China lent the artifacts to the corporate pavilion of Johnson & Johnson. A maker of athlete's foot cream for half a century, J&J helped rescue one of China's most precious archaeological treasures from a damaging athlete's-foot-like fungus. "We know everything about fungus," says Chong Siong Hin, a J&J executive.

The statues are called terracotta warriors, and they are part of a discovery that "ranks at the top with the [Great] Pyramids" or Pompeii in terms of archaeological significance, says Jane Portal, a curator at the British Museum in London.

The statues are so iconic that another sponsor, Coca-Cola Co., placed replicas in its Beijing corporate digs. But J&J, a first-time sponsor of the Summer Olympics, managed to nab the real thing, thanks to its expertise in a market that doesn't matter much to the \$61-billion-a-year medical-products maker.

The U.S. market for foot cream



A terracotta warrior strikes a pose at Johnson & Johnson's Olympic Pavilion.

amounts to only \$91 million a year, and J&J commands a minority of that. But J&J hopes its treatment of the terracotta warriors will bolster its business in China.

Yet there's no guarantee that J&J's help in treating China's famed clay statues will bolster its Asian sales. The main benefit so far—its use of the warriors in its Olympic pavilion—has been a disappointment in the sense that attendance throughout the Olympic

Green has fallen below expectations.

Still, J&J's help has won the appreciation of Chinese officials, and in an authoritarian state that is no meaningless accomplishment. By nursing one of China's national symbols back to health, J&J hopes to get "a lot of leverage" in China, says Alex Valcke, a European J&J executive who led much of the conservation effort.

In the mid-1980s, J&J ventured into China, opening a pharmaceutical factory near the Emperor Qin Terracotta Army Museum. About a decade later, J&J learned of the fungus problem and started to wage battle against it.

Museum officials sent chunks of terracotta to J&J's laboratory outside Antwerp, Belgium, to test for organisms. Ultimately, J&J and Chinese scientists identified 60 different fungi growing on the statues, including a variation of athlete's foot.

The identification of the fungus helped lead to the development of effective fungicides.

Wu Yongqi, a curator at the terracotta museum, describes the museum's relationship with J&J as "Jin Shang Tian Hua," a Chinese idiom that suggests something perfect benefiting from further perfection. J&J "sped up our work," he says.

J&J's Dr. Valcke is ecstatic. "We really believe that if you preserve that which is very close to these Chinese hearts, it helps to build a better relationship," he says.