



**Marketers play to schools that don't sport athletics**

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**U.S. civilian court tries a case from the fog of war**

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## What's News —

Business & Finance

World-Wide

**Freddie Mac** sold \$3 billion of five-year notes, but at its highest premium ever over comparable Treasuries. Uncertainty about a possible capital injection by the U.S. government into the mortgage giant and sibling Fannie Mae continues to swirl in the markets. **Page 1**

■ **Alliance & Leicester** sold about \$745.7 million in mortgage-backed bonds, but bankers said it isn't a sign of a rebound in that market. **Page 4**

■ **General Dynamics** will buy Jet Aviation, a Swiss air-services company, for \$2.25 billion, in a move to diversify. **Page 5**

■ **Soaring U.S. producer** prices show inflation is still running uncomfortably high even as the economy slows. **Page 10**

■ **U.S. stocks declined** on simmering worries about the financial sector, rebounding oil prices and inflation data. European markets fell. **Page 18**

■ **Nasdaq OMX** is taking a breather as the trans-Atlantic exchange operator digests three acquisitions. **Page 17**

■ **Dubai is widening** a corporate probe, in an apparent effort to restore its reputation. **Page 4**

■ **Origin Energy** rejected a hostile takeover bid of \$12 billion from the U.K.'s BG Group without providing much new information. **Page 5**

■ **Cargill's net profit** rose 67% on high demand for crops and a \$310 million gain from the sale of an asset. **Page 6**

■ **The FDIC is pushing** other U.S. agencies to downgrade the confidential ratings of troubled commercial banks. **Page 17**

■ **Lehman has approached** potential bidders about buying a piece of its investment-management business. **Page 19**

■ **Europe's insurers** are still on the hunt for deals, but the action is likely to center on emerging markets. **Page 20**

**Markets** 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11348.55	-130.84	-1.14
Nasdaq	2384.36	-32.62	-1.35
DJ Stoxx 600	279.71	-7.24	-2.52
FTSE 100	5320.4	-129.8	-2.38
DAX	6282.43	-150.45	-2.34
CAC 40	4332.79	-116.05	-2.61
Euro	\$1.4701	-0.0266	-1.78
Nymex crude	\$114.53	+1.66	+1.47

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**NATO ministers denounced** Russia's war in Georgia but stopped short of articulating concrete consequences should Moscow fail to abide by a cease-fire agreement and withdraw its troops immediately, even as Russian troops seized prisoners and equipment and remained involved in hostile actions. **Pages 1, 3**

■ **Britain is moving** away from Washington's tough talk and nearer Western Europe's desire to not antagonize Russia. **Page 2**

■ **Pakistan's governing coalition** hit its first snag in its efforts to jointly rule a day after driving Musharraf from power. The Taliban claimed responsibility for a suicide attack at a hospital that killed at least 27 people. **Page 9**

■ **A suicide car bomber** attacked an Algerian police academy, killing at least 43 people and injuring 45. No group immediately claimed responsibility. **Page 10**

■ **Insurgents ambushed** French elite troops outside Kabul, killing 10 soldiers and wounding 21 in a battle in which a "large number" of attackers died, NATO said. Seven militants were killed in a suicide attack on a U.S. base.

■ **Afghan President Karzai** said he will seek re-election next year, adding he has yet to finish the job he began four years ago.

■ **A U.S.-India nuclear deal** faces its next hurdle when a multinational group that monitors sales of civilian nuclear technology takes it up this week. **Page 8**

■ **Iraqi troops raided** Diyala province's offices, killing the governor's aide in a firefight and arresting a Sunni council member and a university president.

■ **Poland's cabinet approved** an antimissile-defense deal with the U.S. as Rice arrived in Warsaw to sign the agreement.

■ **A U.K. court sentenced** two Muslim radicals to prison terms of 12 and 10 years for possessing documents useful to terrorists.

■ **The Egyptian parliament's** upper chamber was ravaged by a large fire, as helicopters scooped water from the nearby Nile River to fight the blaze.

■ **Died: Levy Mwanawasa**, 59, Zambian president with a reputation for integrity, in Paris after a stroke June 30 on the eve of an African Union summit in Egypt.

### EDITORIAL & OPINION

**America's choice**  
Russian Foreign Minister Sergey Lavrov says the U.S. shouldn't side with Tbilisi. **Page 13**

# NATO denounces attack, but lacks a clear solution

*Alliance struggles over ways to force Russia from Georgia*

The West's top diplomats again denounced Russia's military incursion in Georgia with tough rhetoric Tuesday but struggled to come up with concrete steps to force a defiant Moscow to end its 11-day occupation of its smaller neighbor, even as Russian troops seized prisoners and U.S. military Humvees.

Foreign ministers of the North Atlantic Treaty Organization military

By **John W. Miller** in Brussels and **Guy Chazan** in Poti, Georgia

alliance, meeting in an emergency session, agreed to offer assistance aimed at helping Georgia rebuild its military and civilian infrastructure and pledged humanitarian aid to victims of the violence. Separately, the Organization for Security and Cooperation in Europe agreed to send 20 additional observers to Georgia to oversee a French-brokered cease-fire deal with Russia.

But the alliance stopped short of articulating concrete consequences for Moscow should it fail to abide by the cease-fire agreement and withdraw its troops immediately—something Russian President Dmitry Medvedev has refused to do. *Please turn to page 3*

## Moscow allies show caution over conflict

By **Jeanne Whalen** and **Daria Solovieva**

MOSCOW—The president of Belarus, usually a reliable supporter of Moscow, waited well into the Georgian conflict's second week before declaring Tuesday that Russia had acquitted itself "beautifully."

The delayed praise from Belarusian leader Alexander Lukashenko mirrors a hesitance among some Russian allies in the former Soviet Union about backing Moscow on Georgia. Nursultan Nazarbayev, the president of Kazakhstan, issued a statement expressing sympathy for the victims but stopped short of endorsing Moscow's view that pro-Russian territories of Georgia should never return to Georgian control.

The caution is striking because countries such as Belarus and Kazakhstan are usually quick to jump to Moscow's defense when it comes under fire in the West. While the U.S. and Europe expressed concern about harassment of opposition politicians during Russia's presidential vote this year, these countries congratulated the winner, Dmitry Medvedev, for a con- *Please turn to page 2*



During a NATO meeting Tuesday, U.S. Secretary of State Condoleezza Rice called on Russia to respect a cease-fire agreement to withdraw its troops from Georgia.

## Freddie Mac yield spread soars as worry continues

By **Anusha Shrivastava** and **Prabha Natarajan**

NEW YORK—Freddie Mac was forced to pay considerably more for funds Tuesday amid fears that it and Fannie Mae, the two largest providers of funding for U.S. home mortgages, won't be able to avoid a government bailout.

Higher borrowing costs are making it harder for both Fannie and Freddie to buy mortgages profitably. As they seek to bolster their finances, both have signaled they will buy fewer mortgage securities for their investment portfolio. That is likely to mean higher mortgage rates for consumers. If the companies become too weak to support the mortgage market, the government may be forced to inject more capital into them, perhaps by pur-

chasing a new issue of preferred stock.

Freddie sold its newest five-year notes in a \$3 billion offering at 1.13 percentage points over comparable Treasuries—the highest premium it

### Signs of life

A U.K. lender sells bonds in the mortgage-securities market .....4

has ever offered for a five-year note. The notes yielded 4.172% at sale, well above the 3.75% accepted by investors in May, when Freddie last sold debt.

In another sign of investor unease, the yield premium was higher than the 1.05 percentage points that market participants had fore- *Please turn to back page*

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THE WALL STREET JOURNAL

# THE RUSSIA-GEORGIA CONFLICT

## Russia's neighbors remain quiet

Continued from first page  
vincing victory. They have also joined a Russian-led military bloc.

Russia, keen to avoid the appearance of isolation after its Georgian campaign was condemned in the West, has expressed annoyance at the silence of its allies. On a Russian state-controlled television channel, where newscasts are closely vetted to reflect the Kremlin's line, a newscaster declared the response "puzzling." And last week, Russia's ambassador to Belarus criticized Mr. Lukashenko for failing to publicly back Russia.

The next day, Mr. Lukashenko voiced his condolence for victims of the fighting but said little else.

Finally on Tuesday, Mr. Lukashenko delivered the endorsement the Kremlin had been waiting for, at a meeting with Mr. Medvedev in Moscow. The Belarusian leader praised Russia for acting "very calmly, wisely and beautifully" and added, "Peace has been established in the region, and it will last."

Mr. Lukashenko runs an authoritarian regime that, despite occasional spats, is essentially a client state of Russia. He and Mr. Nazarbayev haven't offered explanations for their reticence. According to one view, these nations are in no hurry to endorse Russia's advance into Georgia because they fear Moscow could use similar tactics against them—by rousing ethnic conflicts, reviewing disputed borders or using its might to extract economic concessions.

"They are feeling they, too, might wind up in trouble," said Konstantin Zatulin, a Russian legislator from the pro-Kremlin United Russia party who sits on a committee dedicated to the Commonwealth of Independent States, the loose group of nations from the former Soviet Union.

Russia has sent troops to South Os-

### Love thy neighbor?

Former Soviet republics and their relationship with Russia before the conflict with Georgia

- Friendly toward Russia
- Neutral toward Russia
- Critical of Russia



setia, a mostly pro-Russian enclave within Georgia's internationally recognized boundaries, and Russian troops have also moved into Georgia proper. Moscow says its goal is to restore order and protect South Ossetians from Georgian assaults.

Moscow's critics say it has purposely exploited tensions between Ossetians and Georgians to destabilize Georgia and its pro-Western government. The former Soviet republics of Estonia, Latvia and Lithuania, which are members of the European Union and not the CIS, have blasted Moscow for invading a sovereign country.

In Ukraine, a CIS member whose population is split between pro- and anti-Russian groups, Moscow's military campaign has become a political football. President Viktor Yushchenko this week accused his main opponent—

Prime Minister Yulia Tymoshenko—of keeping quiet about Russia's actions in the hope that Moscow will back her in Ukraine's presidential election next year.

Some Ukrainians fear they could be the next to attract the wrath of a resurgent Russia. Like Georgia, Ukraine has irked the Kremlin by lobbying to become a member of the North Atlantic Treaty Organization. And with its large Russian-speaking population, Ukraine has the kind of ethnic tensions that Moscow could seek to exploit. So does the former Soviet republic Moldova. It is home to the breakaway region of Trans-Dniester, which is populated by Russian speakers and strongly backed by Moscow.

—Aida Sultanova and Kadyr Toktogulov contributed to this article

## Britain is stepping away from tougher talk of U.S.

### U.K. stopping short of calls to boot Russia from global forums

BY ALISTAIR MACDONALD

LONDON—In dealing with Russia, the U.K., long one of the U.S.'s biggest allies, is moving away from the tougher talk of Washington and closer to the desire of Western Europe to not antagonize Russia, a country where Britain's relations are already fraught.

Russian state media cited the U.K.'s move away from what it said was London's typical support for the U.S. as one sign the North Atlantic Treaty Organization meeting was "a failure for Washington."

While Britain has gone further than European Union peers, such as Germany and Italy, in blaming Russia for the conflict in Georgia, it has stopped short of backing U.S. calls to kick Russia out of forums such as the Group of Eight industrialized nations. The U.K.—Europe's most active military power and second largest economy after Germany—also has shown no willingness to help rebuild the Georgian military.

Instead, the U.K. wants to bring Russia closer into the international fold, echoing views of other European Union peers, and showing Russia that it stands more to gain, particularly for its economy, by being a partner than an aggressor.

"I am not one that believes that isolating Russia is the right answer to its misdemeanors," said U.K. Foreign Minister David Miliband, in a statement, before the NATO meeting Tuesday. "I think that the right response is hard-headed engagement." Mr. Miliband traveled to Georgia Tuesday evening.

This appears to be a shift in 11 years of policy from the U.K.'s ruling Labour Party which has taken aggressive stands in international affairs, often flexing military muscle alongside the U.S. The U.K. has been the second biggest contributor of troops after the U.S. for conflicts in Afghanistan and Iraq. The 2002 deci-

sion to go to war in Iraq put the U.K. into conflict with European peers.

The U.K. has its own diplomatic problems with Russia. U.K. oil company BP PLC is fighting with its Russian joint-venture partner. Russia refused to extradite to Britain a suspect in the murder of Alexander Litvinenko, a former KGB agent who was poisoned in London in late 2006.

The U.K. position is another sign of the more European Union-friendly approach of Mr. Miliband, who is seen as a potential successor to Prime Minister Gordon Brown. "Recent speeches from Miliband have laid out much stronger European credentials than some of his predecessors ever would have wanted to," said Geoffrey Edwards, director of European studies at Cambridge University.

Mr. Miliband isn't expected to break his close relationship with the U.S. Britain views the U.S. as key to its drive to reform international institutions such as the United Nations and the World Bank.

The U.K. said Tuesday it had no differences of opinion with the U.S. or others. At Tuesday's NATO meeting, "you did see a significant degree of unity with all ministers supporting a package of practical and political support for Georgia," said a Foreign Office official.

### CORRECTIONS & AMPLIFICATIONS

**The head coach** of China's athletics team at the Beijing Olympics is Feng Shuyong. A Corporate News page article Tuesday about Chinese hurdler Liu Xiang misspelled the coach's given name as Shugong.

**Delta Air Lines Inc.** introduced its Simplifares pricing in January 2005. Tuesday's The Middle Seat column incorrectly said the simplified pricing plan began in early 1995.

**Menactra**, the vaccine against meningococcal meningitis, doesn't contain live bacteria. A Health Journal column on Aug. 5 said it didn't contain live virus.

## INDEX TO BUSINESSES

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## LEADING THE NEWS

# Pro-Russia South Ossetia fulfills ambition

## Territory expands in Georgia conflict; 'We are in control'

BY YAROSLAV TROFIMOV

AKHALGORI, Georgia—The Georgian flag no longer flies atop this town's police station, a squat concrete block with three Russian-made armored personnel carriers parked in the trash-strewn courtyard.

Instead, flapping in the wind are the white, red and yellow colors of the South Ossetian banner. The change underscores what is likely to be the most lasting result of this war: the territorial expansion of the pro-Russian statelet of South Ossetia, and maybe eventually of Russia proper. Russian armor and South Ossetian irregulars arrived here on Sunday, disarming and detaining the 10 Georgian policemen they found in town. "We are now in control," said the South Ossetian battalion commander who governs Akhagori, Capt. Anatoly, who declined to give his last name.

In coming days, South Ossetian government ministries will open branches in the town, he said after encountering a reporter in Akhagori's main square. Their services, he added, would include distributing Russian passports, already held by most South Ossetians.

While Russia has promised to pull out of Georgian areas that it has occupied in recent days, this with-

drawal—if it occurs—almost certainly won't include places like Akhagori and surrounding villages, just an hour's driving from Georgian capital city Tbilisi. The reason: In Soviet times, Akhagori belonged to what was then known as the South Ossetian Autonomous Province.

South Ossetia's provincial leaders proclaimed a secession from Georgia as the Soviet Union collapsed in the early 1990s. After fighting, their self-proclaimed republic established control over the province's capital city Tskhinvali, and roughly two-thirds of the countryside.

The South Ossetian government's writ never reached Akhagori. Separated from the rest of South Ossetia by a mountain ridge, this overwhelmingly ethnic Georgian area experienced no strife, and until Sunday remained firmly under Georgian government authority.

Russia's military intervention in the Georgian-South Ossetian conflict that erupted Aug. 7 has now permitted the South Ossetian government, headed by former wrestler Eduard Kokoity, to realize its historic ambition to gain the entirety of the province in its Soviet-era frontiers. "What we are doing here is restoring the constitutional order," explained Capt. Anatoly.

"This used to be part of the South Ossetian autonomy until the 1990s," added a South Ossetian militiaman, dressed in Russian fatigues and a white armband, as he manned a roadblock at the entrance to Akhagori. "The Georgians have taken it from us. Now we have taken it back." He

declined to provide his name and, when asked to identify his unit, quipped: "Peacekeeping forces."

Only South Ossetian militiamen are deployed inside Akhagori; regular Russian forces are camped in two positions outside the town, their armored personnel carriers dug in at roadsides, turrets pointed toward Tbilisi. Russia, which in recent years granted its citizenship to most residents of South Ossetia and another breakaway Georgian province, Abkhazia, has provided large-scale economic and military assistance to these two areas. But, so far, it has declined to recognize the two republics' self-proclaimed independence.

This may change soon, as the Russian parliament is set to meet on Aug. 26 to discuss the South Ossetian and Abkhaz recognition requests. Russian President Dmitry Medvedev, who publicly met with South Ossetian and Abkhaz leaders last week, pledged after the encounter that "Russia will back any decisions about the status of South Ossetia and Abkhazia that will be made by the peoples of these republics."

South Ossetian officials say that, following a Russian recognition of their independence from Georgia, they would seek to be incorporated within Russia proper, reuniting with their Ossetian kin living in the Russian republic of North Ossetia just across the border. "We are already citizens of Russia. The 5% who weren't ran away. They made their choice," South Ossetian Vice Premier Taimuraz Chotchiev said Tuesday, standing

on the steps of the shell-scarred presidential palace in Tskhinvali.

South Ossetia's takeover of Georgian-held areas of the province near Tskhinvali in the first days of the war was accompanied by widespread looting and killings of Georgian civilians, according to eyewitness accounts.

On Tuesday in the ethnic Georgian village of Kurta, north of Tskhinvali, an Ossetian militiaman in a yellow mechanical digger tore down fences, crushing trees and vines in the gardens of abandoned Georgian homes as a small group of men cheered him on. Nearby houses that had already been looted and burned were again in flames.

Mr. Chotchiev, the deputy premier, indicated that his government has no intention of allowing Georgian refugees to return. "I would advise them not to return," he said. "We don't want to live with the Georgians, and they don't want to live with us."

By contrast with the bloody events around Tskhinvali, the more recent Ossetian takeover in the Akhagori area was remarkably peaceful. There were no instances of looting or torching civilian homes here, residents said. Some stores remain open, power supplies continue, and Georgian civilians wander around undisturbed.

"Some of the population is scared. We tell them there is no reason to be afraid," said Capt. Anatoly as he gestured for a speeding armored personnel carrier, leaving a cloud of dust in its wake, to slow down. "They are demanding us to

provide a guarantee of their safety, and we are providing it to them."

At least while a reporter was present, Ossetian gunmen at the checkpoint on the road leading into Tbilisi let a Georgian bus and several cars pass through in both directions without any hindrance. They also chatted amiably with a Georgian driver.

On Tuesday afternoon, a group of Georgian men, smoking on Akhagori's main square dominated by a huge monument to 17th-century Georgian war heroes, warily watched the town's new masters. One resident, 37-year-old Bakuri Amiranashvili, said he has sent his family to Tbilisi, but is himself staying in Akhagori for now. "So far, they have done nothing bad to us," he said of the Ossetian militiamen. "But if their government's authority is established here for good, we'll have to leave. They will probably shut down the Georgian school and make our children study in Russian."

In the town's reopened drugstore, 44-year-old pharmacist Liana Avlokhova pondered her personal dilemma. An ethnic Ossetian, she married a Georgian man, and her two teenage sons—currently stranded at a Black Sea beach resort—consider themselves Georgian too.

"Of course, I am personally better off with the Russians, but what about my children?" she mused as a militiaman walked in to buy medicines. "What will they do here? There is no place for us, neither in Russia, nor in Georgia." Once the militiaman left, she sighed loudly. "With all these soldiers milling around, we are so scared. We can't go on living like this."

## NATO talks tough on Russia

Continued from first page  
Medvedev vowed would begin on Monday.

"It is time for Russia's president to keep his word," U.S. Secretary of State Condoleezza Rice told reporters after meeting her counterparts at NATO headquarters in Brussels. "There can be no business as usual while [Russia's occupation] goes on."

Despite Mr. Medvedev's withdrawal pledge, Russian troops remained involved in hostile actions across Georgia Tuesday.

In the morning, Russian forces briefly seized control of the Poti commercial port on the Black Sea, Georgia's largest. They entered on armored personnel carriers, jeeps and an army truck, and stayed for around four hours.

During the operation, they detained around 20 Georgian navy personnel, handcuffed and blindfolded them, and took them back to their base in the nearby town of Senaki. Georgian officials raced after them to try to negotiate the soldiers' release.

Russian forces also commandeered five Humvee jeeps and an armored Humvee belonging to the U.S. armed forces. The vehicles had taken part in a joint U.S.-Georgian military exercise and were waiting in Poti's container terminal for shipment back to a U.S. base in Europe.

The Russians also seized a Georgian naval vessel that was berthed at the port's breakwater. They towed it by tug to a nearby harbor and blew it up.

The Russian deployment put the port out of action for most of the day, said Alan Middleton, chief executive of Poti Sea Port Corp. Russian forces have been disrupting the work of the port for days, entering

to search for military cargoes.

In the city of Gori, near the border of South Ossetia, Russian officials showed foreign reporters a small convoy of tanks and armored vehicles they said was leaving Gori for Russia. But they also said most of the Russian forces in Georgia will remain there at least through the end of the week. A military spokesman said the forces are building new "peacekeeping" posts that will be maintained after the pullback. Once those are completed Friday, he said, the pace of withdrawal of Russian forces will pick up.

Publicly, Russian officials have seemed to revel in the unusual spectacle of Russian troops capturing U.S. military equipment. A Russian official Tuesday said 44 captured Georgian tanks would be put to use in the Russian military.

Russian Foreign Minister Sergey Lavrov called a news conference in Moscow to respond to remarks made at NATO. He lashed out at the alliance, saying NATO "is trying to make a victim of the aggressor, to absolve of guilt a criminal regime, to save a collapsed regime and is taking a course to rearm the current leaders of Georgia."

Moscow has been largely impervious to the threats and rhetoric from Western leaders. Monday, Mr. Medvedev warned that others who threaten Russian citizens would face the same "crushing response" that Georgia did.

With Moscow's economic clout and influence on the rise just as the U.S. is struggling with conflicts in Afghanistan and Iraq and a financial crisis, Russia feels the West has few effective levers on it. Exclusion from the Group of Eight would have

### Helping Georgia

NATO foreign ministers meeting Tuesday in Brussels agreed to:

- **A new commission** to oversee Georgia-NATO relations
- **Send 15 engineers** to plan rebuilding of Georgia's civilian infrastructure
- **Send other experts** to assess damage to Georgian air fields, radar systems and bases
- **Send humanitarian aid**
- **Threaten to suspend** invitations for Russia to participate in key NATO meetings

Source: NATO



Georgian refugees wash hands and drink water in Tbilisi

a largely symbolic impact, while the Kremlin in recent years has cooled dramatically on the idea of joining the World Trade Organization, which traditionally doesn't govern its main exports: oil and natural gas.

Vowing an end to "business as usual" with the former Cold War superpower, NATO ministers said they would reconsider the six-year-old practice of inviting Russia to key strategy meetings.

"The future of our relations with Russia will depend on the concrete actions Russia will take," said Jaap de Hoop Scheffer, NATO's secretary-general.

Georgian officials welcomed the tough talk.

More important, however, said Deputy Foreign Minister Giga Bokeria in a telephone interview, was the decision to deploy 20 additional OSCE monitors to South Ossetia, the pro-Russian breakaway republic where fighting broke out Aug. 8. The OSCE has a small observer mission in Georgia but wants to bolster

its presence to help monitor a cease-fire in the Georgian conflict zone. That mission could later go up by another 80 observers.

"This is a crucial step," said Mr. Bokeria, because Russia can no longer invoke vaguely defined security measures. Under the cease-fire agreement, Russia is entitled to take extra security measures—which it has interpreted to include moving deep into Georgia proper, destroying military and other infrastructure and digging in positions—until an expanded international monitor presence is deployed.

NATO's 26 members also approved the creation of a special "commission" to oversee relations between NATO and Georgia, which has long aspired to join the alliance—an outcome that now seems remote.

The so-called Georgia-NATO Commission is a compromise, diplomats said, between a U.S.-led faction within NATO that wants to rush Georgia into the alliance, and a

group including Germany and France that wishes to proceed cautiously.

The question divides NATO members more than any other. Russia remains strongly opposed to Georgia joining an organization that promises armed assistance to any outside attack.

Separately, the alliance will send 15 civilian engineers to assess the damage done to Georgia's hospitals, schools and other public buildings, and to plan rebuilding. Other teams will travel later to Georgia to assist the country in planning to rebuild its radar system, which the Russians destroyed.

It is unclear who will pay for repairing damage done to Georgia's military. "First, we make an assessment, then we will evaluate the costs, then we figure out who pays," Dutch Foreign Minister Maxime Verhagen said in an interview.

—Marc Champion  
in Tbilisi, Georgia,  
contributed to this article.

## CORPORATE NEWS

## TRAVEL

## Nokia and Lonely Planet to sell phone-based maps



**N**OKIA Corp. and travel-information company Lonely Planet said they are joining forces to sell maps and city guides that can be viewed on mobile phones.

The handset maker said users of Nokia

Maps can download information about more than 100 tourist locations provided by Lonely Planet, a unit of British Broadcasting Corp., and added more destinations are planned. Each download costs €7.99 (\$11.75). Providing maps and directions on mobile phones has become a battleground for mobile-phone makers and Internet companies, with Nokia facing off against rivals such as Google Inc., which has a well-known online mapping service, Google Maps. —Associated Press

## DIAMONDS

## Prices have increased 16% this year, De Beers says



**D**E BEERS SA, the world's largest producer of rough diamonds, said prices have increased 16% so far this year.

The Diamond Trading Co. arm of De Beers, which handles about 40% of the world's dia-

monds, said the strongest increases have been in rough stones that yield polished diamonds greater than one carat. "DTC has seen strong and continuing consumer demand for most categories of polished diamonds, especially in the larger goods," said Mahiar Borhanjoo, executive director of sales and client services. De Beers is 45%-owned by Anglo American PLC, 40% by the Oppenheimer family and 15% by Botswana. —Robb M. Stewart

## MINING

## Xstrata will suspend mining at nickel operation



**A**NGLO-SWISS miner Xstrata PLC said it was suspending its Falcondo nickel-mining operation in the Dominican Republic in light of high oil prices and lower nickel prices—a move that

might signal more cutbacks in the industry. Nickel prices on the London Metal Exchange have plunged 66% from their record of \$51,800 a ton in May 2007. Falcondo, with a work force of more than 1,800, has an annual capacity of 29,000 metric tons of nickel, said Xstrata. The shutdown is expected to last four months, during which time the company will conduct repairs and maintenance, and study a move to coal from oil as a power source. —Jeffrey Sparshott

## Dubai inquiry widens

Officials signal an effort to restore emirate's reputation

BY STEFANIA BIANCHI, MAJDOLINE HATOUM AND MIRNA SLEIMAN  
Dubai

**A** POLICE DRAGNET continues to widen among senior corporate executives here, in what appears to be a concerted push by government officials to put the shine back on this Mideast boom town's damaged reputation.

Dubai officials have detained and are questioning one current and one former executive at Nakheel, the real-estate development subsidiary of government-owned Dubai World. One of Nakheel's showcase projects is the Palm—an archipelago of man-made islands in the shape of a palm tree.

The two men are being investigated for "mistrust and bribery," according to Dubai public-prosecution records, seen by Zawya Dow Jones. In a statement, Nakheel said the probe is related to "acceptance of inducements from third parties."

Nakheel said it conducts regular audits "as part of its commitment to open and transparent corporate governance." It added: "This process is ongoing, and it would be inappropriate to comment further at this stage."

The tight-knit business community here has been rocked by a series of probes into alleged financial misdeeds at some of Dubai's biggest and best-known financial and real-estate firms. As word of fresh arrests and police interrogations leaked out over recent months, government officials and executives at companies involved have disclosed little about the probes. That has raised fresh questions about transparency and due-process in the emirate.

Earlier this year, Zack Shahin, the chief executive of listed real-estate developer Deyaar Development PJSC, was detained in a probe over alleged financial misdeeds. His arrest wasn't disclosed to holders un-



One of Nakheel's showcase projects is **the Palm**, top center—an archipelago of man-made islands in the shape of a palm tree.

til after it was reported in the media. He has denied wrongdoing and been replaced as head of the company.

Government officials and executives at **Dubai Islamic Bank**—partly government-owned and one of Dubai's biggest—have been tight-lipped about a separate probe there. Deyaar is partly owned by DIB.

Recently, leaks about fresh arrests, along with a rare public statement from the government condemning corruption, suggest Dubai officials are now trying to control some of the reputational damage. Analysts and Western executives say Dubai's hereditary ruler, Sheikh Mohammed bin Rashid al Maktoum, appears to be sending a message to executives to clean up or face the consequences.

Earlier this month, police arrested Adel Al Shirawi, the former chief executive of Islamic-mortgage lender Tamweel. He and another former Tamweel executive are being investigated for alleged embezzlement, according to Dubai public-prosecution records. Mr. Shirawi hasn't been reachable for comment.

Both men are currently senior executives at Istithmar World, another affiliate of government-owned Dubai World. Istithmar, which bought retailer Barneys New York last year, confirmed the probe,

but has said the company itself isn't being investigated.

"It's a message to those inside as well as the outside. Insiders have to play by the rules," said Eckart Woertz, an economics analyst at the Dubai-based Gulf Research Center. "And to outsiders, that here, we do play by the rules."

One of seven emirates that make up the United Arab Emirates, Dubai pushed aggressively into ports, tourism and financial services in recent years. Amid a region-wide, oil-fired economic boom, the city is attracting scores of Western bankers, attorneys and others eager to take advantage of the Mideast's spending and investment binge.

Government officials weren't available for comment. But earlier this week, Sheikh Mohammed's office issued a rare public statement, condemning acts of corruption and promising to weed them out. The statement said that results of the various investigations would be made public when they are finished. So far, the government hasn't disclosed any actual charges in any of the probes.

In the past, while senior executives or officials might be removed for financial wrongdoing, rarely were such departures publicized.

—Margaret Coker in Abu Dhabi contributed to this article.

## Alliance &amp; Leicester sells mortgage-backed bonds

BY NEIL SHAH AND MARK BROWN

**Alliance & Leicester PLC**, a British bank, sold about £400 million (\$745.7 million) of high-quality bonds backed by home loans this week in a rare sign of life in the market for mortgage securities.

However, bankers say the U.K. lender's sale Monday is more likely a one-off event than a sign of growing momentum in the mortgage-finance market, which has been a ghost town since the credit crunch last summer.

Most of the deal was bought by a single "Continental bank" that has significant experience buying British mortgage bonds, said Jeff Stolz, managing director at **Goldman Sachs Group Inc.**, which sold the deal along with **Royal Bank of Scotland Group PLC**.

"It's a small step in the right direction to get the market going again," Mr. Stolz said. "Does that mean we're back to where we were 18 months ago? Absolutely not."

The Alliance & Leicester deal was "reverse inquiry," which means investors requested that the bond issuer offer the securities. Goldman's Mr. Stolz said the investors expressed interest in buying Alliance & Leicester securities in June.

Similar investor-driven mortgage securitizations could be on the way, bankers said.

But there are also many reasons to believe that Alliance & Leicester is a particular case. The lender has been more conservative in its mortgage lending than some of its mid-size peers like **Bradford & Bingley PLC**, which specializes in loans to those who rent out properties.

A spokesman for Alliance & Leicester said Monday's bond sale reflected the high quality of the lender's mortgage assets. The entire mortgage securitization was rated triple-A, the highest credit rating.

Alliance & Leicester also agreed in July to be taken over by one of Europe's biggest banks, Spain's **Banco Santander SA**. While Alliance & Leicester's shares are down 51% this year at 319.50 pence, they have remained above the 219.25 pence they

hit before the July 14 takeover announcement. Alliance & Leicester's deal is one of a tiny number of mortgage securitizations that have been sold to investors this year. In May, **HBOS PLC**, the U.K.'s biggest home lender, sold about \$1 billion of highly rated bonds. Alliance & Leicester's deal consisted of two sections: a \$150 million batch of securities giving investors a yield of 0.60 percentage point above the London interbank offered rate, which banks charge each other for loans; and a

## Low on sales

U.K. prime residential-mortgage-backed securities issuance, in billions of pounds



\*Year-to-date and includes the Alliance & Leicester deal

Source: Barclays Capital

separate €400 million package of bonds that offered 0.90 percentage point over the equivalent European bank lending rate.

Before the credit crunch, a similar deal would probably have needed about a tenth of the yield to attract investors, Goldman Sachs's Mr. Stolz said.

He said the Continental bank buyer, which bought the euro-denominated portion of the deal, doesn't intend to use the asset in a swap with the Bank of England for funding.

Earlier this year, Britain's central bank set up a lending program to help banks find funding and a home for hard-to-trade mortgage investments. Since then, several financial institutions have created mortgage securities but retained them in order to get Bank of England funding.

## CORPORATE NEWS

# Chip defect haunts Nvidia

Consumers are irked by lack of a recall; PC upgrade is urged

BY DON CLARK

Nvidia Corp. often gets good reviews for its technology. But the way the chip maker and two computer manufacturers are handling a product defect hasn't pleased some critics, adding to a series of headaches for the Silicon Valley company.

The problem affects an undisclosed number of laptop computers, stopping them from booting up, causing display screens to go dark and other problems. Nvidia has traced it to packaging materials used on some chips that manage graphics and other functions, which can fail if they get too hot. The company disclosed the problem last month and is taking a \$196 million reserve to cover computer makers' costs in addressing it.

Nvidia hasn't recalled the affected chips or identified which models have problems. Dell Inc. and Hewlett-Packard Co., the two customers that have so far announced plans for coping with the problem, said they won't repair affected laptops until they fail.

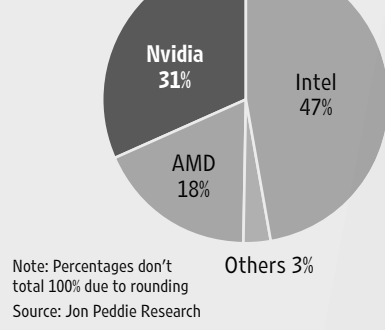
The PC makers instead recommend updating internal software—known as BIOS, for basic input-output system—to adjust the speed of a laptop's cooling fan. That change doesn't guarantee the systems won't fail but is expected to reduce the likelihood of failure. In the meantime, the companies have extended their warranties; Dell on Monday added 12 months to its standard warranty—usually one year for consumers and small businesses—to systems affected by the problem. H-P previously had promised to fix affected computers for 24 months.

But some consumers who posted complaints on Web message boards don't seem satisfied with the BIOS fix, knowing they own computers that could stop working. "I hope Dell realizes that people will not be happy until their graphics cards are replaced," wrote one customer on the computer maker's site. Added

## Graphics story

Major suppliers of computer graphics chips, percentage of unit sales in the second quarter

Total units: 94.4 million



another: "I did not pay for a high-end logic bomb."

A flaw in an Intel Corp. Pentium microprocessor in 1994 provided some lessons on handling chip defects. After initially arguing that few people would be affected by a defect that related to esoteric mathematical problems, Intel encountered heavy complaints by users and computer makers and shifted to a no-questions-asked return policy on the chip, triggering a \$475 million write-down.

But Jen-Hsun Huang, Nvidia's chief executive, said the situations are different. His company's problem—which affects solder connections between a chip and the packaging used to connect it to a computer, and has now been corrected—doesn't usually cause problems, he said. It can be affected by the choice of other components in a system, and how computer makers designed their products; different configurations of the same laptop could behave differently, he said.

"If every single chip was just flawed I would have to recall it," Mr. Huang said in an interview. But that isn't true in this case, he said, adding that the computer makers also have a say in what happens. "I can't recall our customers' products," he said.

Anne Camden, a Dell spokeswoman, referred questions to Nvidia about why customers' computers wouldn't be repaired unless they fail. She said the BIOS adjust-

ment is a good response for most consumers, adding: "We are going to take care of our customers."

An H-P spokeswoman declined to comment.

Nvidia, of Santa Clara, Calif., makes chips known as GPUs, for graphics processing units. The technical problem also affects products called chip sets that handle other chores in a system. Mr. Huang said the company had used standard packaging materials that haven't caused a problem in the past. H-P has said that it alerted Nvidia to the issue in November 2007, but Mr. Huang said his company didn't become aware of how serious it was until March or April.

Nvidia's problem comes as the company is grappling with others, including competing products from rival Advanced Micro Devices Inc. that have forced price cuts. JoAnne Feeney, an analyst at FTN Midwest Securities Corp., said she is concerned Nvidia's \$196 million reserve might not be sufficient.

Mr. Huang said that amount should be enough, and represents an extraordinary commitment to help users—estimating each system repair would cost around \$400 for chips that cost \$15 to \$20. "We feel terrible" about the problem, he said.

He said Nvidia owns "a ton of Dell laptops" that could be affected by the problem. It isn't repairing them, he added—just updating the BIOS.

# General Dynamics to buy airport firm Jet Aviation

BY AUGUST COLE AND J. LYNN LUNSFORD

In a move to diversify into an area generally immune from the swings in the aviation business, defense contractor General Dynamics Corp. says it will buy Jet Aviation, a Swiss air-services company, for \$2.25 billion.

Jet Aviation, controlled by European investment firm Permira, provides a range of services to airports, ranging from maintenance and overhaul to high-end luxury terminals that cater to customers who fly expensive private jets such as those made by GD's Gulfstream unit.

Jet Aviation operates in 25 airports in Europe, the Middle East, Asia and the Americas, including facilities with heavy business-jet activity such as Boston, Dallas and Teterboro, N.J.

With business-jet activity expected to continue expanding globally, the acquisition of Jet will help the Falls Church, Va., defense and aerospace company tap into this fast-growing market abroad. Until now, the bulk of GD's 12 aircraft-services centers have mainly been located in the U.S.

GD Chairman and Chief Execu-

tive Nicholas Chabraja told analysts during a conference call on Tuesday that he tried to buy Jet three years ago, but "couldn't get in the door" and was beaten out by Permira.

Permira acquired Jet Aviation in October 2005 from the Hirschman family of Switzerland. The private-equity firm grew the business in part through acquisitions, buying U.S. outfits Midcoast Aviation in 2006 and Savannah Air Center this year. Even including what it spent on the acquisitions, Permira stands to make about 3.5 times its cash investment on the sale.

Services offered by companies such as Jet have become an important part of any airport's ability to attract premium customers. In addition to maintenance and fuel services, Jet's high-end centers feature luxury passenger lounges, private offices for meetings, concierge services and rooms where crews can rest between flights.

General Dynamics was advised by Gleacher Partners; Morgan Stanley advised Permira on the deal. GD said the transaction should close by year's end.

—Peter Lattman in New York and Dana Cimilluca in London contributed to this article.

# Anheuser chief gets payday, consulting job from InBev

ASSOCIATED PRESS

August Busch IV, chief executive of Anheuser-Busch Cos. Inc., will be paid nearly \$10.4 million after the brewer is sold to InBev SA and \$120,000 a month to consult for the new company through the end of 2013.

Terms of the consulting deal are being negotiated, according to a filing with the U.S. Securities and Exchange Commission.

Mr. Busch, a member of the St. Louis-based brewer's founding family, will be eligible for an additional payment of \$13.3 million on various change-of-control payments and benefits, the filing said.

Last month, the Budweiser brewer said it agreed to be sold to InBev, the Belgium-based maker of Stella Artois, in a deal valued at \$52 billion.

The companies will combine to create Anheuser-Busch-InBev NV SA. The combined company's North American headquarters will remain in St. Louis.

Also in the filing, InBev reinforced its promise to keep Anheuser-Busch's 12 U.S. breweries open, on the condition that "there are no new or increased federal or state excise taxes."

St. Louis will remain the home of the Budweiser brand, the filing said. InBev said it would continue to support Anheuser-Busch's charitable causes and other operations, such as its trademark Clydesdale horses.

Anheuser-Busch will have to pay \$1.25 billion if the deal falls through for one of several reasons, such as Anheuser-Busch accepting another offer. InBev will pay Anheuser-Busch the same amount if Anheuser-Busch's shareholders reject the deal.

# Origin rejects BG's takeover bid

BY BILL LINDSAY

SYDNEY—Australia's Origin Energy Ltd. formally rejected a takeover bid of 13.83 billion Australian dollars (US\$12 billion) by BG Group PLC, but didn't offer any significant new information to explain its decision.

Origin said it hoped to provide an independent valuation of its shares in the next month, and it gave only a broad overview of its discussions with parties interested in the development of its key coal-seam gas, or CSG, reserves.

As expected, following its rejection of the bid in early July, Origin on Tuesday recommended that shareholders reject the A\$15.50-a-share hostile bid from the U.K.-based global gas company, arguing that the BG offer undervalues its business and growth prospects.

Origin said that, with the largest CSG reserves in Australia, it is well-placed to benefit from rising energy prices and increasing demand for gas.

DAILY SHARE PRICE

## Origin Energy

Tuesday's close: A\$16.10, down 0.3%

BG Group's offer: A\$15.50 per share



The Australian integrated energy company said that after expressions of interest closed July 4, it has short-listed a number of global participants in the energy industry, each of which have proposed a CSG-to-liquefied natural gas project.

After its board rejected a friendly approach from BG at A\$15.50 a share May 30, Origin invited proposals to exploit its CSG reserves in Queensland state, with options ranging from the sale of its gas tenements to partnership in an LNG export project.

The company wouldn't comment on which parties, or how many, will be granted access to commercially sensitive information on the gas resources before lodging final proposals. But Origin Chief Executive Grant King confirmed at a briefing that some of the parties are LNG developers. The company said it plans to provide shareholders with an independent valuation report before BG's offer closes Sept. 26.

BG Group Chief Executive Frank Chapman said Origin's response "lacks any substance or clarity," with "no evidence" in the form of an independent expert's report to support their assertion that the bid, made at a 72% premium to Origin's three-month average trading price prior to BG's initial approach, undervalues the company.

# Hutchison Telecom net tumbles after year-ago gain on unit's sale

BY LORRAINE LUK

HONG KONG—Hutchison Telecommunications International Ltd. said its first-half net profit plummeted, largely due to a gain it booked last year from the sale of its Indian business.

The telecommunications operator, 59.33%-owned by conglomerate Hutchison Whampoa Ltd., said net profit dropped 98% to 1.17 billion Hong Kong dollars (US\$149.8 million) from HK\$70.09 billion a year earlier.

First-half profit from continuing operations doubled to HK\$1.17 billion from HK\$57 million on a 68% jump in subscribers to 11.1 million and the appreciation in the Israeli shekel against the Hong Kong dollar. Reve-

nue in the half rose 22% to HK\$11.76 billion from HK\$9.64 billion.

Revenue from the company's business in Israel rose 29% to HK\$6.99 billion on currency appreciation and subscriber growth. Revenue from Israel accounted for 59% of first-half revenue, Hutchison Telecom said. In Hong Kong and Macau, revenue rose 6.5% to HK\$3.75 billion and accounted for 32% of overall revenue.

Chairman Canning Fok said the company continues to seek acquisition opportunities in emerging markets, but prices remain elevated. Mr. Fok also cautioned that the business environment in markets in which the company operates is becoming more difficult amid the global economic slowdown.

## CORPORATE NEWS

# Cargill's profit rises 67%

*High crop demand, asset sale boost net; 'volatile' conditions*

BY DAVID BENOIT

Cargill Inc. reported a 67% rise in fiscal-fourth-quarter net income as the Minneapolis company said it encountered "the most volatile agricultural and energy markets in decades."

The world's largest agribusiness company by sales and one of the largest privately held companies in the U.S. said high demand for crops has led to growth in multiple segments.

The company's grain business has especially grown as the industry has been reaping huge profits in recent months as the prices of corn, wheat

and soybeans have all soared on the back of greater demand for grain and for biofuels made from food crops.

World-wide grain stocks are at a 35-year low, Cargill said, blaming weather and low yields for the soaring prices. But the company said the market should be allowed to fix itself.

"If markets are allowed to work, today's prices can spark a supply response from farmers. A rekindling of public and private investment in agriculture and in rural infrastructure will drive productivity gains," Cargill Chairman and Chief Executive Greg Page said.

For the quarter ended May 31, the company reported net income of \$1.05 billion, compared with \$628 million a year earlier. The latest quarter was boosted by a \$310 million gain from selling some operations. Income from continuing op-

erations rose 18% to \$744 million.

Cargill didn't report revenue for the quarter, but revenues for the full year rose 36% to \$120.4 billion.

Cargill's wide range of businesses have a hand in almost every stage of food production, from farm feed to meat and poultry products, while providing financial services along the way. The latest quarter saw the company's fertilizer production soar as world-wide crop production increases. Other segments, including food and agriculture, also reported growth.

Profits from its 55% stake in fertilizer producer Mosaic Co. soared to almost a third of the group total from a historical average of 10% to 13%.

However, earnings from its risk management and investment unit fell for the fourth straight quarter.

—Doug Cameron  
contributed to this article.

# Target's net drops 7.6% amid credit-card woes

BY DONNA KARDOS  
AND AJA CARMICHAEL

Target Corp. said net income fell 7.6% in its fiscal second quarter as higher retail profits failed to offset troubles in the discount retailer's credit-card business.

Chief Executive Gregg Steinhafel said per-share earnings "modestly exceeded our expectations despite continued soft sales trends."

For the quarter ended Aug. 2, the retailer posted net income of \$634 million, or 82 cents a share, down from \$686 million, or 80 cents a share, a year earlier. There were more shares outstanding in the year-earlier period.

Revenue rose 5.8% to \$15.47 billion, as sales climbed 5.7% because

of new-store expansion and credit-card revenue jumped 10%.

In midday trading on the New York Stock Exchange, Target shares were off 29 cents, or 0.6%, to \$49.76.

The Minneapolis-based company said earlier this month that same-store sales fell 0.4% in the quarter, as it continued a stretch of little, if any, such growth dating to late last year. Compared with other discounters, Target offers costlier, more fashionable apparel and housewares, and both have seen less demand as spending has slowed.

Like other retailers troubled by the economic downturn, Target is walking a fine line: trying to retain decent margins while keeping prices down to induce sales. Retail gross margins in the latest quarter fell to 31.2% from 31.6%, driven by faster sales growth in lower-margin-rate categories.

Ahead of the back-to-school season, the company reported continued sales weakness, posting a 1.2% decline in July same-store sales. Target cited shoes, a back-to-school staple, as an area seeing less demand. The company expects a potentially bigger decline in August.

To generate cash, Target in May sold a 47% stake in its credit-card receivables to J.P. Morgan Chase & Co. for \$3.6 billion. The deal allows the retailer to swap some of the income from its credit-card loans for cash to make investments and buy back shares without tapping troubled debt markets.

Target's retail segment posted a 7.2% rise in earnings before interest expense and income taxes. But the credit-card segment saw profits plunge 65% amid increased write-offs, lower interest rates and the boosting of loan-loss reserves.

Target's credit-card business is one of the few operations in the U.S. that has strongly increased lending in the face of the credit crunch. Some analysts, however, now wonder whether the expansion of the card business in the current tough environment could lead to higher-than-expected bad loans.



Knowledge



Understanding

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DOW JONES

# Home Depot sees profit decline as economy slows

BY ANDRIA CHENG

Home Depot Inc. said its second-quarter net profit fell 24% as the world's largest home-improvement retailer by sales struggled to sell big-ticket items due to the slowing U.S. economy and housing market.

Net income for the three months ended Aug. 3 dropped to \$1.2 billion, or 71 cents a share, from \$1.59 billion, or 81 cents a share, a year earlier. The results were well above analysts' expectations of 61 cents a share.

Sales fell 5.4% to \$21 billion. Same-store sales, or sales at stores open at least a year, declined 7.9%, hurt in part by a calendar shift.

Home Depot said it expects profit per share from continuing operations to drop by roughly 24% and sales to fall 5% as it foresees continued pressures on its market and on consumers. The Atlanta-based company said in May it was more comfortable with the low end of its adjusted profit declines of 19% to 24% for the year.

## GLOBAL BUSINESS BRIEFS

**Schindler Holding AG****Strong outlook is reiterated after latest quarter's profit**

Swiss elevator and escalator maker **Schindler Holding AG** said it swung to a net profit in the second quarter despite a restructuring charge, and it repeated it expects a higher full-year profit. Net profit was 136 million Swiss francs (\$124 million) compared with a net loss of 97 million francs a year earlier. Last year, Schindler booked most of a 293 million franc European Union cartel fine in the second quarter, while this year's results were hit by a 22 million franc charge tied to a plant closure in Vienna. Sales were up 3% to 3.41 billion francs. The company, which is controlled by the Schindler and Bonnard families, still expects full-year net profit including minorities to be more than 630 million francs, up from 278 million francs.

**Ciba Holding AG**

Swiss specialty-chemicals company **Ciba Holding AG** swung to a second-quarter net loss and said it is considering selling two businesses. Releasing its earnings two days earlier than expected, Ciba reported a quarterly net loss of 606 million Swiss francs (\$552.4 million), compared with a net profit of 27 million francs a year earlier. Revenue was down 7.3% at 1.53 billion francs from 1.65 billion francs. The results were hit by a goodwill impairment of 595 million francs in its water and paper-treatment unit. Ciba said it is considering selling that unit, as well as its publication-inks business. The company has been hit hard by high crude-oil and other raw-material costs. Ciba shares fell 5.38 francs, or 17%, to 26.52 francs.

**Nationwide Building Society**

U.K. lender **Nationwide Building Society** plans to open operations in Ireland, a move that would allow it access to European Central Bank funding. Nationwide spokesman Steve Cowdry said the move would probably be completed early next year after Nationwide gets approval from the U.K.'s Financial Services Authority and its Irish equivalent. Nationwide said it will initially offer savings products by mail, phone and online. Many U.K. lenders have branches or parent companies in the euro zone, which has helped them access ECB funding. One of the key advantages of ECB funding is that lenders are able to swap newly issued high-quality mortgage-backed securities with the ECB as collateral.

**WestLB**

The German state of North Rhine-Westphalia won't oppose the merger of stricken state bank **WestLB** with another German landesbank, state Finance Minister Helmut Linssen said. The European Commission, the executive arm of the European Union, is pushing for WestLB to change ownership by the end of the year, he said, adding that otherwise there could be unforeseeable consequences for the bank. North Rhine-Westphalia owns nearly 38% of WestLB, with local savings banks holding the rest. The bank had to be protected by €5 billion (\$7.35 billion) in public-sector guarantees after risky investments turned sour in the global financial-market crisis. Last year, the state blocked a WestLB merger with LBBW.

**Ford Motor Co.**

**Ford Motor Co.** said its European vehicle sales in July were down 4.7% to 149,000, as gains in new markets failed to offset a downturn in the company's core countries. In its main 19 European markets, including Germany, France and the U.K., sales dropped 6.6% to 117,200 vehicles, in spite of a 26% increase in Russia. In the first seven months of the year, Ford sold almost 1.2 million vehicles—2% more than a year earlier—in its 51 European markets, which include states in Central Asia and Northern Africa. However, sales in Ford's 19 core states fell 2% to 940,600 vehicles. Ingvar Sviggum, head of marketing for Ford in Europe, said he was optimistic that full-year sales would top last year's, thanks to growth in emerging markets such as Russia and Turkey.

**Signet Group PLC**

**Signet Group PLC** shareholders overwhelmingly backed the U.K.-based jewelry company's primary listing move to the New York Stock Exchange and domicile change to Bermuda. Signet is expected to make its debut on the NYSE on Sept. 11, subject to court and other approvals, moving from the London Stock Exchange. Holders of 94% of Signet shares backed the move. "The board welcomes the very high level of support from shareholders in passing the proposal to facilitate the move of the group's primary listing to New York," Chairman Malcolm Williamson said. Last month, Signet recommended the primary listing and domicile move following consultation with major shareholders and unanimous approval by its board.

**Swiss Reinsurance Co.**

**Swiss Reinsurance Co.** said it has appointed Walter Bell as chairman of its U.S. unit, succeeding Roger Ferguson, who left the company earlier this year. The appointment of Mr. Bell, who previously served as president of the National Association of Insurance Commissioners in the U.S., comes at a crucial moment for Swiss Re, which is struggling from the fallout of the U.S. home-loan crisis. Although the company holds only a limited amount of risky assets on its balance sheet, it was hurt by more than \$2 billion in write-downs linked to credit-default swaps, insurance products designed to protect investors from falling bond prices. Mr. Bell will leave his current role as insurance commissioner of the Alabama Department of Insurance.

**OAO Mechel**

Russian antitrust authorities said troubled mining company **OAO Mechel** will have to cut prices for its coking coal by 15% and pay a fine of some \$32 million for price fixing. A Mechel spokesman said the company would comply with the price cut. Last week, the Federal Antimonopoly Service ruled that Mechel discriminated against Russian consumers and maintained a monopoly in the market for coking coal, used in making steel. The country's antitrust watchdog had said it would take Mechel's cooperation in the investigation into account when setting the fine. Mechel's pricing was investigated following complaints from several steelmakers—just days before Prime Minister Vladimir Putin verbally attacked the country's largest coking-coal producer for alleged price fixing and tax evasion.

**China Overseas Land**

Blue-chip property developer **China Overseas Land & Investment Ltd.** said its first-half net profit rose 69% from a year earlier, mainly driven by robust property sales in China's northeastern Bohai Rim region. China Overseas Land, the biggest Hong Kong-listed Chinese developer by market capitalization, said net profit rose to 2.31 billion Hong Kong dollars (US\$295.7 million) from HK\$1.37 billion a year earlier. Revenue more than doubled to HK\$10.72 billion from HK\$4.76 billion. China Overseas said its property sales in the Bohai Rim region more than quadrupled from a year earlier to HK\$3.9 billion. Its gross profit margin for properties sold in China rose to 47.9% from 44.4% a year earlier, while contracted property sales in China rose 57% to 1.46 million square meters from a year earlier.

**Marks & Spencer Group PLC**

**Marks & Spencer Group PLC** said it is considering cutting job-loss compensation for about 70,000 of its U.K. staff as the retailer struggles to lure cash-strapped shoppers amid the difficult economic environment. A company spokeswoman declined to comment on possible savings or job cuts, noting the last time the food, clothing and housewares retailer changed its job-loss benefits was in 2006. Marks & Spencer executives are talking to its national employee representative, Business Involvement Group, about the job-loss-compensation terms, she said. BIG represents some 3,500 Marks & Spencer staff. Under the proposal, employees in the U.K. over age 41 who are laid off would receive three weeks' pay for each year they had worked, compared with 3.75 weeks' pay now. The statutory requirement is 1.5 weeks, she said.

**Virgin Blue Holdings Ltd.**

**Virgin Blue Holdings Ltd.** posted a 55% decline in fiscal-year net profit on record fuel prices, and said it faces its toughest outlook in its eight-year history. Virgin Blue said earnings for the year ended June 30 fell to 97.7 million Australian dollars (US\$84.8 million) from A\$215.8 million a year earlier, missing analyst forecasts and sending the airline's shares sharply lower. Virgin Blue shares ended down 28% at 84 Australian cents in Sydney trading. Reflecting the uncertainty weighing on the global aviation sector, Australia's second-largest airline scrapped its final dividend, after paying out two Australian cents a share a year earlier. It said payments for this year will be considered in the context of industry conditions. The airline said capacity, demand and fuel costs remain highly volatile.

**Myriad Genetics Inc.**

**Myriad Genetics Inc.** said it hired J.P. Morgan Chase & Co. to help with a strategic review and that it is considering splitting its molecular-diagnostic business from its pharmaceutical research. Meanwhile, Myriad reported net income of \$65.5 million for the fiscal fourth quarter ended June 30, compared with a year-earlier net loss of \$7.8 million. Revenue more than tripled to \$166.9 million, thanks to a \$100 million upfront license payment from Danish partner **H. Lundbeck AS** for European marketing rights to Alzheimer drug Flurizan. In June, Myriad and Lundbeck reported disappointing late-stage test results for Flurizan, and Myriad said it would discontinue the program. Myriad spent \$60 million in the fiscal year on the development effort.

**Chrysler LLC**

**Chrysler LLC** said its head designer, Trevor Creed, will retire effective Sept. 1, the latest in a string of executive departures since the auto maker was acquired a year ago by private-equity group **Cerberus Capital Management LP**. Mr. Creed, 63 years old and a 23-year veteran at Chrysler, will be succeeded as vice president of design by Ralph Gilles, now head of design for trucks and Chrysler's Jeep brand. Mr. Gilles, 38, is considered a rising star in the auto industry. He had a hand in styling the Chrysler 300 sedan that was a hot seller a few years ago and oversaw design of the new Dodge Ram pickup. Mr. Creed helped develop the look for some iconic models, such as the new Dodge Challenger muscle car, but he is also associated with the Chrysler Sebring, a sedan whose design was panned by critics.

**LG Electronics Inc.**

South Korea's **LG Electronics Inc.** said it may sell one of its plasma-display-panel production lines as part of its efforts to cut costs and improve profitability. "We're considering several ways to use the line, including a possible sale," LG Electronics spokesman Jik-Soo Kim said. "But nothing has been decided yet." The A1 line, the oldest of the company's four PDP lines, was shut in July last year and has since been used for research and development and testing. LG's PDP business has been struggling amid a sharp fall in panel prices and in the face of rival liquid-crystal-display technology. PDP technology's competitive edge is slipping as large LCD screens become cheaper to produce. Many analysts believe LCD technology will eventually trump PDP technology.

**Qantas Airways Ltd.**

**Qantas Airways Ltd.** said Colin Storrie will succeed Peter Gregg as chief financial officer and a director of the company effective Sept. 30. The airline said Mr. Gregg will assist Mr. Storrie, now deputy chief financial officer, during the transition before leaving Qantas on Dec. 31. Mr. Gregg has been chief financial officer for eight years and was passed over in favor of Alan Joyce, the current head of Qantas's discount carrier Jetstar, to succeed Geoff Dixon as chief executive in November. "With a new incoming CEO, I believe that signaling now my intention to step down from both my executive and nonexecutive roles is in the best interests of shareholders and the company," Mr. Gregg said.

**Babcock & Brown Ltd.**

Australian asset-management and advisory firm **Babcock & Brown Ltd.** said its directors will consider changes to its management and board Thursday amid speculation it will replace long-serving Chief Executive Phil Green, after its stock fell 24% Tuesday on media reports that Mr. Green will resign. Babcock & Brown said no decisions have been made, but it requested a suspension of trading in its shares until the board meets and makes a decision. An announcement is expected before 10 a.m. Thursday, when Babcock & Brown is scheduled to release its first-half results. Babcock & Brown shares plunged Tuesday to a record low of 3.45 Australian dollars (US\$2.99), down A\$1.06, after Babcock & Brown shares have fallen by about half since last week's profit warning.

**Softbank Corp.**

Mobile-phone and Internet company **Softbank Corp.** said it will expand its cellphone lineup by buying handsets from consumer-electronics maker **Casio Computer Co.** Financial terms weren't disclosed. Softbank, Japan's No. 3 mobile-phone operator by subscribers, said it hopes Casio's products, featuring high-quality digital-camera functions, will provide a boost in its intensifying competition with rivals NTT DoCoMo Inc. and KDDI Corp. With handset sales slowing in Japan, most cellphone-service providers have seen revenues slip in recent months. Softbank didn't say how many phones Casio will supply, nor how many it plans to sell. Softbank said it will start selling Casio-made handsets by the end of this year.

**Telekom Malaysia Bhd.**

**Telekom Malaysia Bhd.** said second-quarter net profit fell 61% following the demerger of its TM International mobile unit in April. Excluding TM International, Telekom's core business posted a slight increase in net profit. Overall, second-quarter net profit fell to 273.2 million ringgit (\$82 million) from 701 million ringgit a year earlier, the country's main fixed-line provider said. Telekom's net profit before minority interest from core operations, and excluding TM International's contribution, rose to 123.3 million ringgit from 119.3 million ringgit a year earlier. Revenue rose to 2.11 billion ringgit from 2.1 billion ringgit.

**Kremikovtzi AD**

Foreign creditors in insolvent Bulgarian steel company **Kremikovtzi AD** said they have appealed a court decision that could jeopardize repayment of €325 million (\$478 million) in bonds. Earlier this month, the Sofia City Court ruled Bulgaria's biggest steel mill was insolvent since December 2005, five months before the bond was issued. The bondholders fear that by this ruling the bond could be considered unsecured debt. The mill owes more than €1 billion to several creditors. Last month, British courts recognized the bondholders' claim and ordered Kremikovtzi to pay back the principal of the bonds and the interest due—a total of €347 million.

**Boral Ltd.**

**Boral Ltd.** said annual net profit fell 19% amid the U.S. housing slump, and the company warned it expects U.S. earnings to fall again this year. Australia's third-largest building-products maker by sales said net profit for the year ended June 30 fell to 242.8 million Australian dollars (US\$210.7 million) from A\$298.1 million a year earlier. Chief Executive Rod Pearce said Boral expects the U.S. housing downturn to continue to deepen. In the U.S., earnings before interest, tax, depreciation and amortization, or Ebitda, tumbled A\$118 million to A\$11 million as demand slowed. Sales revenue rose 6% to A\$5.2 billion from A\$4.91 billion.

—Compiled from staff and wire service reports.

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## ECONOMY &amp; POLITICS

## U.S.

## Police want to monitor Manhattan-bound traffic



**T**HE NEW YORK Police Department is working on a plan to track every vehicle entering Manhattan and screen them for radioactive materials and other terrorism threats.

The proposal, called Operation Sentinel, is being developed alongside a separate \$90 million initiative to tighten security at the World Trade Center site and elsewhere in Lower Manhattan in response to the Sept. 11, 2001, attacks. Police officials say Operation Sentinel would rely on license-plate readers, radiation detectors and closed-circuit cameras installed at the 16 bridges and four tunnels serving Manhattan. About a million vehicles drive onto the island every day.

where in Lower Manhattan in response to the Sept. 11, 2001, attacks. Police officials say Operation Sentinel would rely on license-plate readers, radiation detectors and closed-circuit cameras installed at the 16 bridges and four tunnels serving Manhattan. About a million vehicles drive onto the island every day.

## U.K.

## Manchester Airport tests face-recognition devices



**B**RITAIN began testing face-recognition technology Tuesday at Manchester Airport as part of an effort to better control its borders.

The machines scan passport photos and compare them with biometric data contained in microchips. The technology can only be used with U.K. and European Union citizens who have new microchipped passports.

The technology, already in use in Portugal, Singapore, Hong Kong and Malaysia, could be expanded to other British airports, the U.K. Border Agency said.

The trial is part of Britain's £1.2 billion (\$2.2 billion) e-Borders program, which already has produced 2,000 arrests. —Associated Press

## GERMANY

## Economic sentiment rises from record low in July



**S**ENTIMENT among German financial analysts and institutional investors improved in August, but producer prices in July jumped 8.9% from a year earlier, the fastest rise in nearly 27 years.

Given the inflationary picture, the European Central Bank shouldn't cut interest rates, said Wolfgang Franz, president of the Center for European Economic Research, or ZEW, think tank, which conducted the survey. Financial-market experts were unimpressed by economic growth in the second quarter, the survey showed. ZEW's economic-expectations index rose to -55.5 points, up from a record-low of -63.9 points in July. —Nina Koeppen

## Monitors to study India-U.S. nuclear deal

## Technology transfer faces close scrutiny by 45-nation group

**A** U.S.-INDIA nuclear deal faces its next big hurdle this week, when a multinational group that monitors sales of civilian nuclear technology takes it up, exposing the pact to close scrutiny.

The members of the 45-nation Nuclear Suppliers Group, which makes

By Jackie Range in New Delhi, David Crawford in Belgrade, Serbia, and Paul Glader in New York

decisions by consensus, face an important challenge during their special plenary session on Thursday and Friday in Vienna. India and the U.S. will ask the group to allow, for the first time, the transfer of nuclear technology to a country that hasn't signed the Treaty on the Non-Proliferation of Nuclear Weapons.

"India is the dossier everyone cares about," said a European diplomat familiar with the matter. "And India is asking the NSG to allow an exception to its guidelines."

The deal, if it passes its remaining hurdles, would see the U.S. supply India with nuclear fuel and technology for civilian purposes. Earlier this month, the board of governors of the United Nations' atomic watchdog, the International Atomic Energy Agency, unanimously approved an inspections agreement with India that was a key precondition to completing the deal.

Better access to nuclear power through the U.S. deal has been a key aim of the Congress party, which leads India's coalition government. India needs to increase its power generation. The U.S., for its part, sees the nuclear pact as a way to create stronger ties with the giant South Asian nation and provide a counterweight to China's influence in the region.

The Nuclear Suppliers Group was founded in response to India's first nuclear-weapons test, in 1974. One of the organization's goals is to prevent the spread of nuclear technology to countries that haven't signed the nonprolif-

eration treaty. Reaching a consensus on the U.S.-India deal won't be simple. At plenary sessions in Cape Town, South Africa, in 2007 and in Berlin in 2008, Nuclear Suppliers Group delegates were unable to agree on several key issues, including whether to approve the U.S.-India pact.

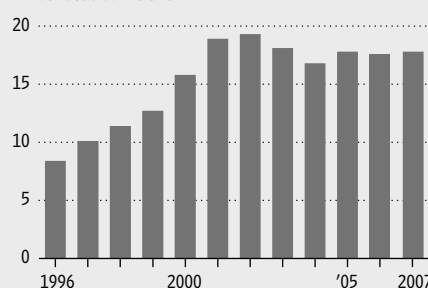
This week, the group will be looking at two issues in particular: whether to exempt India from its guidelines, which require compliance with the nonproliferation treaty, and how to nudge India closer to compliance with the nonproliferation regime.

Several U.S. allies, including Germany and Japan, have expressed support for the U.S.-India pact. Earlier this month, German Foreign Minister Frank-Walter Steinmeier said his nation supports international approval of the nuclear deal, while urging India to take additional steps to commit itself to the nonproliferation regime. "India is one of a group of countries whose ratification of the Nuclear Test Ban Treaty is essential," Mr. Steinmeier said in a statement.

A spokesman for the German foreign ministry, which will lead this

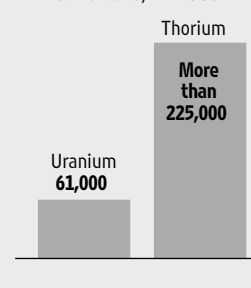
## Powering India

Nuclear-energy consumption  
In terawatt-hours



Sources: BP Statistical Review of World Energy (Consumption); Indian Government (Reserves)

Nuclear-energy reserves  
In metric tons, in 2008



week's meeting, said discussions within the Nuclear Suppliers Group are confidential. The group may release a statement at the end of its meeting on Friday, but it isn't clear whether it will reach a final decision on the deal this week.

Some observers expect the Nuclear Suppliers Group to approve the deal, but perhaps not until it completes additional sessions to hammer out details of any nuclear waiver for

India. Seema Desai, a London-based analyst with consulting firm Eurasia Group, said international pressure on members of the group "will result in an exemption text satisfactory to all sides."

India's average annual 8.7% economic growth over the past five years, combined with rising incomes, has resulted in power demand expanding 9% a year in recent years. Some rural areas experience 15 hours

or more a day of power cuts, and even major towns and cities regularly endure blackouts of several hours a day.

There is a long queue of companies seeking to benefit from India's revving up its nuclear-power generation. An official of the state-owned Nuclear Power Corp. of India Ltd. said General Electric Co. and Westinghouse Electric Co., a unit of Toshiba Corp., among others, have approached the body.

If the nuclear deal does get the green light from the Nuclear Suppliers Group, U.S. companies may still face tough obstacles to doing business with India. That is because the Hyde Act, signed in 2006, attaches conditions to a resumption of nuclear-technology sharing with India requirements that are not currently under consideration by the Nuclear Suppliers Group.

If the deal is approved by the group, it will then face a race against time for approval by the U.S. Congress before the January end of President George W. Bush's term in office.

—Rebecca Smith in Los Angeles contributed to this article.

## French troop deaths in Afghanistan stir debate

BY LEILA ABOUD

**PARIS**—The killing of 10 French soldiers by insurgents near Kabul could heighten domestic opposition to French President Nicolas Sarkozy's support of France's military involvement in Afghanistan.

The incident, which took place Monday and was reported Tuesday, touched a nerve in France, coming four months after Mr. Sarkozy, responding to U.S. requests, agreed to increase the number of French troops in Afghanistan.

The buildup, which brought the French total contribution to North Atlantic Treaty Organization forces there to around 3,000, was criticized by opposition politicians, who said Mr. Sarkozy's for-



Nicolas Sarkozy

ign policy was becoming too pro-American.

"Our soldiers can't die for Uncle Sam," far-right National Front leader Jean-Marie Le Pen said Tuesday. "These soldiers were doing their duty, but they did not die for France. They died in an endless war that the United States is fighting in Afghanistan to defend their own interests."

The leader of France's Socialist Party called for an emergency debate in Parliament over the war in Afghanistan.

Mr. Sarkozy defended France's role. "My determination is intact. France has resolved to continue the fight against terrorism, for democracy and liberty," he said in a statement. "The cause is just, and it is the honor of France

and its armies to defend it." Mr. Sarkozy was expected to fly to Kabul Tuesday night to show support for the troops there.

A French diplomatic official also pointed to progress that has been made on the ground in Afghanistan, including social programs such as improved health and schooling for children.

The incident—which marks the highest death toll for French soldiers in combat since nine were killed in Ivory Coast in 2004—is likely to heighten scrutiny on Mr. Sarkozy's efforts to reshape France's military strategy.

Mr. Sarkozy has said he would like France to contribute more to NATO, perhaps by joining the group's integrated command for

the first time. But, in particular now that France holds the rotating presidency of the European Union, Mr. Sarkozy is also keen to lay the groundwork for a bigger and more independent European defense force. The conflict in Georgia, which has propelled Mr. Sarkozy into the role of international peacekeeper, is testing Europe's—and France's—resolve.

By late Tuesday the fatal ambush in Afghanistan had generated an outpouring of grief. Some 500 readers had sent comments to the Web sites of daily newspapers Le Figaro and Libération, with reactions ranging from emotional support for the families of the victims to debate over the role of France in Afghanistan.



Jean-Marie Le Pen



## PAKISTAN IN TRANSITION

## Talks break off on restoring judges

Issue could derail political coalition; new blow to stability

BY PETER WONACOTT  
AND ZAHID HUSSAIN

ISLAMABAD, Pakistan—A day after it drove President Pervez Musharraf from power, Pakistan's governing coalition hit its first snag in its efforts to reunite and jointly rule the turbulent country.

The coalition's two main parties, the Pakistan People's Party and the Pakistan Muslim League (N), broke off talks over the key issue that divides them: restoring judges Mr. Musharraf sacked late last year as he sought to secure a second presidential term. The issue has fractured the coalition, which came to power after February elections, and threatens to doom it.

Tuesday's meeting dissolved after the two sides couldn't agree on the reinstatement of some of the judges, including former Chief Justice Iftikhar Mohammed Chaudhry, according to a senior PPP official. The PPP and other minority parties in the coalition have asked for 72 hours to review the judges' issue. Pakistan Muslim League officials have expressed concern about delaying a decision the parties had earlier agreed would take place upon Mr. Musharraf's resignation.

"If we can't agree on something that was in black and white, then how are we going to have the trust to move forward on other important issues?" asked Ahsan Iqbal, a spokesman for the Pakistan Muslim League and its leader, former Prime Minister Nawaz Sharif.

The political squabbling deals a fresh blow to Pakistan's fragile stability. The two main parties had united to bring impeachment charges against Mr. Musharraf, a key U.S. ally. In the face of those



Pakistan's ruling parties, led by Asif Ali Zardari, left, and Nawaz Sharif, right, couldn't agree Tuesday on reinstating judges fired by President Pervez Musharraf last year.

charges, he resigned Monday, leaving the coalition to confront Pakistan's enormous economic and security challenges.

Pakistan's rudderless government is an intensifying concern for the U.S. and other allies. The Pakistani government so far has failed to tackle rocketing food and fuel inflation, which is increasing economic-related grievances and possibly feeding the country's Islamic insurgency.

On Tuesday, 26 militants and civilians were killed as Pakistani security forces fought in the northwestern tribal region of Bajur. Also, the Taliban claimed responsibility for a suicide attack at a hospital in the area.

"Arguments over the judiciary and Musharraf have prevented the coalition from moving forward on any broader policy towards Pakistan—or even creating a strategy for Pakistan," said Xenia Dormandy, a South Asia scholar at Harvard University's Kennedy School of Govern-

ment. Ms. Dormandy predicted infighting in the coalition will worsen to the point of collapse within 12 months, probably sooner. "I'd be stunned if the current coalition lasted to next fall," she said.

The friction has deep roots. The PPP and Mr. Sharif's Pakistan Muslim League have been traditional rivals and have diverged on almost major domestic- and foreign-policy issues. While the PPP is considered more pro-Western and favors continuing Mr. Musharraf's counterterrorism policy, Mr. Sharif's Pakistan Muslim League has shown more conservative views on social issues and wants to re-evaluate a military campaign against Islamic militants in Pakistan.

The uneasy alliance between the coalition's two main parties also reflects, in part, the intertwined political rivalries of Mr. Sharif and Asif Ali Zardari, leader of the PPP. At different points in history, they both plunged from power to prison. Now, they appear to be positioning them-

selves to make sure something similar doesn't happen again.

The judges' reinstatement is problematic for Mr. Zardari. He was granted amnesty from corruption charges pending against him by judges that Mr. Musharraf named to replace those dismissed during a temporary state of emergency late last year. A return of the dismissed judges could put that amnesty in jeopardy.

Mr. Sharif, in contrast, sees the reinstatement of the judges as a way to clear certain legal obstacles—including outstanding court cases—preventing him from running for Parliament and, perhaps, vying for an unprecedented third term as prime minister. When he returned from exile in Saudi Arabia late last year, the new judges installed by Mr. Musharraf barred him from running for Parliament because of a prior conviction. The judges deposed by Mr. Musharraf, if reinstated, could reverse that decision.

The two sides have been arguing over the reinstatement of judges for months. When differences weren't bridged, Mr. Sharif pulled the Pakistan Muslim League ministers from the governing cabinet but said his party would continue to support the government.

Efforts to impeach Mr. Musharraf briefly brought the two sides together this month. In addition to the judges' issue, the two parties also differ on pursuing criminal charges against Mr. Musharraf, which Mr. Sharif favors. They also haven't made any progress on choosing a replacement as president.

As the coalition partners skirmish, Mr. Sharif's Pakistan Muslim League is reaching out to allies of the departed president who might share political interests. Some lawmakers from a faction of the Pakistan Muslim League called the PML (Q), Mr. Musharraf's chief supporters in Parliament, say they have been in contact with Mr. Sharif's party about supporting it in a potential alliance.

## Lawyers exult as a movement proves a success

BY PETER WONACOTT

ISLAMABAD, Pakistan—They danced. They chanted, "Go, Musharraf, go!" They marched through scalding summer afternoons and chilly winter nights. They wore funeral black.

In March 2007, thousands of Pakistan's lawyers began protests against President Pervez Musharraf for suspending the chief justice of the country's Supreme Court. They absorbed the grievances of others who were angry about a country where the rule of law often gave way to the rule of army generals. It became a movement that took aim at Pakistan's military-backed government and, in particular, the unpopular president and former army chief. They kept up the pressure for more than a year.

After Mr. Musharraf finally resigned Monday, the lawyers exulted. "It is a great day for the country," said

Aitzaz Ahsan, president of the Supreme Court Bar Association.

Athar Minalah, a Supreme Court lawyer who has served as a spokesman for the deposed chief justice, Iftikhar Mohammed Chaudhry, said Mr. Musharraf was swept away as part of



Iftikhar Mohammed Chaudhry

pursuit for a larger goal. "The lawyers' movement wasn't aimed at him," he said. "It was for establishing the rule of law."

When Mr. Musharraf first tried to oust Mr. Chaudhry, the president's lawyers argued that the chief justice abused the privileges of his office. The Supreme Court didn't buy the argument and overturned the suspension.

Then, last fall, when Mr. Musharraf sought another term as president, lawyers took cases to the court arguing Mr. Musharraf wasn't eligible to run for president as army chief under the constitution. When it looked like the Supreme Court, led by Mr. Chaudhry, would rule against him, Mr. Musharraf declared emergency rule and purged the courts of unfriendly judges.

The lawyers spilled into the streets again, chanting slogans such as "Musharraf...dog!" They challenged baton-wielding police and demanded the judges be reinstated forthwith, all the while dressed in their trademark black suits and ties. Many were rounded up and jailed during the six-week emergency rule.

The movement gathered support far beyond the legal community. Mr. Ahsan drove the deposed chief justice to other cities for speeches and succeeded in attracting hours-long live television coverage of his car crawling through throngs of supporters.

Not everyone found the movement productive. Some critics, particularly in the pro-Musharraf Pakistan Muslim League (Q), said the lawyers invariably chose confrontation over conciliation, driving the country ever deeper into crisis. The lawyers also drew fire for putting their agenda before other pressing economic and security matters.

With Mr. Musharraf gone, the coalition is now expected to restore the judges so the coalition can stand united.

—Zahid Hussain  
contributed to this article.

## Neighbors worry about increasing tensions

BY PAUL BECKETT  
AND ALAN CULLISON

Officials in India and Afghanistan have realized for months that Pakistani President Pervez Musharraf wasn't in charge of their fractious neighbor. But his resignation raises new fears that a rudderless Pakistan will exacerbate tensions with its neighbors and increase terrorism.

Those concerns were heightened Tuesday when 100 Taliban militants ambushed a group of French paratroopers about 50 kilometers outside Kabul, leaving 10 soldiers dead and 21 wounded. It was the largest loss of life for international forces in Afghanistan since 2005.

Taliban fighters also attacked a U.S. military base not far from the Pakistan border early Tuesday. In Pakistan, a suicide bomber blew himself up at a hospital in a town in North West Frontier Province, killing at least 23. More fighting was reported in a tribal district near the Afghan border.

Pakistan's army chief, Gen. Ashfaq Kayani—who is now viewed as a key player in relations with Pakistan's neighbors and allies—flew to

Kabul for a meeting with counterparts from Afghanistan and North Atlantic Treaty Organization forces, according to a Pakistani army spokesman.

They met under the auspices of a commission established a few years ago to improve coordination on counterinsurgency. The commission hasn't met for some time because of tensions triggered by clashes on the Pakistan-Afghanistan border.

"The meeting reviewed the security situation in areas along the Pakistan-Afghan border," a statement from the Pakistani military said, adding that the participants reiterated their "commitment" to security in the region.

One of the chief concerns among Pakistan's neighbors is the extent to which Gen. Kayani and the army will dictate the country's foreign policy in the future. The military oversees the powerful Inter-Services Intelligence spy agency, which India, Afghanistan and the U.S. have accused of having a hand in the suicide bombing of the Indian embassy in Kabul in July, which killed dozens. Pakistan denies any involvement.

Pakistan's civilian government

tried last month to bring the ISI under the auspices of the home ministry, but the effort failed because of opposition from the military.

Mr. Musharraf's influence over the military weakened when he stepped down as army chief late last year. But "with his departure, you do not have any interlocutor in Pakistan who has total control over policy making," said K. Subrahmanyam, a defense analyst and former member of India's National Security Council Advisory Board. The civilian government, he added, "is not in a position to make policy all by itself."

As for Gen. Kayani, he said, "We don't know Kayani and we don't know his philosophy."

A spokesman for the Afghan foreign ministry said his government hopes Mr. Musharraf's departure will strengthen democracy in both Pakistan and Afghanistan. But it may do little to improve relations between the two countries.

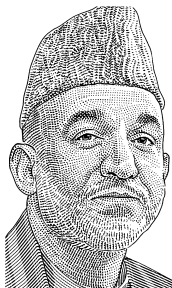
The Afghan government always distrusted Mr. Musharraf in part because of his military background, which in the minds of Afghan officials meant ties to the ISI. And Mr. Musharraf appeared to regard Af-

ghan President Hamid Karzai as little more than decoration put in place and propped up by the Americans, said Wadir Safi, a political analyst and lecturer at Kabul University. "They had no personal relationship of any kind."

Mr. Karzai on Tuesday said of his dealings with Mr. Musharraf, "All in all, we had a good relationship," the Associated Press reported.

More important than any change in leadership, Mr. Safi said, is the question of whether any Pakistan government can control the country's military. "Nothing will improve because of the resignation of Musharraf—in fact it may already be getting worse: Look at the suicide attacks, the French soldiers dying."

A statement from India's Ministry of External Affairs said Mr. Musharraf's exit was an internal matter for Pakistan. Pranab Mukherjee, minister of external affairs, told reporters Monday he already has developed a relationship with Pakistan's civilian leadership and that "it seems to me that a positive approach could be made in improving our relations."



Hamid Karzai



Ashfaq Kayani

## ECONOMY &amp; POLITICS

# Job boom in skilled trades

*Contractors, unions use schools, Internet in recruitment effort*

BY ANTON TROIANOVSKI

Even as the U.S. economy slumps and unemployment rises, strong demand for power plants, oil refineries and export goods has many manufacturers and construction contractors scrambling to find enough skilled workers to plug current and future holes.

With the shortage of welders, pipe fitters and other high-demand workers likely to get worse as more of them reach retirement age, unions, construction contractors and other businesses are trying to figure out how to attract more young people to those fields.

Their challenge: overcoming the perception that blue-collar trades offer less status, money and chance for advancement than white-collar jobs, and that college is the best investment for everyone.

To highlight the benefits of a career in the skilled trades—and, sometimes, the potential pitfalls of automatically opting for college—unions and employers are turning to schools, the military, MySpace and even a 46-year-old former opera singer named Mike Rowe.

Mr. Rowe is the host of the Discovery Channel series "Dirty Jobs," which chronicles him tackling tasks ranging from alpaca shearing to steelworking. Mr. Rowe is in talks with Terex Corp., a Westport, Conn., maker of construction equipment, which has a two-year backlog of crane orders, thanks to strong overseas sales. Terex, which hired Mr. Rowe to appear at a trade show earlier this year, is hoping he can help it recruit young workers as the company's current work force ages.

"Attracting the best and brightest into the industry is a challenge; it's not happening," says Mike Bazinet, a spokesman for the company.



By 2012, demand in fields like welding is expected to exceed supply.

Mr. Rowe confirmed he is talking to Terex, but doesn't know what his specific role would be. It would likely involve extolling the virtues of manual labor, as he has done on his show since its debut three years ago. "We've made work the enemy," Mr. Rowe says. "Essentially we took the nobility and the necessity out of it and replaced it with this vague sense of drudgery."

Mr. Rowe has also spoken to employees of W.W. Grainger Inc., an industrial-supplies distributor. Jim Ryan, the chief executive of Grainger, says his company has no immediate plans to team up with Mr. Rowe but that it has spent about \$400,000 over the past two years to fund technical-education programs around the U.S.

"In the last several years...all of the benefits of a career in the trades have kind of gotten lost in the clutter of all the other career opportunities," Mr. Ryan said. "What the industry needs is to be much more aggressive in marketing and creating visibility."

Companies and unions don't dispute that college can be a wise invest-

ment, but they also say some unionized craft workers can earn more than the average college graduate, without the burden of student debt.

"You earn while you learn," says Brian Couch, a young electrician, in a video posted on the Web sites YouTube and MySpace. "It's not like going to college where you go to school for five to eight years and have to work a part-time job."

That video and several others like it were developed by public-relations firm Pac/West Communications for Local 48 of the International Brotherhood of Electrical Workers and the National Electrical Contractors Association in Portland, Ore.

The two groups have teamed up for the online campaign to encourage high-school graduates to consider an apprenticeship as an alternative to college. MySpace is owned by News Corp., which also owns Dow Jones & Co., publisher of The Wall Street Journal.

In many parts of the economy, there are too many workers, rather than too few. Since January, the U.S. has lost 463,000 jobs. Residential construction and manufacturers that rely primarily on the U.S. market have been hit especially hard.

But the energy industry is hard up for workers who, among other things, can make precision welds, fit pipes for pipelines and oil refineries, and understand the complex electrical wiring in modern power plants. Though the weak housing market has idled many workers who did similar jobs for home builders, their skills often aren't sharp enough to make the cut.

Dusty Henry, a 25-year-old electrician in Portland, Oregon, who belongs to IBEW Local 48, says he earns \$34 an hour working on renewable-energy projects while some of his friends who went to college are having a hard time finding jobs.

"I chose the path that I wanted to take...and learned as much as I could for that one thing," Mr. Henry said. "You go to college to kind of figure out what you want to do, but if you don't figure it out, you go out with debt and you still don't know."

# New rules for Iraq security guards

BY AUGUST COLE

The U.S. Defense Department has further tightened the rules for its almost 6,000 armed security contractors in Iraq, a move that appears to shift more risk to hired guards and is intended to avoid shooting incidents that could jeopardize U.S.-Iraqi relations.

The issue is crucial to negotiations between the U.S. and Iraq over the continued presence of American forces in the country. The Pentagon relies on security contractors to augment U.S. forces in Iraq, assigning them roles that range from protecting supply convoys to manning checkpoints.

The U.S. government's rules governing security contractors have been a particular sore point with the Iraqis since a September 2007 shooting incident involving State Department contractor Blackwater Worldwide left 17 Iraqis dead. There is a continuing U.S. criminal investigation into the incident, which spurred U.S. officials to implement overhauls in security contractor oversight and accountability.

The Defense Department orders stressed that security guards

shouldn't automatically treat Iraqis as if they are a threat. "A mindset shift must occur in which armed contractors view every contact with Iraqi civilians as friendly until actions clearly prove otherwise," the orders read, according to a copy reviewed by The Wall Street Journal.

The Multi-National Force Iraq command issued the update, called a fragmentary order, last month. It also covers other Defense Department civilians and contractors.

The new orders reflect "the evolving security environment in Iraq," according to a spokesman for the Multi-National Force Iraq command, who said that existing rules for the use of force must take into account "full awareness of local culture."

A recent Government Accountability Office report showed a 60% drop in shooting incidents involving armed contractors used to protect U.S. diplomats, military convoys and facilities since the Blackwater incident.

One of the most significant aspects of the new orders limits the use of warning shots. For years, many security companies had relied on shooting into the ground to ward off vehicles that might be packed

with explosives. Individuals or vehicles that fail to stop when warned don't "automatically warrant the use of force," the orders said.

The U.S. military spokesman noted the rules on contractors using force are based on the right to self defense, and that the workers won't be taking more risk.

The orders show that the U.S. military sees a price for reckless behavior by security contractors. "Unrestrained or disproportionate use of force in the conduct of operations creates potential enemies and future insurgents," the orders said.

The U.S. started keeping better track of shooting incidents involving security teams following the September 2007 Blackwater shooting. The revised order covers only Defense Department security contractors, and doesn't cover companies working for the State Department.

The U.S. is still investigating the Blackwater incident and a grand jury has been empaneled. A Blackwater spokeswoman said the company believes its guards acted appropriately to a hostile threat and it is cooperating with the investigation.

—Gina Chon  
contributed to this article.

# Producer prices show inflation is high in U.S.

BY KELLY EVANS

Soaring U.S. producer prices, which last month rose at their sharpest rate in 27 years, show inflation is still running high even as the U.S. economy slows.

Most Federal Reserve officials are betting inflation will moderate in the coming months as the economy cools and oil prices stabilize, but they are unlikely to act on that belief until they see evidence of sustained price stabilization. Many forecasters expect the U.S. central bank to keep its target for the federal-funds rate steady at 2% for the remainder of this year.

But some policy makers remain uneasy about price increases spreading through the economy. Officials "must remain poised to act if slowing growth fails to contain inflationary pressures," Richard Fisher, president of the Federal Reserve Bank of Dallas, said in a speech Tuesday. Mr. Fisher has voted against most of his colleagues on the Fed's rate-setting committee this year, pushing for rate increases during recent Fed policy meetings.

"We risk a reinforcing spreading of inflationary impulses and expectations," he said, cautioning that if "the Fed were to fail to address it, we would run the risk of losing the public's confidence in our ability to constrain inflation."

The Labor Department Tuesday said its gauge of wholesale prices—which tracks the prices businesses pay for goods—rose by a seasonally adjusted 1.2% in July. The index has gained 9.8% from July 2007, the highest annual increase since June 1981.

"It's likely that this increase does

reflect the peak given that energy costs are coming off now," said Bank of America senior economist Peter Kretzmer. "But it's disturbing to see such broad-based gains."

Meanwhile, a separate report showed construction of new homes continues to drop, falling 11% last month to a seasonally adjusted annual rate of 965,000, the U.S. Commerce Department said. The drop resulted in part from an increase in multifamily construction in June before a change in New York City building codes July 1.

Construction of new single-family homes, an indicator of housing-market health that feeds directly into tallies of gross domestic product, dropped 2.9% last month to an annual pace of 641,000 units. The drop suggests the weak housing market will continue to weigh on GDP even though separate data show home sales have steadied in recent months. New permits for single-family home construction dropped 5.2% in July.

Looking at the specifics of the inflation data, the index of core prices, which excludes food and energy to gauge underlying inflation, rose 0.7% in July for a 3.5% increase from a year earlier, its highest in 17 years.

Prices rose last month on an array of goods, including passenger cars and food. Energy prices overall rose 3.1%, even though gasoline prices slipped 0.2% last month. But while energy prices are likely to come down as the cost of oil falls, prices on a wide range of goods coming through the production pipeline continued to rise.

Prices on those intermediate goods rose 2.7% last month, following similar gains in May and June.

# Car-bomb attack kills 43 at Algerian police academy

BY MARIAM FAM

An apparent suicide car-bomb attack at an Algerian police academy killed at least 43 people and injured scores more Tuesday in the latest in a spate of deadly attacks plaguing this North African country rich in oil and natural gas.

The vast majority of the casualties were civilians, the Algerian minister of the interior told reporters. By late Tuesday, no group had claimed responsibility for the bombing in Boumerdes, about 60 kilometers east of the capital, Algiers.

The attack, however, follows a string of violent attacks claimed by al Qaeda in the Islamic Maghreb. The extremist group started off as a local insurgency movement but has more recently tied up with Osama bin Laden's global terror network, adopting the al Qaeda name.

The group has claimed responsibility for a series of suicide bombings and other headline-grabbing attacks against government and Western interests in Algeria. In December, near-simultaneous car bombs exploded outside United Nations offices and a government building in Algiers. The death toll in that attack was 41, included 17 U.N. workers. The group also claimed responsibility this month for a suicide attack on a police station in northern Algeria.

The series of attacks has raised

concerns that while al Qaeda affiliates have suffered setbacks in places like Iraq, the network appears suddenly on the rise in Algeria. In recent years, Algeria seemed to be moving beyond a deadly insurgency in the 1990s, when fighting between security forces and Islamist rebels left more than 150,000 dead.

The recent wave of attacks has renewed security concerns at a time when the country is trying to position itself as a key regional energy supplier and a new destination for foreign investments.

"The group is growing stronger," said Roland Jacquard, a Paris-based terrorism analyst. "You have a lot of Algerians and Moroccans coming from Afghanistan and some from Iraq and joining the group. Now they're like veterans."

The Algerian group's transformation has been particularly worrying to European officials. In June, Spanish police arrested eight Algerian suspects who were accused of recruiting people, raising money and providing logistical support for terror groups linked to al Qaeda in the Islamic Maghreb.

An interior ministry statement said Tuesday the death toll in Tuesday's blast was a "preliminary estimate," according to the Associated Press. A security official at the academy told the AP that the attack occurred as young applicants were in line waiting to register.