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**Growth is waning for India's tech titans**  
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Business & Finance

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**Boeing faces a quandary** in its final contract talks with machinists: It must avoid a strike that would cause production delays, yet be tough enough to make inroads against mounting pension and health-insurance costs. **Page 5**

**BAA should be forced to sell** three of its seven U.K. airports, including two in London, because of restrictions on competition, a U.K. regulator said. **Page 5**

**The U.K. economic outlook** is bleak, and the government has few options for bringing about a recovery. **Page 8**

**Ericsson is pooling** its wireless-chip business with that of STMicroelectronics to create a stronger rival to Qualcomm and Texas Instruments. **Page 4**

**U.S. stocks traded** mostly flat amid worries about a possible bailout of Fannie Mae and Freddie Mac. Resource-sector stocks in Europe gained. **Page 18**

**Saudi Arabia took** a major step toward opening up the country's stock exchange to outsiders. **Page 17**

**Gambling-sector stocks** tumbled after a news report that China might make it harder for citizens to visit Macau. **Page 22**

**Shanghai stocks jumped** 7.6%, lifting shares in Hong Kong and paring losses in other Asian markets. Reports suggested China may help the country's stock markets. **Page 23**

**Intel is accelerating** efforts to boost performance without increasing power consumption in its chips. **Page 28**

**A second Natixis** shareholder has emerged to oppose the French bank's proposed rights issue to raise \$5.47 billion. **Page 6**

**Vitol Group**, the oil trader recently reclassified as a speculator, is one of the biggest players in the market. **Page 20**

**India's Reliance ADA** is hunting for U.S. acquisitions in the mobile-content market, including game publishers. **Page 27**

**Markets** 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11417.43	+68.88	+0.61
Nasdaq	2389.08	+4.72	+0.20
DJ Stoxx 600	280.76	+1.05	+0.38
FTSE 100	5371.8	+51.4	+0.97
DAX	6317.80	+35.37	+0.56
CAC 40	4365.87	+33.08	+0.76
Euro	\$1.4728	+0.0027	+0.18
Nymex crude	\$114.98	+0.45	+0.39

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**Russia moved** closer to recognizing the independence of two breakaway republics that helped spark the Georgia war and outlined plans for a military presence. Gori's citizens are starting to challenge the invasion. **Pages 1, 32**

**The U.S. and Poland signed** a deal to build a U.S. missile-defense base in Poland, a move that has angered Russia. **Page 1**

**German Chancellor Merkel** is emerging as a pivotal player in reshaping the West's relations with Moscow. **Page 32**

**Obama and McCain are** in a statistical dead heat, with 45% favoring Obama and 42% for McCain, a Wall Street Journal/NBC News poll shows. **Page 1**

**A Spanair jetliner** crashed on takeoff from Madrid's Barajas Airport after catching fire, killing at least 140 people on board, officials said. **Page 3**

**Sarkozy visited** French troops, saying they would persevere in Afghanistan despite a deadly ambush Monday. His defense minister called for better intelligence.

**A car bomb hit** a provincial hotel in Algeria, killing 11 people and wounding 27, after another rocked a nearby military headquarters, injuring four soldiers.

**Nawaz Sharif threatened** to pull his party out of Pakistan's ruling coalition if all judges dismissed by ex-President Musharraf aren't reinstated. **Page 10**

**The top U.S. commander** in Iraq said a recent ebb in violence is allowing officials to concentrate on improving economic development, basic services and political reconciliation. **Page 3**

**Zimbabwean President** Mugabe plans to open Parliament Tuesday despite opposition warnings that the move would endanger power-sharing talks.

**Two elderly Chinese women** who applied to protest during the Olympics eviction from their homes were ordered to spend a year in a labor camp.

**Jamaica's Usain Bolt** nailed down the "world's fastest human" title with a world record in the Olympics 200-meter final to match his 100-meter victory.

**Died: Hua Guofeng**, 87, who briefly ruled China as Mao Zedong's successor, of an illness.

### EDITORIAL & OPINION

**'Who am I?'** U.S. presidential candidates must be ready to output an opinion on everything. **Page 12**

# Russia set to recognize two breakaway republics

**Big troop presence in Georgia planned; U.S., Europe object**

Russia moved closer to recognizing the independence of two breakaway republics that helped spark the current conflict in Georgia, and outlined plans for a major military presence in and around the con-

By **Jeanne Whalen** in Moscow and **Guy Chazan** in Sukhumi, Georgia

tested territories that would further undermine Georgia's sovereignty.

Coming over vociferous objections from the U.S. and Europe, the Russian moves highlight the West's limited leverage over the Kremlin in the current crisis, which escalated earlier this month when Russia sent troops into Georgia.

Russian legislators Wednesday said they expect the Kremlin-controlled parliament to recognize the



**Russian soldiers sit** atop a tank in front of a portrait of Russian Prime Minister Vladimir Putin in Tskhinvali, the main city of South Ossetia, on Wednesday.

independence of South Ossetia and Abkhazia, two pro-Russian republics that have long wished to break away from Georgia. Both houses of

Russia's parliament are likely to hold special sessions early next week at which the independence is-  
*Please turn to page 31*

## Poland forges missile accord with the U.S.

BY DANIEL MICHAELS

America's pledge to protect Poland as part of a missile-shield deal cements the former East bloc country's ties with the U.S. and boosts its standing on the international stage.

The deal signed in Warsaw Wednesday to establish a battery of U.S. interceptor rockets on Polish soil is part of President George W.

Bush's plans to develop an intercontinental missile-defense shield. Yet while the shield's stated aim is to protect the U.S. and its allies from attacks by U.S.-deemed "rogue states" such as Iran and North Korea, the deal with Poland has sparked threats from Russia.

The signing of the deal by U.S. Secretary of State Condoleezza Rice and Polish Foreign Minister Radek Sikorski came a day after the U.S., Poland and other members of the North Atlantic Treaty Organization military alliance pledged to help Georgia, which is reeling from a Russian military incursion.

Washington's deal with Warsaw is likely to widen the gulf with Moscow, which fears the missile-defense system will be used as an offensive weapon against Russia. After

*Please turn to page 31*



**Republican presidential candidate John McCain**, right, has caught up to Democratic rival Barack Obama in a Wall Street Journal/NBC News poll.

## Poll suggests McCain closing gap on Obama

BY LAURA MECKLER

WASHINGTON—The race for the U.S. presidency has tightened, as the surge of attention to overseas crises and Republican attacks appears to have put Sen. John McCain on the heels of Sen. Barack Obama.

As Democrats prepare to gather in Denver for their national convention next week, a Wall Street Journal/NBC News poll shows the Obama campaign's biggest challenge for the week: rallying Sen. Hillary Clinton's supporters to his cause.

Sen. Obama has yet to accomplish that task, the survey finds. Only half the people who voted for Sen. Clinton in the primaries said they are now supporting Sen. Obama. One

in five is supporting Sen. McCain.

Overall, the poll finds the race a statistical dead heat, with 45% favoring Sen. Obama and 42% Sen. McCain. That three-point Obama advantage is down from six points a month ago, a trend found in other national polls as well. The poll's margin of error is plus or minus 3.1 percentage points.

Sen. McCain's competitiveness comes as something of a surprise, given the advantages Democrats enjoy over Republicans this year. But over the past month, the McCain campaign has benefited from events in and outside of its control.

After wrapping up the nomination in March, the Arizona Republi-  
*Please turn to page 2*



Condoleezza Rice

such as Iran and North Korea, the deal with Poland has sparked threats from Russia.

The signing of the deal by U.S. Secretary of State Condoleezza Rice and Polish Foreign Minister Radek Sikorski came a day after the U.S., Poland and other members of the North Atlantic Treaty Organization military alliance pledged to help Georgia, which is reeling from a Russian military incursion.

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FROM PAGE ONE

# Poll suggests McCain closing gap

*Continued from first page*  
can appeared to languish for several months. His operation and his fund raising lagged well behind Sen. Obama's. Republicans outside the campaign griped about disarray and an unclear message. In response, his campaign has sharpened its rhetoric, turned sharply negative toward Sen. Obama and found an issue that resonates with voters: oil drilling.

A barrage of attack ads have painted Sen. Obama as a celebrity who isn't "ready to lead." The first one, released three weeks ago, compared the Democrat to celebrities Britney Spears and Paris Hilton. That prompted a storm of news-media attention and even a response video from Ms. Hilton. The result: For the first time in a long time, Sen. McCain was controlling the conversation.

His campaign also began limiting Sen. McCain's exposure to the national press, cutting back the number of formal news conferences and eliminating the more open-ended conversations on his bus. The goal was to keep Sen. McCain, who is known for riffing on any topic, from coming off the agreed-upon message of the day.

At the same time, Sen. Obama's trip abroad may not have done him as much good as his campaign anticipated, and a week on vacation kept him largely out of the news.

Finally, an international crisis played to Sen. McCain's greatest strength and reminded voters of dangers abroad. Pollsters surveyed voters from Aug. 15 to Aug. 18, starting a week after fighting broke out between Russia and its smaller neighbor Georgia.

"The poll shows how wrong the Washington conventional wisdom

has been on this race," said Steve Schmidt, a senior McCain strategist who is responsible for much of the new message discipline.

The poll found voters are, by a six-to-one margin, more likely to see Sen. McCain as the only one running a negative campaign, but that doesn't seem to be affecting their view of the race, reinforcing the notion that in politics, attacks work.

The McCain TV ads, combined with the candidate's attacks on Sen. Obama from the stump, have further solidified the race as a referendum on the Democratic senator. Voters like Sen. Obama's agenda and his message of change. But they have qualms about his ability to be commander in chief that his overseas trip didn't dispel.

"Whatever momentum Obama took into the summer, he really appears to have lost," said Neil Newhouse, a Republican pollster who conducts the Wall Street Journal/NBC News poll with Democrat Peter D. Hart. "It's as if his campaign has stalled a little bit or coasted."

In response, Sen. Obama has gone negative as well, with a new round of ads attacking Sen. McCain as out of touch with the concerns of working Americans. He has also sharpened his rhetoric on the campaign trail.

Despite Sen. McCain's progress in this poll, cautionary notes abound for him. His supporters are much less enthusiastic about him than Sen. Obama's are about their candidate. Nearly one in four voters said they are concerned Sen. McCain, who turns 72 next week, is too old to assume the office.

And when the poll gave voters the opportunity to choose third-party

candidates Ralph Nader and Bob Barr, as well, a small portion did just that, most of them coming from Sen. McCain's column. In a four-way race, Sen. Obama keeps 95% of his supporters while Sen. McCain keeps just 90% of his, a sign that some of the McCain voters are simply supporting him because they don't like their alternative.

"I honestly don't feel that Obama has been in politics long enough to be running our country," said Misti Love, 27, of Rossville, Ga., who said she would support Sen. McCain in a two-way race but Mr. Nader, a long-time consumer activist, if he were on the ballot. As for Sen. Obama: "That is my last choice."

A critical task for Sen. Obama will be bringing Sen. Clinton's supporters to his side, the pollsters agreed. Overall, 11% of all voters said they would vote for Sen. Clinton if she were running against Sen. McCain but aren't supporting Sen. Obama in his race.

These voters look like people who should be supporting Sen. Obama, but they aren't. They aren't happy with the direction of the country, they don't like President George W. Bush, and they want Congress to be controlled by Democrats. Ideologically, they are liberal or moderate. Demographically, they tend to be female with incomes below \$50,000.

Yet this group views Sen. McCain more favorably than they view Sen. Obama, and they are uncomfortable with the idea of Sen. Obama in the White House. And one in three sees Sen. Obama as "arrogant and cocky."

If Sen. Obama could win over these voters, it would open up a real advantage for him.

The issue raises the stakes for the next week's Democratic National Con-

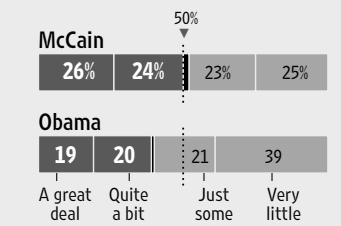
### Slim lead

The latest Wall Street Journal poll shows the race for U.S. president has tightened as voters remain unsure of Barack Obama's leadership abilities.

#### Presidential preference



#### Confidence as commander-in-chief



Source: WSJ/NBC News telephone poll of 1,005 registered voters conducted Aug. 15-18; margin of error: +/-3.1 percentage points

vention, where Sen. Clinton's name will be put into nomination and she will deliver a prime-time address.

"The Democratic convention is more than a coronation," said Mr. Hart, the Democratic pollster. "The Hillary Clinton campaign may be over, but the Clinton factor remains very much a part of the election."

Obama spokesman Bill Burton said the campaign is working closely with the Clinton camp, and the party is largely united. He pointed to another finding in the poll, that 79% of Democrats are supporting Sen. Obama, six percentage points shy of the 85% of Republicans who are supporting Sen. McCain.

"Do we still have work to do with folks who supported Hillary Clinton? Absolutely, but we've been able to make great strides," Mr. Burton said. "The vast majority of Democrats are moving forward. We're going to come out of our convention even more unified than we are right now, ready to take on John McCain in the fall."

It won't be easy, Mr. Newhouse, the Republican pollster, said. "They've already voted once against Barack Obama, and right now, after three months of 20-20 hindsight, they're still not voting for Barack Obama."

Overall, Sen. Obama continues to have big leads with young voters and Hispanics. Sen. McCain is favored by older voters and regular churchgoers.

The poll has other bits of good news for Sen. McCain and his party. For months, independent voters leaned Democratic on a number of measures. This month's survey found them much more up for grabs.

Sen. McCain appears to be gaining some traction with the electorate. The portion of people who view him positively has climbed to 45% in August from 42% in July and 39% in June.

The gap between the percentage of voters who view the Republican Party negatively and those who view it positively also has shrunk. In April, 27% had a positive view and 48% had a negative view—a 21-point gap. This month, that gap was down to seven percentage points.

Sen. McCain maintains a big advantage on the matter of who is better prepared to serve as commander in chief. Half of all voters say they are confident in his ability versus 39% who say the same of Sen. Obama.

The Arizona senator capitalized on that advantage over the past couple of weeks as the crisis broke out in Georgia. That same day, he issued a strong statement before cameras, blaming Russia for the conflict. He kept it up, speaking daily about the conflict and emphasizing his knowledge of the region. An adviser said he had even been jet-skiing with Georgia President Mikheil Saakashvili, and the candidate called him by his nickname, Misha.

## INDEX TO BUSINESSES

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## CORRECTIONS & AMPLIFICATIONS

**J.P. Morgan Chase & Co.'s investment bank held \$19.5 billion of prime and Alt-A mortgages as of June 30, according to a securities filing. An Aug. 13 Money & Investing article incorrectly said that was the company's exposure to Alt-A mortgages.**

kian runner Emil Zátopek was misspelled as Zápotek in an Olympics page article Monday about married runners Adam and Kara Goucher.

**The last name of University of North Florida marketing professor Gregory Gundlach was misspelled as Gunlach in a News in Depth article Tuesday about price-fixing.**

**The last name of Czechoslovakian**

## INDEX TO PEOPLE

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## LEADING THE NEWS

# U.S. sees progress in Iraq

*As violence subsides, officials' focus turns to redevelopment*

BY GINA CHON

BAGHDAD—The top American commander in Iraq said the country still faces a host of security challenges, but a recent ebb in violence is allowing U.S. and Iraqi officials to concentrate on improving economic development, basic services and political reconciliation.

"There is still an enormous amount to be done, and this is not a time to pat each other on the back," Army Gen. David Petraeus said Wednesday from his office in the U.S. Embassy here. "But the progress allows us to actually focus on these other challenges."

U.S. and Iraqi negotiating teams have concluded their formal talks in hammering out the details of an agreement that will set the conditions for a continued military presence in Iraq. The agreement is also expected to spell out a time frame for the eventual withdrawal of combat troops.

Gen. Petraeus declined to discuss the talks, except to say they are "going well." But he said that amid the negotiations, American and Iraqi military commanders are already focusing on turning over control.

"It's a mindset change to a degree," said Gen. Petraeus. "We have to let go, and we're not reluctant to do that. And the Iraqis are not reluctant to take control."

A draft agreement now circulating sets 2011 as a goal for the withdrawal of U.S. combat troops, according to Iraqi Deputy Foreign Minister Mohammed al-Haj Humood and other people familiar with the talks. On the Iraqi side, the draft agreement must now be approved by several layers of officials and politicians, and the pullout date and other details in the pact could still change. People familiar with the talks said any agreement on a date would also allow for flexibility if security conditions suddenly worsen.



U.S. and Iraqi negotiators recently concluded talks to work out details of an agreement that is expected to include a time frame for combat-troop withdrawal.

Joint committees made up of U.S. and Iraqi officials will be formed to resolve such issues as immunity from prosecution under Iraqi law for U.S. forces, when those cases arise, said Mr. Humood, Iraq's chief negotiator on the agreement, in a separate interview Wednesday. The current draft of the agreement

also calls for American troops to be out of population centers by the summer of 2009, Mr. Humood and others said.

Gen. Petraeus said coalition forces are already out of cities in the southern part of Iraq, and they are less visible in the western province of Anbar. Iraqis troops are mostly in charge in towns like Ramadi, he said.

In less than a month, Gen. Petraeus will leave Iraq to become chief of U.S. forces in the Middle East, succeeding Navy Adm. William Fallon, who resigned in March. Gen. Petraeus implemented the U.S. troop "surge" strategy last year, which has been credited with helping to reduce violence in recent months.

Iraq has seen attacks fall from 180 per day in June 2007 to 25 a day last June, according to U.S. military figures. At the same time, he has presided over a transfer of security re-

sponsibility from U.S. to Iraqi combat forces. Of the 150 Iraqi army combat battalions, 70% are now leading military operations, supported by coalition forces, according to Gen. Petraeus.

But he said that no one is "giving each other high fives." Although violent extremist groups like al Qaeda in Iraq and rogue Shiite militias have been weakened, they could strengthen again, he said.

"There is a measure of hope in Iraq that was not present 18 months ago," he said. "Now that's just a measure of hope. It's not a celebration."



David Petraeus

# KfW board reaches an agreement on stake in subprime casualty IKB

BY ANDREA THOMAS

BERLIN—The executive committee of state-owned KfW Bankengruppe's supervisory board has reached an agreement regarding its stake in subprime casualty IKB Deutsche Industriebank AG, German Finance Minister Peer Steinbrueck said.

"We've reached an accord," Mr. Steinbrueck said after a meeting of the smaller committee of KfW's supervisory board. Mr. Steinbrueck is deputy chairman of KfW's supervisory board.

"There will be a press conference in Frankfurt [on Thursday]," he added, but he declined to be more specific.

German Economics Minister Michael Glos, chairman of the supervisory board, said "the committee has unanimously supported the proposal of the KfW board."

IKB was the first prominent casualty of the meltdown in subprime mortgage lending that started last summer, with around €8.5 billion (\$12.6 billion) provided in three rescue packages involving the German government, via IKB's main shareholder, KfW, and the German banking sector. KfW owns a 45.5% stake in IKB.

KfW has been trying to sell its stake in the beleaguered bank since it got hit by the crisis. KfW's stake in IKB will rise to 90.8% this fall as part of an already agreed capital increase. The capital increase still requires approval from the European Commission, which is expected in October.

After Sweden's Skandinaviska Enskilda Banken AB pulled out of the negotiations, Lonestar Capital Corp. and financial investor RHJ International SA were left with bids on the table, said a person familiar with the matter.

# Spanair crash in Madrid kills at least 140 people

BY MAX COLCHESTER AND ANDY PASZTOR

A Spanair flight headed from Madrid to the Canary Islands at the height of the summer-holiday season crashed on takeoff Wednesday, killing at least 140 people on board, officials said.

The Boeing MD-82 aircraft caught fire shortly after taking off at Madrid's Barajas airport, forcing it to attempt a crash-landing, according to a spokesman for the Spanish Aviation Authority. An official tally of the victims had not been drawn up as of Wednesday evening, though authorities said 26 people survived and have been taken to hospitals in Madrid.

Emergency services were being set up at the airport to help deal with the victims of the crash, one of the world's worst commercial airliner crashes since 2002. Spanish Prime Minister Jose Luis Rodriguez Zapatero interrupted his holiday to visit the accident site.

While preliminary reports from the scene were sketchy and eyewitness accounts are notoriously unreliable, early media accounts and comments from an airport spokesman suggested a problem with one of the plane's two engines may have prevented it from gaining altitude.

According to some reports, the plane may have veered off the runway's center line, managed to lumber a few meters into the air but then fell back and careened off the

end of the strip.

Spanair is a unit of Scandinavian airlines SAS AB, which had considered selling the carrier earlier this year but pulled out because market conditions were unfavorable. SAS has since unveiled plans to cut 900 jobs at the carrier.

In a statement, the U.S. National Transportation Safety Board said it would send a team of investigators to Madrid.

"So far it is too early to tell what went wrong," said Chris Yates, aviation security editor for Jane's Information group, a aviation trade publication. "This accident could have happened to any aircraft at any airport in the world."

Nonetheless, the crash is likely to put renewed attention on MD-80-series planes.

Before Wednesday's crash, U.S. aviation regulators already were looking into MD-80 engine issues as a result of an emergency landing earlier this month by an American Airlines MD-80 in New York.

Like every other jet model in service for decades, MD-80s have had their share of technical problems and mandatory safety fixes. American earlier this year was forced to temporarily ground all of its MD-80s—affecting some 250,000 passengers across the U.S.—after the FAA determined certain mandatory electrical-wiring fixes weren't properly completed.

—Bernd Radowitz in Madrid contributed to this article

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From the series "100 Famous Views of Edo" by Utagawa Hiroshige (1856)

This work is so evocative, you can almost feel the summer heat of old Edo. In the midground the city spreads out around Edo Castle, while Mt. Fuji rises majestically above the horizon. The gradation of the sky and water's surface is nothing short of masterful, and the same assured handling of color simultaneously gives the pink glow of dusk a powerful contrast and superb harmony with the vibrant blue of the water. In the foreground, the lush green of the willows both heightens the sophisticated use of color and unifies the picture.

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## CORPORATE NEWS

## METALS

## ArcelorMittal to acquire London Mining Brasil



**A**RCELORMITTAL SA said it agreed to acquire London Mining Brasil, a Brazilian iron-ore miner, in a \$764 million deal, boosting its self-sufficiency in raw materials.

The world's largest steelmaker will buy the Brazilian company from London Mining PLC and will also assume loans of \$46 million.

The steelmaker also said it will develop iron-ore port facilities in Rio de Janeiro state together with Canadian iron-ore producer Adriana Resources Inc. It said it will pay \$40.5 million for 80% of the port, with Adriana holding the remaining 20%. ArcelorMittal will also acquire up to 19.9% of Adriana's common shares and get a seat on its board. —Associated Press

## AIRLINES

## EU delays antitrust probe of Martinair takeover



**T**HE EUROPEAN Commission delayed its antitrust probe into Europe's largest airline Air France-KLM Group's planned takeover of Dutch carrier Martinair by 10 days because of commitments made by the acquiring airline.

The commission wouldn't specify what the commitments were, but these often include investments in areas of overlap or where high market concentration occurs to remove competition hurdles.

The new deadline for the commission to clear the takeover has now been set for Sept. 8. Martinair offers chartered and scheduled flights for passengers and cargo, mainly focusing on long-haul flights.

## ENERGY

## Key Caspian oil pipeline is set to restart after fire



**T**HE BAKU-Tbilisi-Ceyhan crude pipeline, a key outlet for Caspian crude to global markets, is set to restart by this weekend after being knocked out of service two weeks ago following a blaze, BP

PLC said.

Repairs have been completed and testing will run for the next few days before oil flows are ramped up, said Murat Lecompte, a Turkey-based spokesman for BP, which operates the \$4 billion pipeline.

The pipeline was operating at 850,000 barrels a day—representing about 1% of the world's daily oil demand—before the incident.

—Spencer Swartz

## Claiborne bets on a star

## Tired clothing label gets Mizrahi update; shrouded in secrecy

BY RACHEL DODES

**T**WO WEEKS AGO, in a gallery in New York's trendy Meatpacking District, celebrity designer Isaac Mizrahi quietly gave retailers a glimpse of his vision for rejuvenating the Liz Claiborne label. The occasion was a preview of the shoes, handbags and jewelry that will accompany his spring apparel line, which is still under wraps.

The collection included modern styles like cork-covered high heels and oversize tote bags in soft neutrals, metallics and bright colors, according to two people who were there. The designs also incorporated an updated Liz Claiborne logo.

Liz Claiborne Inc. is betting Mr. Mizrahi's star power will give its namesake label some sex appeal, or "mojo," as Chief Executive William L. McComb puts it. The flamboyant Mr. Mizrahi, after all, became a household name by designing a line for Target Corp. that helped cement the retailer's reputation for selling stylish but inexpensive clothes.

Liz Claiborne, the company, has a lot riding on Mr. Mizrahi's efforts. The Liz Claiborne women's brand, long its cash cow, has been fading for years. As recently as 2000, it generated \$1.2 billion of the company's \$3.1 billion in sales for the year and more than half its profits, say people familiar with the business. Today, the brand rings up sales of about half as much and barely breaks even.

Yet the company's fortunes are tied more closely to the label than they have been in years. Since his arrival in late 2006, Mr. McComb, a former Johnson & Johnson executive, has sold, licensed or discontinued more than a dozen labels, including Dana Buchman, Ellen Tracy and Sigrid Olsen. In the process, he reversed the strategy of his predecessor, who snapped up niche brands to spur growth and reduce the reliance on the Liz Claiborne label.

The relaunch "is the single most important issue" facing the com-

pany, Goldman Sachs analyst Benjamin Rowbotham said in a research report last week.

Mr. Mizrahi's collection, which will hit stores in February, has been shrouded in secrecy. He will unveil the line at a presentation for retailers in September. In an unusual step, the company is inviting only members of the media who agree not to write about the collection until Jan. 1, when Mr. Mizrahi is allowed to discuss it. Though his design agreement with Target has ended, he is barred from speaking publicly

## The designer has an unusual amount of control, within cost guidelines.

about his Liz Claiborne designs until then because "it would be terribly confusing to our guests" for him to promote them while selling a competing line at Target, a spokesman for the discount chain said.

Since his arrival at Claiborne this year, Mr. Mizrahi has been given an unusual amount of control over the label, which the late designer Liz

Claiborne introduced in the 1970s and oversaw until her retirement in 1989. Working with a team of about 25 designers, he can design whatever styles he wants, in whatever colors he chooses, so long as he sticks to cost guidelines, people close to the company say. The entire "line architecture"—meaning the number of shirts, pants, skirts and other garments—is at his discretion. Such decisions are typically made by merchandising executives.

Dave McTague, Claiborne's executive vice president of partnered brands—brands distributed mainly through department stores—says "the beauty of Isaac" is that he connects with a wide range of customers. "There are 60-year-old women who are smoking hot, and 28-year-old moms who have kids and want to feel feminine and sexy but who are a size 16," says Mr. McTague.

The bags and shoes have already generated some excitement among retailers. Still, the odds are stacked against Mr. Mizrahi. The relaunch comes amid the consumer-spending slump. Department stores, the Liz Claiborne brand's only distribution channel, have been consolidating, pushing their private-label brands and signing exclusive deals with designers in an effort to distinguish themselves from their competitors.



Liz Claiborne Inc. is betting celebrity designer Isaac Mizrahi's star power will give its label 'mojo.'

Photos: Bloomberg News/Landov (far left), Corbis

Consumer tastes have also evolved. Women now are used to mixing labels instead of buying an entire look, like the color-coordinated Liz Claiborne separates that millions of baby boomers wore in the 1980s.

The relaunch also comes at a rough time for the company. Wednesday afternoon on the New York Stock Exchange, its stock was trading up 21 cents, or 1.4%, at \$14.99. That's down 58% from its 52-week high in October, compared with about a 29% drop over the same period for the Dow Jones Wilshire U.S. Clothing and Accessories index. Last week, Claiborne cut its 2008 earnings guidance for the second time this year and said that it had amended the terms of its credit facility to ensure it can get through the

capital-intensive third quarter.

There has also been turnover in the executive ranks under Mr. McComb. He slashed the number of senior positions and made some unconventional hires. They include Mr. McTague, a former Nike Inc. executive who ran its Converse apparel division, and Tim Gunn, a co-host of Bravo's "Project Runway" show, brought in as chief creative officer.

To gather intelligence about the Claiborne consumer, Mr. Gunn toured 16 U.S. cities this past spring. He says the Liz Claiborne displays he saw were uninspiring—"I thought to myself, 'Where is the fashion?'"

Among other things, Mr. Gunn says, he wants the new collections to add color and narrow the assortment of clothes.

## Ericsson, STMicro pool wireless-chip groups

BY JETHRO MULLEN

**P**ARIS—Mobile-equipment maker Telefon AB L.M. Ericsson and chipmaker STMicroelectronics NV said they are pooling their wireless-chip businesses to create a stronger rival to U.S.-based Qualcomm Inc. and Texas Instruments Inc. in providing chip technologies for mobile phones.

The deal marries Geneva-based STMicroelectronics' chipmaking experience with Stockholm-based Ericsson's technology in third- and fourth-generation mobile-phone networking. The 50-50 joint venture builds on the ST-NXP Wireless business, which began operations this month after the merger of the

wireless-chip activities of STMicroelectronics and Netherlands-based NXP Semiconductors BV.

Scale among semiconductor makers is becoming increasingly important in serving the \$30 billion chip market for mobile phones. The world's top five handset vendors account for about four-fifths of the cellphone market.

The venture's customers will include four of the top five handset makers. ST-NXP already has a strong relationship with Nokia Corp., Samsung Electronics Co. and Sony Ericsson, the handset venture between Ericsson and Sony Corp. Meanwhile, Ericsson Mobile Platforms has ties to Sony Ericsson and LG Electronics Inc. The only top five

mobile-phone maker that won't be a customer is Motorola Inc.

In particular, the new venture's reinforced relationship with Sony Ericsson will put pressure on Texas Instruments, which also supplies chips to the handset maker. "It clearly makes ST a very strong No. 3 in the wireless-semiconductor space and brings them closer to Qualcomm and Texas Instruments," said Gunnar Plagge, a London-based analyst at Nomura, adding that the deal is likely to have "a slightly negative impact" on Texas Instruments.

But Texas Instruments spokeswoman Tracy Wright said the company's strategy was unchanged, acknowledging, however, that the new venture could put pressure on sales

expectations.

Ericsson will contribute \$1.1 billion to the venture, of which \$700 million will be paid to STMicroelectronics. The remaining \$400 million will be kept on the new company's balance sheet.

STMicroelectronics Chief Executive Carlo Bozotti said the new company could start operations at the beginning of next year, following regulatory approvals, though "it could slip to the start of the second quarter." Some analysts questioned STMicroelectronics' rush to bulk up its wireless business, though.

—Steve Goldstein, Kathy Sandler, Ian Edmondson, Aude Lagorce and Adam Ewing contributed to this article.

## FOCUS ON AVIATION

# Boeing must fly tricky path in labor talks

*A strike would delay output, but hard line is needed on expenses*

BY J. LYNN LUNSFORD

Boeing Co. faces a quandary in final contract talks with union machinists that begin Thursday: It must avoid a strike that would cause delays on an already backed-up production line, yet be tough enough to make inroads against mounting pension and health-insurance costs.

The round-the-clock talks are aimed at averting a strike like the one that shut down the company's jet production lines for almost a month in 2005. Going into the talks, both Boeing and the International Association of Machinists and Aerospace Workers are digging in on the same thorny issues—health care, pensions and job security—that led to the walkout three years ago. The union is scheduled to vote on Boeing's final offer on Sept. 3.

With its aircraft order books so full that some customers must wait as long as five years for deliveries, Boeing can ill afford a strike—especially one that could further delay the rollout of its new 787 Dreamliner jet. But Boeing says it is determined to draw the line on big long-term costs that have plagued other large industrial companies.

"We don't want to come out of this on a course of someday looking

like the Big Three auto companies," said Doug Kight, Boeing's chief negotiator.

In recent years, Boeing has sought to limit its pension and health-care liability by paring back who is covered by plans or by asking employees to pay part of the costs through payroll deductions and insurance co-payments. In successive contract negotiations, Boeing has pushed for limits to future retiree benefits and sought changes in job-security language that permitted the company to farm out work or bring in contract employees to save costs.

Union officials have already said they are disappointed with Boeing's initial offers, predicting if things don't improve, members will strike. "Boeing is negotiating like it's in bankruptcy court," said Mark Blonidin, lead negotiator for the machinists union's main offices. "I hope their game plan isn't to stick with the approach they've taken so far. If it is, there will be a work stoppage."

The Boeing negotiations mark an increasingly rare opportunity for big labor to stake out a tough position on bread-and-butter issues that have fallen by the wayside as juggernaut companies have been hammered by overseas rivals with lower manufacturing costs.

During the last three years, Boeing has hired back roughly 8,000 employees who were laid off in the months after the Sept. 11, 2001, terror attacks, plus an additional 6,000 new hires, swelling the union's ranks to about 26,000 workers. At



Union officials at Boeing have already said they are disappointed with the company's initial offers, predicting if things don't improve, members will strike.

the same time, the company is earning record profits, attributed largely to productivity improvements in its factories.

Delays associated with farming out large sections of Boeing's newest jetliner, the 787 Dreamliner, have also given union leaders who opposed outsourcing the work a giant opening to say "We told you so." The futuristic airplane, which should have entered service in May, is now 18 months late, largely because suppliers were unable to cope with the magnitude of work.

Boeing is now relying on its own employees to correct the problems on the first few Dreamliners. A

strike now would further anger customers who have lined up to buy almost 900 of the planes and have already had to readjust their schedules to account for the delays.

"We have the leverage to make strong demands this time," said Tom Wroblewski, president of Machinists District 751, which represents the bulk of Boeing's workers in Washington state's Puget Sound area.

Robert Bruno, associate professor of labor and industrial relations at the University of Illinois at Chicago, said the issues at stake in the Boeing negotiations are "at the very heart of the labor-management struggle at industrial workplaces."

Despite the rocky economy, some unions have made contract gains recently in healthy sectors. For example, the United Steelworkers reached a tentative agreement last week with U.S. Steel Corp. that gives wage and benefit increases to more than 16,000 union members. The union described the four-year deal, which also included a bonus, pension improvements and a reduction in health-care premiums for retirees, as the best in 30 years.

Harley Shaiken, a professor who specializes in labor issues at the University of California, Berkeley, said the stakes at Boeing are "unusually high" this time because the union is largely in the driver's seat. "A settlement is still possible, but something like this could easily slip into a deadlock," he said.

A year ago, the machinists union began urging members to set aside money in case of a strike. A large percentage of the members, whose average age is 46, have been through at least one strike at the company.

In 2002, the union rejected a proposed contract but failed to gain the two-thirds support necessary for a strike, enabling the company to enforce it anyway. In 2005, union members overwhelmingly rejected Boeing's final offer, idling Boeing's airplane factories for almost a month.

Boeing settled that dispute by raising the monthly pension payment by almost 17% and backing off on a number of other issues, including the company's insistence that union members pay more for medical insurance.

—Kris Maher contributed to this article.

## U.K. panel urges BAA airport sales

BY KAVERI NITHTHYANATHAN AND JONATHAN BUCK

A U.K. regulator signaled the breakup of airports operator BAA Ltd. when it said the company could be forced to sell three of its airports—including two in London.

BAA, a unit of Spain's Grupo Ferrovial SA, is expected to fight to retain London's Heathrow, the world's busiest international airport by passenger numbers, but may have to relinquish Gatwick and Stansted to address competition concerns.

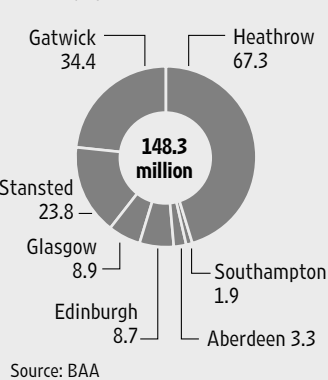
The U.K. Competition Commission, which investigated BAA airports at the request of the Office of Fair Trading, said there were competition problems at each of BAA's seven U.K. airports. "A principal cause is their common ownership by BAA," it said.

The commission concluded that common ownership of the three London airports restricts competition and exacerbates the inadequacies of the regulatory system, reducing the benefit of regulation and distorting competition between airlines. BAA has failed to respond adequately to airline customers and lacked initiatives in planning capacity, the commission said. These shortfalls have lowered the quality and service for airlines and passengers, it added.

In addition to two of the London airports, the commission said, BAA should be forced to sell either Edinburgh or Glasgow airport. It also recommended a review of the role of the Civil Aviation Authority, which it said is constrained by the current statutory framework, and a review of U.K. government transport policy.

### Flight control

Annual number of passengers using BAA's U.K. airports, in millions



A breakup of BAA would mark an unusual step for the commission, which usually makes recommendations based on mergers and takeovers rather than as a result of an inquiry. The commission will now begin a consultation process and plans to publish a final report in the first quarter of 2009.

BAA, which also owns Southampton airport in England and Scotland's Aberdeen airport, was privatized in 1987. It was acquired in 2006 for £10.3 billion (\$19.2 billion) by a group of investors led by Ferrovial.

BAA Chief Executive Colin Matthews criticized the commission's findings, arguing that "its analysis is flawed and its remedies would be disproportionate and counterproductive." He said a review of transport policy would delay new run-

ways and hurt customer service.

Unions and business groups were also wary of the recommendations, citing possible job losses and delays in the provision of additional airport capacity.

Airlines that are BAA's customers, however, were enthusiastic in their support for the changes. Budget carrier easyJet PLC said the report recognizes that the current system of airport regulation is flawed and that BAA has "acted against the interests of the traveling public for many years."

A Virgin Atlantic Airways Ltd. spokesman said the findings were a "major victory for passengers," while Ryanair Holdings PLC Chief Executive Michael O'Leary said, "This is the best decision in the history of aviation ever."

The chairman of BAA's inquiry group, Christopher Clarke, said in a BBC radio interview that he thinks it more likely that Gatwick and Stansted will be sold rather than Heathrow. He added that companies already running airports would best qualify for taking over BAA's properties.

Several companies had already signaled interest in possibly acquiring one of BAA's airports. Manchester Airport Group PLC, which is owned by local authorities, has recently approached Ferrovial, saying that it might consider buying Gatwick, the U.K.'s second-biggest airport. Other potential buyers include German construction company Hochtief AG, Global Infrastructure Partners—a fund set up by Credit Suisse Group and General Electric Co.—as well as Australia's Macquarie Group Ltd.

## World's airlines face losses of at least \$6.1 billion in '08

BY ENDA CURRAN

SYDNEY—The head of the International Air Transport Association said Wednesday that airlines globally could lose more than \$6.1 billion in 2008 because of high oil prices and geopolitical instability, with Asia, particularly China and India, now also starting to feel the effects of the international downturn.

The faltering world economy—triggered by severe dislocation in global financial markets and record high oil prices—has already prompted industry analysts to predict a sharp slowing in the aviation sector.

"We are bracing for more situations of airlines collapsing" amid higher fuel prices and lower revenue, warned IATA Chief Executive and Managing Director Giovanni Bisignani, speaking at a National Aviation Press Club lunch. "We are a fragile industry in a crisis," he said.

IATA, based in Geneva, is a trade body representing 230 airlines comprising 93% of scheduled international air traffic. In the first seven months of the year, IATA has removed 26 airlines from its system, greater than the number cut immediately following the September 2001 terrorist attacks in the U.S. The organization is considering removing a further dozen airlines, Mr. Bisignani said, without naming any of them.

Complicating matters, the airline industry crisis is no longer con-

tained to certain areas, with all regions now feeling the pressure, Mr. Bisignani said.

In Asia, once seen as the bright spot on the industry map, business is starting to sag as oil costs erode margins and ripples from downturns in the U.S. and Europe become stronger and spread further.

The situation shows the airline industry is "going through a recession that is not just limited to the U.S. and Europe; it is starting to affect Asia," Mr. Bisignani said in an interview. "In China we used to see double-digit growth in domestic [flights]—this year we see one digit," he said.

Total passenger traffic at China's three main airlines—China Southern Airlines Co., Air China Ltd. and China Eastern Airlines Corp.—rose just 2.6% in the first half of this year from a year earlier, compared with a year-to-year increase of over 15% a year earlier.

India is also feeling the slowdown, with overcapacity adding to the problems, Mr. Bisignani said.

In an illustration of the headwinds facing the industry, Mr. Bisignani said a \$1 increase in the price of a barrel of oil adds \$1.6 billion to industry costs. "High prices of oil are destroying our profitability," he said. Although oil prices have fallen from records set in July, a risk of further appreciation remains, Mr. Bisignani said. "We are in a perfect storm" of falling revenue and rising fuel costs, he said.



Giovanni Bisignani

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## CORPORATE NEWS

# Cemex resists Venezuela

## Chávez regime leads hundreds of workers in seizing facilities

BY JOSÉ DE CÓRDOBA  
AND JOEL MILLMAN

Hundreds of Venezuelan oil workers descended on cement factories around the country late Monday night after Mexico's Cemex SAB rejected a government bid and remained the lone holdout in Venezuela's latest wave of nationalizations.

Cemex, the world's third-largest cement maker, rejected a bid of \$500 million for the company's Venezuelan assets, which the company said it valued at \$1.4 billion to \$1.8 billion, people close to the negotiations said. Venezuelan Vice President Ramón Carrizales said the assets were worth around \$800 million.

At Cemex facilities in Anzoátegui state late Monday, Energy Minister Rafael Ramírez and a local governor led workers from state oil company *Petróleos de Venezuela SA* in singing the Venezuelan national anthem and ticking off the seconds until midnight. When the clock struck 12, workers took over the facilities. *Petróleos de Venezuela* workers and Venezuelan soldiers occupied other Cemex facilities around the country.

Meanwhile, *Lafarge SA* accepted a Venezuelan offer of \$267 million for 89% of its local unit, and Switzerland's *Holcim Ltd.* accepted an offer of \$552 million for 85% of its Venezuelan unit.

The cement takeovers are the latest attempts of Venezuela President Hugo Chávez to tighten the state's grip over what he calls key strategic industries. In the past two years, Mr. Chávez has bought the country's most important power and telecommunications companies. He has threatened to take over food-processing companies as well.

With these actions, the Venezuelan government will control 90% of the country's cement industry. In August 2007, Venezuela nationalized *Cementos Andino*, a subsidiary of Colombia's *Cementos Argos SA*. The two sides still are haggling over a compensation amount.

Mr. Chávez had blamed the cement companies for shortages he said were hampering government efforts to solve Venezuela's housing crisis. Among other things, Mr. Chávez charged them with exporting cement rather than producing it for local use. Cemex denies that charge, saying that in the past two years, 98% of the company's Venezuelan production was destined for domestic use. Critics said Mr. Chávez's restrictions on cement prices kept production low and created scarcities.

Mr. Chávez announced the cement nationalizations in April. Until then, Cemex had been among the most aggressive of Venezuela's foreign-owned firms in supporting the Chávez regime's socialist agenda by promoting housing subsidies for poor Venezuelans through three foundations.

Cemex opened a kind of micro-

lending plan that offered low-cost building products and donated cheap cement to local block associations affiliated with the Chávez regime. A third Cemex project involved teams of "shock troops" who "invaded" neighborhoods to enforce sales of cement at official prices—otherwise impossible to find in a sector where black market transactions are the norm.

Foreign multinationals don't always resist expropriation. At the right price, many see a Venezuelan takeover of their local operations as a viable exit strategy in a volatile country.

Last week, Mr. Chávez reached an agreement to pay Luxembourg's *Ternium SA* for the 60% share of steelmaker *Sidor*, owned by *Ternium's* parent, the Argentina steel-and-construction conglomerate *Techint SA*. Venezuela agreed to pay \$1.65 billion, an Argentine newspaper reported Tuesday.

In Cemex's case, the issue is complicated by assets the Mexican company acquired outside Venezuela but were owned by the Venezuelan subsidiary, which served as the holding company, including stakes in cement work in Panama, the Dominican Republic and Trinidad & Tobago. Cemex this year transferred those shares to a subsidiary in Spain, a transaction valued at about \$450 million that Venezuelan officials said may have violated local securities law.

—Darcy Crowe  
and Diana Delgado  
contributed to this article.



Hugo Chávez

# HOLDERS fight Natixis rights issue

BY NICOLAS PARASIE

Opposition to *Natixis SA's* planned €3.7 billion (\$5.47 billion) capital increase swelled Wednesday, after a second shareholder urged the French bank to abandon the project and raise funding by selling investments in its parent banks.

In a letter to *Natixis* Chief Executive Dominique Ferrero, Royal Capital Management managing partner Robert W. Medway called the rights offering "unacceptable, given the level of net asset value that will be destroyed through dilution." Shares in *Natixis* have lost more than half

of their value since the beginning of the year after its balance sheet was weakened by write-downs resulting from the financial crisis.

The hedge fund joins activist fund *Greenlight Capital*, which earlier this week urged the Paris-based investment bank to consider an alternative to the rights issue.

*Greenlight* wants *Natixis*, which is 69.8%-owned by its founding banks *Groupe Banque Populaire* and *Groupe Caisse d'Épargne*, to sell part of the cooperative investment certificates it holds in its parent banks—giving it a stake of about 20%—and pursue a smaller, €1.2 bil-

lion rights offering.

A person close to *Natixis* said the bank's certificates offer a solid source of income, independent from market cycles, but that selling those isn't part of the two main shareholders' strategy. The person said the capital increase would still take place.

*Natixis* disclosed an additional €1.5 billion in write-downs in July, forcing it to propose the €3.7 billion rights issue for consideration at exceptional shareholders meeting Aug. 29, the day after the bank is scheduled to release its half-year results.

# EBay to cut fees on fixed-price listings

BY MYLENE MANGALINDAN

Online auctioneer *eBay Inc.* said it will lower the fees it charges for products listed for sale at a fixed price, in a bid to become more competitive with rival Web sites such as *Amazon.com Inc.*

*eBay*, which sparked seller protests earlier this year when it raised fees for auction listings, said it will reduce the fee for fixed-price listings to 35 cents, down from as much as \$4, and increase the duration of a listing to 30 days from seven.

The company will simultaneously raise the commission it charges once the products are sold—in effect taking on more responsibility to drive buyers to the site. *eBay* declined to provide details of the commission increase.

Both changes are effective Sept. 14.

The San Jose, Calif., company built its reputation by pioneering the online-auction format on the Web. But it is playing catch-up to other Web sites that have focused on fixed-price sales, such as *Amazon*, which has wooed away many *eBay* sellers. *Amazon* doesn't charge listing fees; instead, it charges a sales commission of about 15%.

Beginning in October, checks and money orders will no longer be accepted on *eBay* transactions except for payment upon delivery, *eBay* said.

*eBay* said the changes aren't aimed at moving away from its auction format. Rather, it says the new fees will allow sellers to choose the best sales format, and capitalize on

consumer preferences for fixed-price listings.

*eBay's* new fees will vary by category, the company said. It said the total cost to sellers will decline compared with existing rates. For instance, a consumer-electronics seller who previously spent \$5,000 in fixed price fees annually would be charged 20% less under the new formula. A seller's upfront fees to list an item for sale would decrease from 32% of total fees to only 5%, *eBay* said.

The new fee schedules begin in the U.S., Germany and the U.K. next month—along with improvements to its search technology. Beginning in October, checks and money orders will no longer be accepted on *eBay* transactions except for payment upon delivery, *eBay* said.

## CORPORATE NEWS

### Brambles posts 50% profit drop, warns on outlook

BY BILL LINDSAY

SYDNEY—Brambles Ltd. reported a 50% drop in fiscal-year net profit and said the global economic slowdown likely will have an impact on this year's earnings, particularly in the U.S.

The global logistics firm also said it has yet to conclude an agreement with Wal-Mart Stores Inc. to restructure its pallet-management system. It added that transition costs and other expenditures to battle a slowing U.S. economy are expected to crimp earnings growth.

Net profit for the year ended June 30 fell to US\$648.7 million from US\$1.29 billion a year earlier when Brambles's earnings were boosted by profit from the divestment of its Cleanaway waste-management businesses in the U.K. and Asia. Group sales rose 13% to US\$4.36 billion from US\$3.87 billion.

Operating profit—a measure before special items, finance costs and

### Brambles said the difficult consumer market may damp organic growth.

tax that the company says more accurately reflects results across its businesses—was up 13% to US\$1.05 billion from US\$932.8 million.

Macquarie Research said operating profit was about 3% below consensus forecasts.

Brambles said its business is likely to be impacted by a global economic slowdown, despite being “well-positioned” to post revenue and profit growth in fiscal 2009. The company didn't offer specific fiscal-year earnings guidance, but said “the more difficult consumer environment in many markets has the potential to dampen organic growth in the short term.”

Shares in Brambles closed down 13% at A\$7.41 (US\$6.46) each, off an intraday low of A\$7.26—its lowest point since a major restructure of the company in 2006.

The world's largest supplier of pallets through its key Chep division, Sydney-based Brambles provides services at many of Wal-Mart's U.S. facilities, including retrieving and sorting its pallets, to cut costs through their more efficient use and lowered transportation costs. The world's largest retailer in April decided to modify its pallet-management system and Chep has incurred US\$10.9 million in transition costs as negotiations with Wal-Mart continue. It has also budgeted for an additional US\$30 million in similar costs this year.

“The result is a disappointment, with one-off items relating to Wal-Mart not flagged previously, and higher-than-expected plant costs in the U.S. due to quality initiatives and higher pallet returns due to the economic slowdown,” Macquarie Research said in a note to clients.

Brambles Chief Executive Mike Ihlein said while it is taking longer-than-expected to reach an agreement with Wal-Mart, the move hasn't triggered reviews from other Chep clients.

### Magnitogorsk Iron & Steel

#### Quarterly profit jumps 47% as higher costs slow sales

Russia's OAO Magnitogorsk Iron & Steel Works posted a 47% rise in second-quarter net profit but said higher costs slowed sales growth. Net profit climbed to \$760 million from \$516 million a year earlier. The rise came as higher global steel prices helped push revenue 62% higher to \$3.48 billion. However, the growth of input costs and sales as well general and administrative expenses outpaced revenue, rising 68% and 87% respectively amid a struggle by Russian authorities to tame double-digit inflation. The London-listed company has tried to address increased prices of key materials by buying shares in coking-coal supplier OAO Belon. Magnitogorsk shares are at an 18-month low following a government crackdown on coking-coal miner OAO Mechel and two of its competitors for allegedly fixing prices.

### Telekom Austria AG

Telekom Austria AG said second-quarter net profit fell 26% because of a downturn in its fixed-line business, pressured mobile-telephony margins in the home market, start-up costs in Serbia and Macedonia, and added debt expenses. Net profit dropped to €96.3 million (\$142.4 million) from €130.6 million a year earlier. Sales rose 5.6% to €1.28 billion, helped by the inclusion of Belorussian acquisition MDC, which Telekom Austria bought last year and has renamed Velcom. In the fixed-line division, sales fell 2.2% to €521.9 million, while sales in the mobile business increased 10% to €814.3 million, driven by the inclusion of Velcom. Debt at the end of the quarter was €4.4 billion compared with €3.4 billion a year earlier.

### Mecom Group PLC

Mecom Group PLC posted a slightly wider first-half net loss, in part because of higher costs. Shares in the pan-European newspaper company fell 16% to 18.5 pence (35 cents) after brokerage Cazenove downgraded it amid tough economic conditions. Mecom's net loss widened to £18 million (\$33.6 million) from £17 million a year earlier. While the London company reduced the cost of production and staff by 1%, other costs, such as investment in free newspapers and inserts, rose 7%. The company said total revenue rose 85% to £769.5 million from £415.8 million. But stripping out the impact of two acquisitions last year, sales were flat at £766 million. Cazenove called the results mixed and cut the stock to in-line from outperform.

### KazMunaiGas

Kazakhstan state oil-and-gas company KazMunaiGas said the government replaced its chief executive. Kaigeldy Kabyldin, previously a deputy chairman of Samruk, a state holding company that manages state firms including KazMunaiGas, will succeed Serik Burkitbayev, who had been appointed in May. A government spokesman wouldn't comment on why Mr. Burkitbayev was ousted after having served only three months. Kazakh Prime Minister Karim Masimov has told Mr. Kabyldin to complete talks on new terms regarding the giant Kashagan oil field by Oct. 25 and to speed up the completion of the acquisition of 51% of Mangistau-MunaiGas, the spokesman said. Mr. Masimov has also told the new chief executive to review the company's development strategy ahead of the adoption of a new tax code, the spokesman said.

## GLOBAL BUSINESS BRIEFS

### Fairfax Media Ltd.

Australian television production and distribution company Southern Star, a wholly owned subsidiary of Fairfax Media Ltd., said it has agreed to sell its 75% stake in Carnival Film & Television Ltd. to NBC Universal for £22.5 million (\$42 million). Southern Star Chief Executive Hugh Marks said Carnival, which has produced the television drama “Babylon Hotel” and other shows for the British Broadcasting Corp., had been a worthwhile investment. “The NBC Universal deal represents an opportunity for Southern Star to realize value from this recent growth and provides new options for Carnival's future,” he said. NBC Universal International President Peter Smith said the deal is the group's first acquisitive move since it formed an international TV-production division and is part of its efforts to expand its international business by building a production presence outside the U.S.

### Ryanair Holdings PLC

Ryanair Holdings PLC will continue to cancel bookings made at third-party Web sites in an attempt to oblige passengers to buy tickets through the airline's own site, Chief Executive Michael O'Leary said. The Dublin-based budget airline on Aug. 5 announced its ban on so-called screen-scraper Web sites and has since canceled some 450 reservations a day made by them, he said. The carrier frequently changes the price of its flights and says screen-scraper sites overcharge fliers compared with fares available directly from the airline. Also, passengers can't be notified by the airline if flights are changed or canceled, he said. Spain's government this month said it is investigating whether Ryanair's decision harms consumers, while the eDreams Web site said it may take legal action.

### Electronic Arts Inc.

The U.S. Federal Trade Commission said it would approve a merger between Electronic Arts Inc. and rival videogame publisher Take-Two Interactive Software Inc. “Upon further review of this matter, it now appears that no additional action by the commission is warranted at this time,” the FTC said after concluding an antitrust investigation. Electronic Arts let its \$2 billion hostile offer for Take-Two expire Monday, but it is exploring private talks to buy its smaller rival, best known for its violent Grand Theft Auto series. Take-Two's board has rejected several offers from Electronic Arts as too low, including the most recent one of \$25.74 a share. Analysts expect Electronic Arts to make a revised bid for Take-Two.

### Tsingtao Brewery Co.

Tsingtao Brewery Co., China's best-known beer brand, posted a 42% rise in first-half profit on Wednesday on solid revenue growth even as it battles high raw-material prices. The Hong Kong and Shanghai-listed brewer, 27%-owned by U.S. beer maker Anheuser-Busch Cos., said net profit for the six months ended June rose to 381.1 million yuan (\$55.6 million) from 268.7 million yuan a year earlier. Revenue rose 16% to 7.79 billion yuan from 6.74 billion yuan a year earlier, but sales volume rose only 5% to 26.86 million hectolitres. Tsingtao, a domestic sponsor of the Beijing Olympics, faces stiff competition from foreign and domestic brewers. China's beer market, the world's largest by volume, is a fragmented industry of nearly 400 brewers.

### James Hardie Industries NV

James Hardie Industries NV reported a 96% drop in its fiscal-first-quarter net profit, hit by charges related to asbestos-compensation payments and a prolonged slump in the U.S. housing market. James Hardie, the largest producer and seller of home siding in the U.S., said net profit for the quarter ended June 30 fell to US\$1.4 million from \$39.1 million a year earlier. The Netherlands-based and Australia-listed company said first-quarter sales fell 14% to US\$365 million from US\$424.4 million. James Hardie said it is comfortable with the bottom half of analysts' forecasts for operating profit from continuing operations, excluding asbestos, for the year ending March 31 in a range between US\$97 million and US\$130 million. It also said there was uncertainty over the U.S. housing outlook.

### BJ's Wholesale Club Inc.

BJ's Wholesale Club Inc. eked out a 0.6% rise in fiscal second-quarter net income on higher prior-year gains as the discount warehouse chain benefited from shoppers looking for bargains. The retailer also boosted its fiscal-year earnings view again and said its board authorized an additional \$200 million in share repurchases. For the quarter ended Aug. 2, BJ's said net income rose to \$36.5 million from \$36.3 million a year earlier. Excluding tax gains and other one-time items, earnings rose to 58 cents from 46 cents. BJ's raised its fiscal-year earnings outlook to a range between \$2.10 and \$2.20 a share, up six cents from its May guidance. The price of oil has been a boon to U.S. warehouse clubs, while rising food costs are sending more shoppers their way.

### Shenzhen Development Bank

Shenzhen Development Bank Co. said its first-half net profit rose 91% from a year earlier, climbing to a record amid an increase in deposits and loans. The lender, which is effectively controlled by U.S. private-equity firm Newbridge Capital LLC, said net profit for the six months ended June 30 rose to 2.14 billion yuan (\$312 million) from 1.12 billion yuan a year earlier. The bank said its net interest income increased 42% to 6.3 billion yuan, while net fee and commission income rose 82% to 380.5 million yuan. Shenzhen Development said it expects its net profit in the second half of this year to continue to grow along with rising deposits and loans. The bank's outstanding loans rose 12% to 246.37 billion yuan at the end of June from 221.04 billion yuan at the end of last year, while its deposits rose 22% to 343.14 billion yuan over the same period.

### Hyundai Motor Co.

Hyundai Motor Co. and affiliate Kia Motors Corp. resumed wage talks with unions Wednesday, the companies and the unions said. Restarting negotiations means that Hyundai workers won't go on strike this week as planned, said union spokesman Chang Kyu-ho. Mr. Chang said some union members are unhappy with a revised offer—a 5.4% basic pay increase, changes in the shift system and better productivity payments—that the company presented. The wage offer is higher than the company's previous offer of 5.14%, but still below the union's 8.88% demand. In a revised offer Tuesday, the auto maker offered to increase a cash payment designed to encourage workers to boost productivity to two million won (\$1,904) from one million won.

### Coca-Cola Amatil Ltd.

Coca-Cola Amatil Ltd. posted a 22% rise in half-year net profit, despite tougher trading conditions, on improved cost efficiencies and higher revenue from its alcohol products. Net profit rose to 171.9 million Australian dollars (US\$149.9 million) from A\$140.9 million a year earlier. Trading revenue from continuing operations edged up to A\$1.86 billion from A\$1.85 billion. Coca-Cola Amatil, 30%-owned by Atlanta-based Coca-Cola Co., maintained its earnings before interest and tax guidance of “high single-digit” growth for the second half, with a target of around 7%. Chief Financial Officer Nessa O'Sullivan said second-half earnings are tracking ahead of the previous corresponding period.

### Ross Stores Inc.

Ross Stores Inc. said fiscal second-quarter net income soared 40% as economy-battered consumers snapped up its bargains. The company again raised its fiscal-year outlook. For the quarter ended Aug. 2, the second-largest U.S. off-price retailer behind TJX Cos. posted net income of \$71.3 million, or 54 cents a share, compared with \$50.9 million, or 37 cents a share, a year earlier. Two weeks ago, Ross had raised its earnings-per-share estimates a second time, putting the range at 53 cents to 54 cents. Ross previously said sales rose 14% to \$1.64 billion as same-store sales jumped a bigger-than-expected 6%. Ross operates Ross Dress for Less and dd's discount stores that sell mostly close-out merchandise, including clothing, at prices below those of department and specialty stores.

### Eli Lilly & Co.

Eli Lilly & Co. agreed to pay \$300 million for a Monsanto Co. business that produces a controversial hormone used to boost milk production in dairy cows. Lilly will acquire the commercial business for the Posilac brand, including the intellectual property and a U.S. plant. In addition to the \$300 million upfront payment, Monsanto will receive “contingent consideration,” the companies said. Monsanto had disclosed plans to sell the unit two weeks ago, without providing details. Consumer-health groups have raised questions about the health effects of the hormone, which is a natural protein produced in the pituitary glands of cows.

### China Citic Bank Corp.

China Citic Bank Corp.'s first-half net profit nearly tripled from a year earlier on a wider net interest margin and growth in its intermediary business. Net profit totaled 8.42 billion yuan (\$1.23 billion), up from 3.21 billion yuan a year earlier, while revenue rose 70% to 20.25 billion yuan from 11.88 billion yuan. The bank also disclosed that it held \$1.18 billion of mortgage-backed securities issued by U.S. mortgage giants Fannie Mae and Freddie Mac at the end of June, as well as \$403 million of corporate bonds issued by the two firms.

—Compiled from staff and wire service reports.

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# ECONOMY & POLITICS

## GERMANY

### Government aims to block foreign takeovers of firms



**T**HE GERMAN cabinet approved legislative changes to allow the government to block foreign investors from buying 25% or more in a German company that is viewed as crucial for

the country's security.

The economics ministry would examine whether an investment is regarded as a threat if it comes from outside the European Union or the European Free Trade Association, the draft bill says. The ministry could examine bids up to three months after the offer has been made public or signed. The government is seeking ways to protect German industries from unwanted takeovers. —Andrea Thomas

## INDIA

### Nationwide strike slows airports, trains and banks



**A**NATIONWIDE strike by government workers and bank employees protesting rising prices and potential privatizations disrupted airports, trains and banks across India. The one-day strike was called by 48 unions, and an estimated 10 million government workers participated, according to

Madhukar Kashinath Pandhe, president of the Centre of Indian Trade Unions. Financial trading wasn't affected. India's unions remain powerful even though the economy has been liberalizing for 17 years. Wednesday's strike was backed by the Leftist parties that withdrew support from the ruling United Progressive Alliance government. —Krishna Pokharel

## OECD

### Growth in second quarter slowest since mid-2001



**D**EVELOPED economies grew at the slowest rate in almost seven years during the second quarter, the Organization for Economic Cooperation and Development said.

The OECD said the combined gross domestic product of its 30 members between April and June increased 0.2% from the first quarter of 2008 and 1.9% from the second quarter of 2007. Its member economies last grew more slowly in the third quarter of 2001, when their combined GDP contracted 0.1%. Growth was slowest in the Group of Seven leading industrial nations, whose combined GDP grew just 0.1% in the quarter. —Paul Hannon

# GOP prepares Denver counter-convention

## McCain's supporters plan events to limit Obama's poll bounce

BY ELIZABETH HOLMES  
Las Cruces, N.M.

**S**EN. JOHN MCCAIN and the Republican Party have their own elaborate plans in Denver for the Democratic Party convention, including a parade of high-profile surrogates, a Web site touting new attack videos and a catchy tagline: "A Mile High and an Inch Deep."

Two dozen staff members of the McCain campaign and the Republican National Committee are heading west this weekend to combat the extensive media coverage of Sen. Barack Obama's nomination. Their slogan is "Not Ready '08."

The effort expands on the Republicans' recent tactic of trying to make more headway by slamming Sen. Obama and the Democrats rather than touting their own policies. It appears to be working. Recent polls show Sen. Obama has lost his lead, and the race has narrowed to a dead heat.

Unlike Republican efforts during the 2004 Democratic convention, which were little more than a few interviews with a handful of surrogates, this year's activities will be an aggressive attempt to distract from the main attraction. "It's an effort to get our side of the story out there," said Matt McDonald, the McCain campaign senior adviser in charge of the Denver efforts.

Former opponents Rudy Giuliani and Mitt Romney, Minnesota Gov. Tim Pawlenty and a host of others will be in Denver holding news conferences, making television appearances and giving satellite interviews with outlets in battleground states.

Supplementing that effort will be a new Web site with videos featuring TV clips of Democratic leaders delivering a one-two punch: praising Sen. McCain and questioning Sen. Obama's experience. The campaign also has convention-specific television advertisements that will run throughout the week.

The Obama campaign declined to comment.

With only a few days separating the end of the Democratic convention and the start of the Republican convention, special care is being paid to the transition and "turning the page" quickly, Mr. McDonald said.

To that end, the Republicans plan a large rally at the 12,000-seat Nutter Center on the campus of Wright State University outside of Dayton, Ohio, on Aug. 29, the day after the Democratic Convention ends. Reports suggest the event, which falls on Sen. McCain's 72nd birthday, could include the announcement of his running mate.

The Arizona senator will stay in the Southwest during the Democratic convention, popping up to make a few—but somewhat flashy—appearances, including a visit to "The Tonight Show with Jay Leno" Monday evening.

The Republican operations in Denver will be based in a two-floor office within walking distance of the Pepsi Center, a site scouted months ago for this purpose. The space will include a handful of offices for surrogates or staffers to use, a room dedicated to daily news conferences and a fully equipped television studio. Catering and security detail will also be on hand.

American viewers can expect to see more of the theme that Sen. Obama is a celebrity, in the vein of the ad released earlier this month that featured Paris Hilton and Britney Spears. The campaign released a new radio ad Wednesday that begins: "Celebrities like to spend their millions. Barack Obama is no different. Only it's your money he wants to spend."

And with a number of Hollywood types coming to Denver for a number of convention gatherings, the McCain campaign plans to exploit those events.

"I don't know that the average Coloradoan will be able to participate in Ben Affleck's poker game," said Danny Diaz, communications director for the RNC, referring to



A Republican Web site shows Democrats criticizing Obama.

the actor's event at the Democratic convention. "But they certainly should know about it."

Although the campaign and the

RNC staffers won't have credentials to attend the convention, they have found other ways to get in the front door. McCain surrogates will do interviews on the sets of television networks operating from the Pepsi Center and will be credentialed in order to get access—as will the Republican staff escorting them to the site.

Surrogate activity will be carefully choreographed. Former New York mayor Mr. Giuliani plans to make a splash on the Wednesday of the convention, the day the Democrats are devoting to national security. Mr. Romney, the former Massachusetts governor and one of the campaign's most message-disciplined surrogates, will be most visible on Tuesday, a day the Democrats have reserved for domestic policy.

Former Hewlett-Packard CEO Carly Fiorina and Arizona Sen. Jon Kyl will be on hand as will a number of U.S. representatives from key states, including Eric Cantor of Virginia, Marsha Blackburn

of Tennessee and Lincoln Diaz-Balart of Florida.

But the swiftest criticism will come from a new Web site the campaign will launch Sunday, featuring a "video board" that resembles a checkerboard with 14 video clips of prominent Democrats like Sen. Hillary Clinton, former President Bill Clinton and Delaware Sen. Joe Biden, a rumored contender for Sen. Obama's vice-presidential pick.

"Would I make a blanket commitment to meet unconditionally with the leaders of each of those countries?" Sen. Biden asks in one clip. "Absolutely, positively, no."

The overall attack message of the counterprogramming raises a valid question, said John Geer, a professor of political science at Vanderbilt University and author of a book on political attack ads. Questioning Sen. Obama's inexperience will force him to answer back—and voters will benefit, he said.

Plus, the tactic reveals something about the candidate's character. "Voters want to know someone's going to be tough," Mr. Geer said. "Part of that is going to be not only if they're going to be able to take a punch but also deliver one."

# U.K. has few options for economy

BY EMMA CHARLTON

**LONDON**—Britain's economic outlook has grown increasingly bleak, and neither the Bank of England nor the government is in a position to do much about it.

Figures released Wednesday showed mortgage lending in July rose slightly from June but fell more than a quarter from a year ago. Meanwhile, a survey conducted by the Confederation of British Industry showed the manufacturing sector is heading for a recession.

But there is little chance of a U.S.-style stimulus package for the U.K. economy, as the government is already borrowing more than it intended this fiscal year.

The BOE's rate-setting Monetary Policy Committee is also hobbled. While the minutes of its August

meeting showed the committee did consider cutting its bank rate, it shied away from doing so because it expects the annual rate of inflation to rise further this year.

Data from the Office of National Statistics showed public-sector finances remained under pressure in July as public-sector net borrowing for the financial year to date hit £19.1 billion (\$35.67 billion)—more than double the deficit accumulated in the same period a year earlier.

Tight credit conditions have halted more than a decade of robust economic growth, fueled by easy credit, high consumer-spending growth and large jumps in house prices.

Since the start of the year, U.K. residential-property sales have slumped, house prices have fallen and consumer spending has been squeezed

by higher food and fuel prices.

More disappointing data emerged Wednesday, as the CBI survey found that in August, expectations among manufacturers for future output growth were at their lowest since December 2001. The industrial volume of output expectations balance dropped to minus 13 compared with minus 7 in the July survey, the CBI said.

Separate data from the Council of Mortgage Lenders showed the credit crunch continues to throttle activity in the housing market. Gross mortgage lending rose to an estimated £24.8 billion last month from £23.6 billion in June, but was 27% weaker than in July last year, the trade association said.

—Nicholas Winning, Natasha Brereton and Laurence Norman contributed to this article.



## ECONOMY &amp; POLITICS

# Platform without McCain

## Republican Party won't be catering to nominee's views

BY JUNE KRONHOLZ  
AND T.W. FARNAM

Jean from Ferrisburgh, Vt., wants the Republican Party to get off "the global-warming bus." Paul from Carrollton, Texas, wants it to "reject fetal stem-cell research." And Larry from Waynesboro, Pa., wants the party to promise to "deport those who are here illegally."

Republicans are inviting suggestions for their party platform this year, and thousands have responded online. But when a committee meets to draft the document in Minneapolis next week, one voice will be largely absent: John McCain's.

The Republican standard-bearer is at odds with his party on such hot-button issues as global warming, immigration, campaign-finance overhaul, stem-cell research, drilling in the Arctic National Wildlife Refuge and a constitutional amendment banning gay marriage. Many party stalwarts are also deeply skeptical when it comes to judicial nominations, given his Senate record.

Instead of fighting with party activists to form the platform around his own ideas, Sen. McCain has taken a hands-off approach. He "is a voice in this process," says Steven Duffield, executive director of the platform committee. But "this is ultimately a party platform," he adds. Sen. McCain seems to



John McCain

agree. "The delegates are going through the process and we are going to let them work their will on the platform," campaign spokeswoman Jill Hazelbaker said in an email in response to questions about drafting the party platform.

There is little chance Sen. McCain's differences with his party will cause a platform fight at the convention. The Republicans' last fight was in 1996 over abortion. This year's meeting is so tightly programmed that there is no time for one, and some doubt party rules would even allow it.

The platform also isn't likely to be the deeply political statement it has been in the past half-dozen campaigns, when the party's candidates drafted it to reflect their positions. In a news briefing recently, McCain campaign manager Rick Davis said the campaign had asked party staffers "to try and return the platform to sort of the party's principles that got us here."

That suggests a wide-reaching document that won't press Sen. McCain's views on the party's conservatives but also won't commit him to support all the party's positions. Grover Norquist, of Americans for Tax Reform, says the Arizona senator is "doing the party a favor by separating the party platform and the candidate's position. It's a very strong, grown-up position."

When President George W. Bush's campaign drafted the platform in 2004, it focused on many of the moral and free-market principles that united conservatives behind him. That document opposed "mandatory carbon-emissions controls," which Sen. McCain has cam-

paigned on. It supported a human-life amendment banning all abortions, while Sen. McCain has said he would support an abortion ban that included exceptions for rape, incest or danger to the life of the mother.

Sen. McCain supports expanding federally funded stem-cell research to include embryos discarded by fertilization clinics. The previous platform praised President Bush's more restrictive policy.

For now, even the 112 members of the platform committee don't know what is in the draft platform, and some committee members say they don't expect to see even a preliminary document until they arrive for the convention in St. Paul, Minn.

"They're holding this thing really tight," says Steve King, a Wisconsin businessman. He is co-chair of the platform's Advancing a Healthier

and More Competitive America panel, one of six subcommittees.

The party says it already has received thousands of comments, which are posted on its Web site, www.gopplatform2008.com. It lists seven "platform issues" for voters to have their say on, including education, national security and "protecting American values." But the party staffers and Capitol Hill policy experts who are writing the draft won't say how they are using the online comments or what issues will be included.

There are proposals to make English the official language, abolish foreign aid and the Education Department, promote wind and solar power, and end the party's opposition to same-sex marriage. In one of many video postings on the site, former House Speaker Newt Gingrich proposes that an "entire sec-

### At odds

John McCain is at odds with the Republican Party's official position on a number of issues.

Issue	2004 platform position	McCain's position
Global warming	Opposed carbon emissions controls	Favors a cap-and-trade system to limit greenhouse gas emissions
Stem cell research	Opposed federal funding of embryonic stem cell research	Has supported federal funding as long as embryos are not created for research
Same-sex marriage	Supported constitutional amendment banning same-sex marriage	Opposes same-sex marriage but does not support a constitutional amendment
Abortion	Supported human life amendment to the Constitution	Supports the amendment but favors exceptions for rape, incest and to protect the life of the mother

tion" of the platform be devoted to "bringing all Americans together."

Dozens of submissions oppose measures to give legal status to illegal immigrants, suggesting immigration remains a politically potent issue for the party. The 2004 platform supported a guest-worker plan that

would allow illegal immigrants to gain citizenship. Mr. Duffield, the platform's executive director, wouldn't say whether this year's platform will address immigration.

Committee members will have two days to debate and alter the platform before taking it to the convention floor.



### Knowledge

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## ECONOMY &amp; POLITICS



## Nawaz Sharif

- **1981** At 31 years old, appointed by General Zia ul-Haq as finance minister of Punjab state.
- **November 1990** Becomes prime minister after Islamic Democratic Alliance led by him sweeps the elections.
- **April 1993** Forced to quit by the military following a power struggle with the president.
- **February 1997** Pakistan Muslim League again wins elections; Sharif re-elected as prime minister.
- **October 1999** Military headed by Gen. Pervez Musharraf overthrows Sharif's government.
- **March 2000** An antiterrorism court sentences him to life imprisonment on hijacking and treason charges.
- **December** Sent into exile in Saudi Arabia.
- **August 2007** Pakistan's Supreme Court rules Sharif and his brother can return.
- **Nov. 25, 2007** Sharif returns to Pakistan for a second time from exile.
- **Feb. 21, 2008** The Pakistani people vote overwhelmingly against Mr. Musharraf's parliamentary allies, sweeping Sharif's party to power in a coalition government.
- **August 6** Ruling coalition agrees to impeach Musharraf.

Source: WSJ research

# Pakistan coalition at risk

## Sharif threatens to pull party if judges don't get reinstated

BY PETER WONACOTT

LAHORE, Pakistan—Two-time Prime Minister Nawaz Sharif threatened to pull his political party out of Pakistan's governing coalition if all the judges dismissed by former President Pervez Musharraf aren't reinstated after a Friday deadline.

In an interview at his home Wednesday, Mr. Sharif said he is prepared to withdraw his Pakistan Muslim League (N) from the governing coalition, led by the Pakistan People's Party, if some 60 judges—sacked during a six-week state of emergency declared in November—are not given their jobs back immediately.

"We will not try to bring the government down," said the 58-year-old Mr. Sharif. "But of course, we then have no choice but to sit in the opposition."

The reinstatement of the judges has been a sticking point between the two parties since they formed a coalition after parliamentary elections in February. The Pakistan People's Party says other smaller parties in the coalition need time to study the issue before coming to a decision. In meetings over the issue, the PPP also has expressed concerns about some of the judges. Talks Tuesday aimed at breaking the impasse failed to find a resolution, prompting the parties to extend an earlier deadline to Friday.

If Mr. Sharif's party pulled out of the coalition, the move would force the Pakistan People's Party to find other partners so it could maintain a governing coalition in Pakistan's Parliament.

The political showdown comes as Pakistan reels from escalating militant violence and economic turmoil. The jockeying has U.S. and other allies watching Pakistan anxiously. And Mr. Sharif, as head of one of the country's two big parties, is in the spotlight, after something of a personal transformation for the veteran politician.

He rose through Pakistan's political ranks during an era of military government. He later clashed with army generals after a 1999 military coup, led by his then-army chief Mr. Musharraf, toppled his government and sent him into exile in Saudi Arabia handcuffed to an airplane seat. During his two terms as prime minister in the 1990s, Mr. Sharif was criticized as a civilian autocrat whose government jailed unfriendly journalists and harassed the country's Supreme Court chief justice.

But upon returning to Pakistan late last year, he has tapped deep reservoirs of support in Pakistan as an uncompromising democrat. That stance fueled opposition to Mr. Musharraf and the military's long history of involvement in politics. And it has won the favor of the nation's influential lawyers' movement, which took to the streets to protest the ouster of the country's chief justice and other Supreme Court judges by Mr. Musharraf. Mr. Sharif's speech is now filled with fiery democratic ideals, such as an independent judiciary, that he ties to the future of Pakistan.

"Mr. Musharraf threw the judges out of office. He ridiculed the institution," he said. "If this institution is not restored, it will shake the foundations of this country."

Mr. Sharif hails from a family of industrialists. At his heavily-guarded home on the outskirts of Lahore, his wealth and power are both on display. Peacocks stroll on neatly trimmed grass and statues of a deer and her doe mark an entrance where security guards wearing black t-shirts and carrying automatic weapons await visitors. Just outside Mr. Sharif's cavernous dining room are two stuffed African lions that appear to be stalking prey. "From Botswana," Mr. Sharif says. "Male lions."

Despite his palatial home, Mr. Sharif is known as a politician whose tastes and sensibilities are in touch with Pakistan's heartland province of Punjab. He admits he loves to eat, and pats his belly as an excuse for not indulging his other passion, cricket, more often. Mr. Sharif also is rarely seen in public without the traditional attire of Pakistani men, the long kurta shirt and baggy cotton pants. Wednesday, he wore a dark suit, loosening his tie soon after the interview begins.

He has made the judges' issue his signature issue as he has reemerged as a leading political light in Pakistan.

The Pakistan People's Party has so far resisted the reinstatement of all the judges. Its leader, Asif Ali Zardari, was granted amnesty from corruption charges by judges whom Mr. Musharraf named to replace those dismissed. A return of the dismissed judges could put that amnesty in jeopardy.

Mr. Sharif has kept up the pressure. After winning the second-largest number of parliamentary seats in February elections, he pulled the party's officials out of a governing cabinet when the judges weren't reinstated. The two leaders briefly united earlier this month to try to impeach Mr. Musharraf, and ended up forcing the former army chief to quit Monday.

If they can resolve the stalemate over judges by a deadline set for Friday, Mr. Sharif says they will need to turn to solving other differences. The two camps also disagree over who should succeed Mr. Musharraf as president. Mr. Zardari wants someone from his Pakistan People's Party, and is considered an interested candidate himself. Mr. Sharif has said it should be someone outside the two main parties. He has put forward the name of Ataullah Khan Mengal, a well-known politician from the poor but resource-rich state of Baluchistan, which is struggling with a separatist movement.

The divisions between the two main parties could be costly for Pakistan's future. Left on the backburner during the debates over judges and Mr. Musharraf's impeachment are questions about Pakistan's security and economy.

Mr. Sharif says the Parliament has yet to have a debate about a new strategy for addressing Pakistan's growing Islamic militancy. While Mr. Musharraf was regarded as a vital U.S. ally for pressing Pakistan's security forces to battle militants, Mr. Sharif says a more democratic debate is needed to swing domestic support behind any new security policy. Such debates will underpin better ties with the U.S., he added.

"They've been supporting a dictator for eight long years," Mr. Sharif said of the U.S. "They've equated Mr. Musharraf with the 170 million people of Pakistan. That wasn't a good policy."

On Wednesday, Pakistani forces fought militants in Bajur, the tribal region bordering Afghanistan. Officials said 10 militants were killed. The incident is the latest in a series of clashes in Pakistan's border areas.

Meanwhile, food and fuel inflation continues to rise, angering the poor and draining political support for the new government. "We know the economy is in trouble," Mr. Sharif said. "We have to fight together."

Some of his political supporters, however, are still eager to press charges against Mr. Musharraf. They accuse him of violating the constitution and other crimes. Mr. Sharif acknowledges that there are those who want to see Mr. Musharraf in jail, but says he personally bears no grudges and wouldn't mind Mr. Musharraf slipping out of the country.

"If he wants to go, I won't stand in his way," Mr. Sharif said. "He might want to take a break."

Mr. Musharraf's spokesman, Gen. Rashid Qureshi, said the former president is taking a break—in Pakistan. He denied reports that Mr. Musharraf was seeking exile in the U.S. or Saudi Arabia.

# Refugee program halted as DNA tests show fraud

BY MIRIAM JORDAN

The U.S. State Department has suspended a humanitarian program to reunite thousands of African refugees with relatives in the U.S. after unprecedented DNA testing by the government revealed widespread fraud.

The freeze affects refugees in Kenya, Ethiopia, Uganda, Guinea and Ghana, many of whom have been waiting years to emigrate. The State Department says it began DNA testing with a pilot program launched in February to verify blood ties among African refugees. Tests found some applicants lied about belonging to the same family to gain a better chance at legal entry.

The U.S. has responded by halting refugee arrivals from East Africa, where hundreds of thousands of people have been stranded in precarious conditions since civil war erupted in the early 1990s. The temporary suspension has generated panic in African communities in the U.S., where thousands wait to be joined by relatives.

Typically, a refugee already living in the U.S., a so-called anchor, is

confirms that "many thousands of people" are affected by the suspension, particularly Somalis and Ethiopians.

Refugee resettlement agencies report that arrivals have slowed to a trickle.

In Minneapolis and St. Paul, Minn., home to the country's largest East African population, Catholic Charities hasn't handled a single family reunification case since March 19. The agency has resettled 35 East African families this year, compared with more than 450 last year and about 1,300 in 2006. "Everyone is calling or walking in here and asking what is going on," says Angela Fox, a resettlement worker at Catholic Charities.

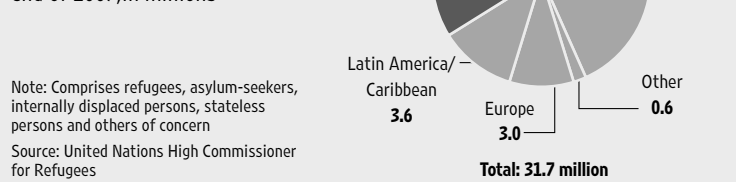
Some refugees received a notice from U.S. authorities advising them that their case is on hold because relatives didn't show up for a scheduled interview or they refused to supply a DNA sample.

Those who agreed to take the test are also in limbo.

Abdirahman Dhunkal, who hails from Somalia, petitioned in early 2005 for his father, mother and six siblings who are in Kenya to join him in Minnesota.

## Displaced

Africa is home to a significant refugee population. Number of uprooted people as of the end of 2007, in millions



entitled to apply for permission to bring a spouse, minor children, parents and siblings. The process requires interviews, medical examinations and security screening.

But suspicion has grown in recent years that unrelated Africans were posing as family members to gain entry. "This program is designed for people to reunify with family members" already in the U.S., says Barbara Strack, director of the refugee division at U.S. Citizenship & Immigration Services. "We wanted to have empirical data" to confirm suspected fraud, she says.

In February, the State Department launched pilot testing in Kenya to verify family relationships, mainly among Somalis. When applicants arrived for a previously scheduled appointment, a U.S. official asked them to volunteer for a DNA test.

An expert then swabbed the cheek of those who claimed biological relationships, such as a mother and her purported children.

The cell samples were sent to labs in the U.S. for analysis.

As word spread, some applicants began missing appointments, and others refused to cooperate.

Laboratory analysis of the samples indicated a large portion of applicants weren't blood relations, as they claimed. "The results were dismaying," says Ms. Strack. "This told us we had a problem with the program."

The results prompted expansion of the testing to other countries. "We had high rates of fraud everywhere, except the Ivory Coast," says a State Department official.

In late April, the government decided to temporarily halt the family reunification resettlement program for East Africans. A government official

Their case was approved in late 2006, but Mr. Dhunkal says his family was asked to take a DNA test earlier this year. Since the cell samples were collected, "nothing has happened. We are still waiting," says Mr. Dhunkal, 31 years old, who hasn't seen his family in 14 years.

The government testing has raised questions about using DNA as an immigration tool.

"No one condones people gaining entry by false means; the integrity of the program must be ensured," says Bob Carey, chair of Refugee Council USA, a coalition of U.S. agencies that work on refugee issues, and vice president of resettlement for the International Rescue Committee. However, he adds, "DNA is not the only means to assess family relationships."

Refugee advocates say the definition of family among Africans extends beyond blood relatives, especially when families fleeing persecution are scattered. "Some families are raising children who aren't their own but whom they call son or daughter," says Ms. Fox of Catholic Charities.

Refugee slots are precious. The world's uprooted people are estimated to number 37 million; only about 1% are resettled. As the largest recipient, the U.S. absorbs about half of all refugees who are resettled.

To be approved as a refugee, an applicant must establish that he or she has suffered persecution or has a well-founded fear of persecution on account of race, creed or origin.

Between Oct. 1, 2007, and Aug. 13 of this year, the U.S. admitted 45,644 refugees. For the year ending Sept. 30, 2008, the Bush administration set a ceiling for African refugees at 16,000. But by Aug. 13, only 6,780 Africans had been admitted.