



Swiss watches ought to be more Swiss, big makers say

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Conflict in Georgia reminds mother of Beslan '04 siege

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What's News —

Business & Finance

World-Wide

The mining industry, including international companies such as BHP Billiton, are beginning to feel the pain of weaker commodity prices and higher costs, meaning that the billions of dollars being spent on new projects could take years to recoup. **Page 1**

■ **U.K. economic growth stalled** in the latest quarter, ending the nation's expansion streak at 63 consecutive quarters. The outlook is dim. **Page 2**

■ **Euro-zone factory orders** fell in June at the fastest rate since December 2001 on steep drops in demand. **Page 8**

■ **Bernanke defended** the U.S. Fed's decision to keep interest rates low, saying a weaker economy is likely to bring inflation under control. **Page 10**

■ **Money managers see** widening bond spreads as a sign of trouble for stocks. **Page 17**

■ **Swiss prosecutors arrested** a former Alstom manager on several charges, while police raided company offices. **Page 4**

■ **TNK-BP's CEO wrote** Russian officials to accuse the country's labor authorities of abusing their power. **Page 6**

■ **Severstal agreed to buy** PBS Coals as the Russian steelmaker moved to make its U.S. mills more self-sufficient. **Page 6**

■ **GM is preparing** to open formal talks with potential buyers of its Hummer brand. **Page 5**

■ **Bradford & Bingley said** underwriters of its \$740 million rights issue have been left holding 72.2% of the shares. **Page 19**

■ **The U.S. Treasury will likely** be forced to inject funds into Fannie Mae and Freddie Mac, some top U.S. economists believe. **Page 21**

■ **Moody's slashed ratings** on preferred shares of Fannie and Freddie, stinging the insurers and banks that hold them. **Page 20**

■ **Aon agreed to acquire** U.K. reinsurance broker Benfield Group for \$1.56 billion to boost the reach of its reinsurance operations. **Page 19**

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11628.06	+197.85	+1.73
Nasdaq	2414.71	+34.33	+1.44
DJ Stoxx 600	283.82	+5.38	+1.93
FTSE 100	5505.6	+135.4	+2.52
DAX	6342.42	+105.46	+1.69
CAC 40	4400.45	+95.84	+2.23
Euro	\$1.4813	-0.0073	-0.49
Nymex crude	\$114.59	-6.59	-5.44

Money & Investing > Page 17

Obama chose Sen. Joe Biden of Delaware as his vice-presidential running mate, using their first joint appearance to push a populist economic message. The decision required Obama to make some distinct trade-offs. Democratic delegates are set to ratify a party platform this week that refers sparingly to the "war on terror." **Pages 1, 9**

■ **Olympic organizers called** the Games "exceptional" at a closing ceremony. China released 10 foreign activists jailed for protests during the Olympics, amid U.S. pressure. **Pages 1, 29**

■ **France called** an EU summit Sept. 1 to discuss the Georgia conflict. The first of several U.S. Navy ships with aid arrived in a Georgian port. **Pages 2, 3**

■ **A U.S.-Russia nuclear-cooperation pact** is unlikely to win U.S. passage this year as a result of the conflict in Georgia. **Page 31**

■ **A Boeing 737 jetliner** owned by Itek Air and operated by Iran Aseman Airlines crashed near Kyrgyzstan's airport in Bishkek, killing at least 71 people.

■ **U.S.-led troops killed** 10 militants in Afghanistan fighting. Karzai sacked two Afghan officers after a joint operation with coalition forces Friday that he said killed at least 89 civilians.

■ **An al Qaeda figure** in Iraq who allegedly planned the 2006 kidnapping of U.S. journalist Jill Carroll, released three months later, was arrested, U.S. officials said.

■ **Pakistan's ruling coalition** is near collapse as the Pakistan Muslim League meets to decide whether to abandon support for the coalition's senior partner.

■ **Pakistan's military said** 50 militants and 10 soldiers were killed in fighting in the country's northwest as helicopters targeted militant hideouts.

■ **Eight climbers were missing** and presumed dead after an avalanche in France near Mont Blanc.

■ **One person was killed** and dozens injured in Indian Kashmir when police fired bullets and used batons to disperse separatist protesters defying a curfew.

■ **A nuclear power station** in Spain was closed temporarily after a fire broke out in a generating unit, but there was no threat of a leak, officials said.

EDITORIAL & OPINION

Experience for a change
Joe Biden is a black belt master in the Beltway politics of personal destruction. **Page 11**

Obama's pick of Biden has benefits, trade-offs

Veteran senator plugs some gaps, dims appeals for 'change'

BY GERALD F. SEIB

For a U.S. presidential candidate, picking a running mate is like buying a new house: It's a huge investment, you try to get all the features you'd like, but you also recognize that it's usually impossible to get everything you want in one package.

So it is with Sen. Barack Obama's

Democratic convention

A big campaign goal this week is to humanize the candidate9

choice of Senate colleague Joe Biden. As a running mate, Sen. Biden is a safe and understandable choice, because he addresses many—probably the most important—of the shortcomings in Sen. Obama's own profile.

But like the house that lacks that extra closet space, the choice doesn't necessarily fill every need. Sen. Biden required the buyer to make some distinct trade-offs.

A look inside a Wall Street Journal/NBC News poll, released late last week, helps identify and quantify.

Please turn to back page

Weak prices, higher costs hurt miners

BY PATRICK BARTA

BANGKOK—Weaker commodity prices and higher costs are starting to take a toll on the mining industry as the billions of dollars being spent on new projects could take years to recoup.

For years, BHP Billiton PLC assured shareholders that one of its biggest new mines—an Australian nickel project called Ravensthorpe—would be a big moneymaker.

Now, with production under way, the international mining company says Ravensthorpe isn't profitable though it will do well eventually. But with nickel prices down 60% from mid-2007 highs and mining costs spiraling higher, some analysts wonder if Ravensthorpe will ever make much money at all.

BHP isn't unique. Unprofitable mines are cropping up in a lot of places—a surprising turn for an industry that could seemingly do no wrong during the past five years.

More bad news emerged Thursday. OZ Minerals Ltd. of Australia, one of the world's biggest zinc producers, said major parts of its business sustained a net loss in the first half of the

Please turn to page 31



Sen. Barack Obama, left, with Sen. Joe Biden, whom the likely Democratic presidential nominee named Saturday as his running mate for the November U.S. elections.

Is next Games site ready? Londoners cast wary eye

BY AARON O. PATRICK

LONDON—As the Olympics ended Sunday in Beijing with a spectacular display of choreography and fireworks, Londoners wondered if their city—facing budget constraints—will be spruced up in four years, let alone match Beijing's elaborate opening and closing ceremonies.

The three-hour closing ceremony was watched live on outdoor TV screens in some 30 cities and towns across Britain, including London, where 40,000 people attended an Olympic-dedicated rock concert outside Buckingham Palace.

London offered a taste of what to expect when it hosts the Olympics in 2012. In an eight-minute segment of the closing ceremony re-

served for the next Olympic host, it put on a display of popular British culture, its casual creativity contrasting with Beijing's mega-choreography. A red double-decker bus drove into the Bird's Nest stadium, its roof folding back to reveal soc-

Biggest winner?

China managed to quell politics and put on a pageant29

cer player David Beckham and Led Zeppelin guitarist Jimmy Page playing one of the band's hits, "Whole Lotta Love."

Even as Britain basks in the success of its athletes in Beijing—it ranked fourth in gold medals after

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cleaner-burning natural gas goes a long way. our technology makes it go even further.

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LEADING THE NEWS

France calls for summit on Georgia

EU leaders will meet next week as Russia flouts West on troops

France called a summit of European Union leaders for next week to discuss the conflict in Georgia, reflecting growing frustration among Western leaders as Russia defies calls to withdraw all its troops from Georgian territory.

Russia said late Friday it completed the pullback of its troops from Georgian territory to separat-

By Leila Abboud in Paris and Gregory L. White in Moscow

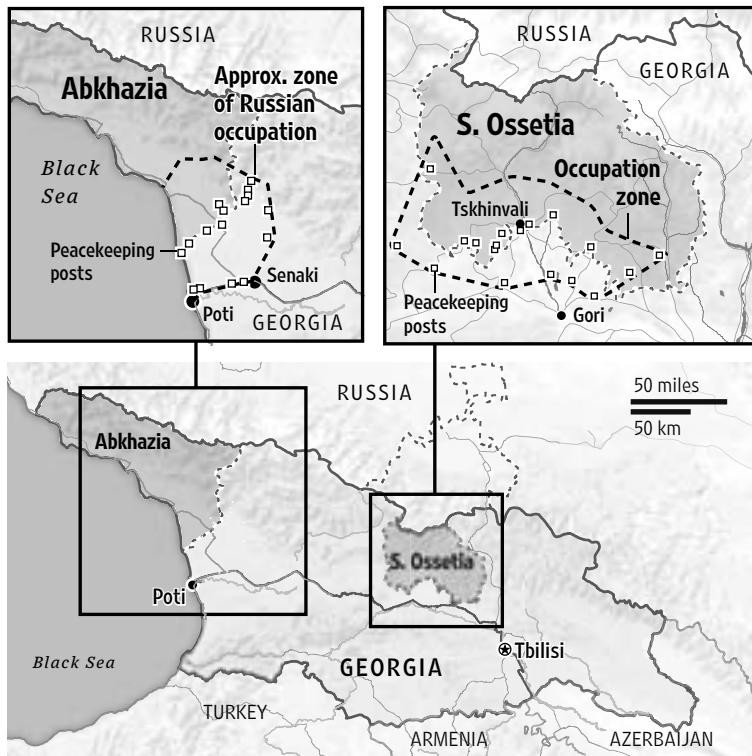
ist regions that Moscow supports. But the Kremlin left hundreds of what it called "peacekeeping forces" at dug-in posts deep in Georgia, including near a vital port and transit corridor, as well as a military base.

So far, the Kremlin has seemed largely impervious to political pressure from the West, but U.S. and European leaders are growing increasingly concerned that Moscow's ultimate aim is to cripple Georgia's economy and the pro-Western government of Mikheil Saakashvili.

In a statement Sunday night, the Élysée Palace said the Sept. 1 summit is being held at the request of several European countries and will discuss the future relationship between Russia and the EU, as well as aid to Georgia. While the U.S. has been quick to criticize Russia's actions, Europe had been less categorical. The summit is among the strongest examples yet of Europe's anger.

"What's important here is that this isn't about the U.S. and Russia," said a senior U.S. administration official. "It's about everyone and Russia."

U.S. officials have said Moscow's pullback fell short of its obligations under a six-point cease-fire deal French President Nicolas Sarkozy brokered with his Russian counter-



part, Dmitry Medvedev, Aug. 12.

The two presidents spoke again by phone Saturday, focusing on the Russian forces still in Georgia, their offices said. But the official accounts of the conversation differed on the role of international monitors who are to be dispatched to Georgia soon. Mr. Sarkozy's office said the two presidents had agreed the international group would replace Russian forces. Hours later, the Kremlin issued a statement denying Moscow had made any commitment to remove its peacekeeping forces.

Last week, after a conversation with Mr. Medvedev, Mr. Sarkozy said Russia would face "serious consequences" if the troops weren't withdrawn as per the six-point plan. The president of France—which holds the rotating presidency of the EU—had said the first measure he would take in retaliation should the Russians not comply would be to call a special EU meeting. Later,

French Foreign Minister Bernard Kouchner warned that Russia could face a deterioration of relations with Europe, Moscow's largest trading partner, including ties involving energy, Russia's main export.

Russia sent thousands of troops into Georgia early this month after Georgian forces attacked South Ossetia, a Russian-backed separatist region of Georgia. Russian troops crushed Georgia's much-smaller army and occupied large areas of the country. Most of the troops left Friday, but Moscow retained its peacekeepers in Kremlin-defined security zones around South Ossetia and Abkhazia, another Moscow-backed separatist region.

"They are trying to keep instruments to suffocate Georgia and create further trouble at any moment," said Giga Bokeria, Georgia's deputy foreign minister. Russian officials said the troops are needed to ensure security.

The Kremlin faces another potential flash point with the West

early this week, when Russian legislators are expected to consider recognizing the separatist regions as independent. Before the war, the Kremlin had refused to do so, citing international law, but Russian officials now said recognition is likely. That would be viewed in Western capitals as a violation of the spirit of the six-point agreement, diplomats say.

U.S. and European capitals already are stepping up support for the Georgian government, providing humanitarian aid and promising funding for rebuilding, including of Georgia's battered military.

Sunday, the first of several U.S. Navy ships with aid arrived in the port of Batumi, providing a potent symbol of Western support. A Russian military spokesman complained that the warships carrying aid were fueling tensions in the Black Sea.

In Ukraine, meanwhile, pro-Western President Viktor Yushchenko said the conflict in Georgia showed his country needed to accelerate its bid to join the North Atlantic Treaty Organization. Speaking at a military parade in honor of Ukraine's independence, he said, "We must speed up our work to achieve membership of the European system of security and raise the defense capabilities of the country. Only these steps will guarantee our security and the integrity of our borders."

Russia strongly opposes the idea of Ukraine joining NATO, which the Kremlin views as an anti-Russian bloc.

— Alessandra Galloni in Paris, John D. McKinnon in Washington and Andrew Osborn in Tbilisi contributed to this article.

Flat 2nd quarter in U.K. ended years of growth

By NATASHA BRERETON

LONDON—The U.K. economy stagnated in the second quarter, ending the longest continuous run of growth since records began in 1955.

The U.K. Office for National Statistics on Friday said gross domestic product was flat compared with the first quarter, marking the economy's weakest performance since the second quarter of 1992 and ending 63 straight quarters of expansion. The office had estimated that the economy grew 0.2% during the quarter.

The data indicated the economy is on the brink of recession, and increased expectations that the Bank of England will cut its key interest rate by year end.

In annual terms, the economy expanded 1.4%, below economist forecasts of a 1.6% rise and marking the lowest rate of annual increase since the fourth quarter of 1992.

The Bank of England expects growth to slow markedly over the coming months. At a press conference following the release of its quarterly Inflation Report earlier this month, Gov. Mervyn King acknowledged the possibility of a couple of quarters of contraction.

But the fact that the economy was already close to a contraction in the second quarter raised expectations that the central bank will cut its bank rate before the end of the year, even as consumer inflation accelerates further above the bank's 2% target.

Many economists now see November as the most likely timing for a rate reduction, and some are pushing up the number of cuts they forecast after that.

The BOE has kept the bank rate at 5% since April, following a string of cuts from a 5.75% peak in late 2007.

The breakdown of the GDP data painted a picture of widespread weakness in the second quarter.

Household consumption marked its largest drop since the first quarter of 1995, slipping 0.1% on lower spending on household goods and services, food, nonalcoholic beverages, cars and tourism. Investment—which includes housing—fell 5.3%, after a 1.5% slip in the first quarter.

—Alistair MacDonald contributed to this article

CORRECTIONS & AMPLIFICATIONS

Dubai-based real-estate developer **Sama Dubai's** The Lagoons project has an estimated cost of \$17.7 billion. An International Investor page article in the Friday-Sunday edition incorrectly said the cost was around \$17.7 million.

A photograph that accompanied a Corporate News page article in the Friday-Sunday edition about Spanair's plans to continue flying its McDonnell Douglas MD-82 planes incorrectly pictured an Airbus jetliner rather than an MD-82.

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LEADING THE NEWS

Village's scars illuminate Russians' views

South Ossetia locals blame devastation on Georgian attack

BY ANDREW OSBORN

KHETAGUROVO, Georgia—Grigory Mamiyev says his father, Pyotr, was standing in front of his two-story house in this tiny Ossetian village when shrapnel from a Georgian shell tore part of his head off, killing him instantly. His father's blood still stains the sidewalk outside.

Locals say an elderly woman named Tamara Mamiyeva (no relation) was burnt to death when another Georgian shell ignited a fierce fire in her home, opposite the Mamiyevs'. The squat brick house where she lived is now a blackened husk.

On the next street in this sleepy village of 150 houses, Eteri Dzhioyeva mourns her husband, Aslan. She says shrapnel hit the pensioner in the back of the head, killing him about a meter from the cellar he was trying to reach.

As the world wonders why Russia and the tiny pro-Russian statelet of South Ossetia are so sure the fierce blows Moscow dealt Georgia this month were proportionate, the devastation wrought in this village offers important clues. A visit to Khetagurovo, just eight kilometers from Tskhinvali, the South Ossetian capital, turned up evidence of indiscriminate shelling of civilian targets and accounts of the kidnapping of noncombatants. Some of the survivors' stories were independently confirmed; others couldn't be.

"We have a saying," says Mr. Mamiyev, standing amid the ruins of his home. "Build a home, plant a tree, and raise a son." Now, he says, there should be a new line: "And then the Georgians come along and turn everything into ash and cinders."

Locals say eight villagers were killed in a Georgian attack that began Aug. 7 and triggered the massive response from Russia. That number couldn't be independently confirmed, though several freshly dug graves were found in Khetagurovo's cemetery, set in the grounds of a handsome 12th-century stone church. The churchyard is littered with Georgian soldiers' empty ration packs, Georgian cigarette packets and shell casings.

In an interview, Giga Bokeria, Georgia's deputy foreign minister, denied civilians had been deliberately targeted. He said that Khetagurovo had been hit because it had been an artillery "fire point" used by Ossetian militia to fire on three predominantly Georgian villages. "We're sorry," he said. "We obviously regret any loss of civilian life." He confirmed that Grad missiles had been fired at the area around the village but insisted Georgian soldiers hadn't committed any atrocities there. The only people who had been taken prisoner were combatants and Ossetian spies, he added. Ossetian claims that women had been seized were, he said, "a complete lie."

South Ossetia, an enclave in the shadow of the Caucasus mountains, is a patchwork of ethnic Georgian and Ossetian villages. The war was the latest bloody chapter in years of ethnic conflict between the groups. After Russian troops drove Georgian forces from the area early this

month, vengeful Ossetians burned Georgian villages like Avnevi to the ground. Five ethnic Georgian villages to the north of Tskhinvali have also been systematically bulldozed, burnt and looted.

Khetagurovo's dusty, unmade streets are filled with the detritus of war. Cars lie crumpled like paper, metal fences are riddled with holes torn by shrapnel and bullets, and trees are scorched and split. The roof of the village school is adrift, and at least 30 houses appear to have been totally destroyed. Villagers' kitchen gardens and roads are pocked with large craters where shells fell, often close together. Shrapnel has torn through bedroom walls and lodged itself in wardrobes and everyday objects such as wheelbarrows and pots and pans.

Standing outside his windowless

shell-damaged house, Gamlet Gigolayev, a member of the local militia, says the attack began with small-arms fire and was followed by sustained shelling with Grad missiles. Then, he said, came the tanks.

"You could only hide," Mr. Gigolayev says.

As his mother picks up pieces of roof covering and shrapnel from the front porch behind him, Mr. Gigolayev wonders where he is going to live. "This is it, there is nowhere else," he says. "I don't know how, but we have to fix this place up before the winter sets in." Nearby, his car, a Soviet-era white Lada, is a heap of twisted metal partly sunken in the sidewalk.

The village is still dangerous, as it is littered with unexploded and abandoned ordnance. In the backyard of a house nearby, locals force

open a crate of Georgian hand grenades with a crow bar before filling their pockets. Mr. Gigolayev's garden is a no-go zone. He points out three large antitank shells nestling in the undergrowth. "They could explode at any minute," he says.

South Ossetia's prosecutor, Taimuraz Khugayev, singles out Khetagurovo as a place where Georgian soldiers committed "war crimes." He says it was occupied on Aug. 7 and 8. "When we liberated the village, we found a car filled with spades abandoned in a field," he says. "We assume the Georgians wanted to organize a mass burial."

Georgian soldiers took civilian hostages from the village, residents say. Mr. Mamiyev says he was one of six hostages taken to the Georgian town of Gori and then on to the Georgian capital, Tbilisi. He says he was

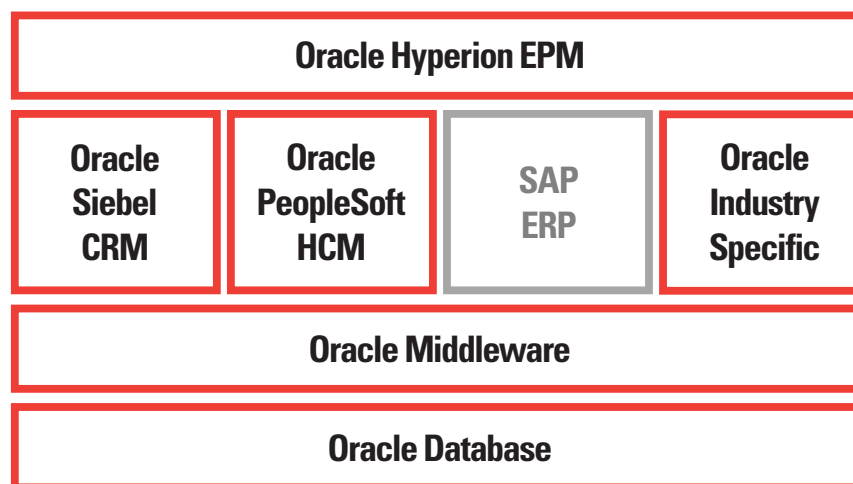
released unharmed.

Sitting in her yard drinking coffee with friends, Rita Tegkayeva, another resident who says she was taken hostage, says she is still waiting for news of her husband, Oleg, a colonel in the statelet's traffic police. "I haven't heard any news of him since Aug. 9," she says. "Only rumors." She says she hopes he may be released as part of a prisoner exchange. Locals say they are holding three Georgian soldiers to barter.

In about a dozen interviews, locals say the attack has strengthened their resolve to become part of Russia. "How many years have we been suffering?" says Ms. Dzhioyeva, who lost her husband.

She says Russia is South Ossetia's only chance of a peaceful future. "Who else will fight the Georgians?" she says.

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CORPORATE NEWS

BREWERS

Heineken raises forecast for savings on S&N deal



DUTCH BREWER Heineken NV raised its forecast for savings from its acquisition of rival Scottish & Newcastle, but warned that the purchase may not add to earnings in 2009 because of declining consumer confidence and higher interest rates.

Chief Executive Rene Hoofdt Graafland said Friday that the brewer was unable to give "a firm commitment" on earnings per share, as interest rates may change and the company still needs to finance much of the S&N acquisition. Heineken and Carlsberg A/S last year agreed to buy S&N. Heineken raised its annual savings target by 21% to €184 million.

—Stefan Kloet

SHIPPING

Neptune Orient faces one rival for Hapag-Lloyd



SINGAPORE'S Neptune Orient Lines Ltd. and a German consortium are the only bidders in the race to acquire container shipper Hapag-Lloyd from Germany's TUI AG, a person familiar with the situation said.

"Unless somebody else appears out of the blue with an unbeatable offer, the race is between those two," the person said. NOL is willing to offer as much as \$6 billion to buy Hapag-Lloyd.

The other bid, from the city of Hamburg and a group of private investors, was put together to prevent Hapag-Lloyd from falling into foreign hands. A decision on the winner is expected in October, the person said.

—Costas Paris

TELECOMMUNICATIONS

Orange Poland had actors waiting in line for iPhones



MOBILE-PHONE operator Orange Poland said it hired actors to stand in line to buy Apple Inc.'s iPhone as the device went on sale for the first time in the Eastern European country.

The company said it hired the fake iPhone customers to stimulate interest in the mobile device, which has generated huge demand in the U.S., Japan, Germany and elsewhere. "It was a part of our marketing strategy," the company said in an email. Orange is the main brand of France Télécom SA. The phone was also being launched Friday by a second Polish mobile operator, Era.

—Associated Press

Swiss watchmakers say it's time for change

Swatch, others push tighter regulations; small players object

BY MARTIN GELNAR
Zurich

SWISS WATCHES need to be more Swiss. That is the call of some of the biggest makers of one of the country's best-known luxury exports.

Worried that too large a proportion of a Swiss watch is, in fact, made outside Switzerland, big manufacturers such as Swatch Group SA, Compagnie Financière Richemont SA, which owns the Piaget brand, and family-owned Rolex SA want to tighten the requirements for what qualifies as Swiss-made.

But some smaller companies see this as an attempt to force them out of business and say protecting the Swiss-made name would be better achieved by boosting quality standards.

Under current laws, at least 50% of the value of a watch movement—the watch's engine, comprising key parts such as the winding and setting mechanisms—must be manufactured in Switzerland for the product to qualify as Swiss-made. But since a movement typically makes up only 15% to 25% of a watch's total value,



The industry is lobbying for a new standard and is demanding that at least 60% of a watch's value be created in Switzerland.

this means less than 10% of the value of a watch qualifying as Swiss-made might have been added in Switzerland.

"Today, it's legal to sell a watch as Swiss-made simply by doing some extra work on a small component in Switzerland," said Nick Hayek, chief executive of Swatch Group, the world's largest watchmaker by sales.

Some competitors, for instance, meet requirements by decorating the rotor—a half-disk rotating inside the watch case, driven by the wear-

er's movements—in Switzerland, while buying most other parts elsewhere, Mr. Hayek said.

The industry is lobbying for a new standard, demanding that at least 60% of a watch's value be created in Switzerland. It wants a hurdle of 80% for mechanical watches—sophisticated and sometimes tailor-made items with additional functions that can take months to complete—which sometimes sell for as much as 1 million Swiss francs (\$910,000) apiece.

Swatch, best known for its Omega brand, is the driving force behind the initiative, alongside Richemont and Rolex. The three dominate the Federation of the Swiss Watch Industry, a powerful industry association representing most of the country's manufacturers, which is lobbying the government for the change.

But not all watchmakers support the move. Some smaller companies fear tougher regulations would drive them out of business. "If the changes were to go through, companies like ours may have to move production abroad," said Ronnie Bernheim, co-owner of Zurich-based Mondaine Watch Ltd., which produces about one million watches a year with a Swiss work force of about 100.

Mondaine said the proposed regulatory change, which would have to be passed into law by the federal parliament, serves the interests of the large Swiss luxury-watch producers with strong global brands, while smaller manufacturers, whose products are more dependent on a low price, would suffer. For example, Mondaine's so-called Swiss Railways Watch would have to sell for around 300 Swiss francs if the content requirements changed, double its current price, Mr. Bernheim said.

The new content rules might even hurt Swiss quality, he noted, because some producers would resort to cheaper foreign-made parts, thereby raising the relative value of

the Swiss-produced components.

Mr. Hayek at Swatch Group disagrees that a requirement for a more substantial Swiss component would lead to higher prices. More business for local component makers would generate economies of scale that would bring prices down, he said.

Many financial analysts say the regulatory push is a legitimate way of protecting Switzerland's watchmaking industry, even though it is a threat to some companies.

"Those who oppose the measures are usually low-end producers which, to a large extent, buy parts abroad and sell the end product as Swiss-made, which I don't think is right," said Zuercher Kantonbank analyst Patrik Schwendimann.

Given the heft of the watch industry in Switzerland—Swiss watch exports from January to July rose 5.3% from the year-ago period to 9.9 billion Swiss francs, accounting for 8% of all Swiss goods exports—the new minimum requirement of 60% is likely to be approved, experts say.

"The watch industry's aim to raise the bar to 60% is entirely in line with the cabinet's plan to tighten Swiss proof-of-origin laws," said Felix Addor, deputy director of Switzerland's Federal Institute of Intellectual Property. An 80% requirement on mechanical watches, however, would violate trade agreements between Switzerland and the European Union, he said.

Swiss arrest ex-Alstom official, raid offices

BY DAVID CRAWFORD
AND ANTONIO REGALADO

Swiss prosecutors said they arrested a former manager of French engineering giant Alstom SA on charges of malfeasance, corruption and money laundering, as more than 50 police searched Alstom offices in Switzerland.

The arrest reflects an expansion of an international bribery and corruption investigation of Alstom that began in 2004 in Switzerland and which has since spread to France and Brazil. Investigators are probing whether the company paid bribes to win con-

tracts in Asia and South America between 1995 and 2003.

Swiss prosecutors supervised the raids on Thursday, at the request of their French counterparts, seeking leads about the flow of alleged Alstom bribery funds to overseas countries, according to a statement Friday by the Swiss prosecutor's office.

Alstom, which makes everything from power turbines to high-speed trains and subway cars, denies any wrongdoing and says it is cooperating with the investigation.

Thursday's raids focused on offices of Alstom Prom AG in three regions of Switzerland, according to the

Swiss prosecutors' statement. Prosecutors declined to name the suspect who was arrested but said he was a former senior compliance manager at Alstom Group and a former senior executive at Alstom Prom AG in Baden.

A spokeswoman for the Alstom subsidiary in Switzerland confirmed Alstom offices were searched in raids that began Thursday morning, saying the company is cooperating with the investigation. She declined to name the former official who was arrested and wouldn't say when he left the company. An Alstom spokesman in Paris declined to comment on behalf of Alstom SA.



Swiss prosecutors are looking into whether Alstom paid bribes to win contracts.

CORPORATE NEWS

GM prepares to open talks to sell Hummer

Detroit auto maker plans big investment in next small vehicle

BY SHARON TERLEP

LORDSTOWN, Ohio—General Motors Corp. has had initial expressions of interest from potential buyers of its Hummer brand and is preparing data and other materials to open formal talks, Chief Executive Rick Wagoner said.

Mr. Wagoner's comments about Hummer, the most substantive update by the company since announcing a strategic review of the brand June 3, contradict some media reports suggesting GM is in deep discussions with foreign auto makers concerning a sale. Instead, they imply GM is still in the preliminary phase of a broad strategic review of the Hummer brand.

The comments came as the company announced a \$350 million investment in its next small car. The in-

vestment will outfit its plant in northeastern Ohio to produce the next-generation of small cars that GM plans to sell in North America. The flagship will be the Chevrolet Cruze, a so-called global car that GM will offer in regions around the world. It will replace the Chevrolet Cobalt.

GM believes the rising demand for premium, well-equipped small cars in the U.S. will help the auto maker command higher sticker prices for the forthcoming Cruze. GM currently makes little, if any, money selling passenger cars in North America, instead relying on more-expensive trucks and SUVs for the bulk of profits.

But the collapse of the heavier-vehicle market in the U.S. because of high gasoline prices is pushing GM to completely juggle its business plan. The company has recently introduced a few passenger cars—notably the Chevrolet Malibu and Cadillac CTS—that are more profit-

able and sell at higher prices than typical GM passenger cars. Mr. Wagoner has said it needs to transform the entire car lineup into a profit center.

GM decided to consider selling its Hummer brand earlier this year when the demand for SUVs began to significantly recede under the weight of \$4-a-gallon gasoline costs. Hummers are widely viewed as gas guzzlers, and that image has crimped GM's ability to sell the SUVs amid high fuel prices. It has also slowed GM's push to convince U.S. buyers it is committed to fuel efficiency.

People familiar with the matter said GM isn't any longer seriously considering a complete revamp of the Hummer division into a lineup selling vehicles with better fuel economy. That would be a costly proposition for the auto maker at a time when it faces a potential liquidity crunch.

One significant hurdle for GM is its relationships with Hummer deal-



Rick Wagoner



GM plans on the Cruze as a global car to replace the Chevrolet Cobalt.

ers. Because of tough dealer-franchise laws and other agreements the auto maker has with dealers, it needs to negotiate closely with hundreds of individual store owners on the future steps it takes with the brand.

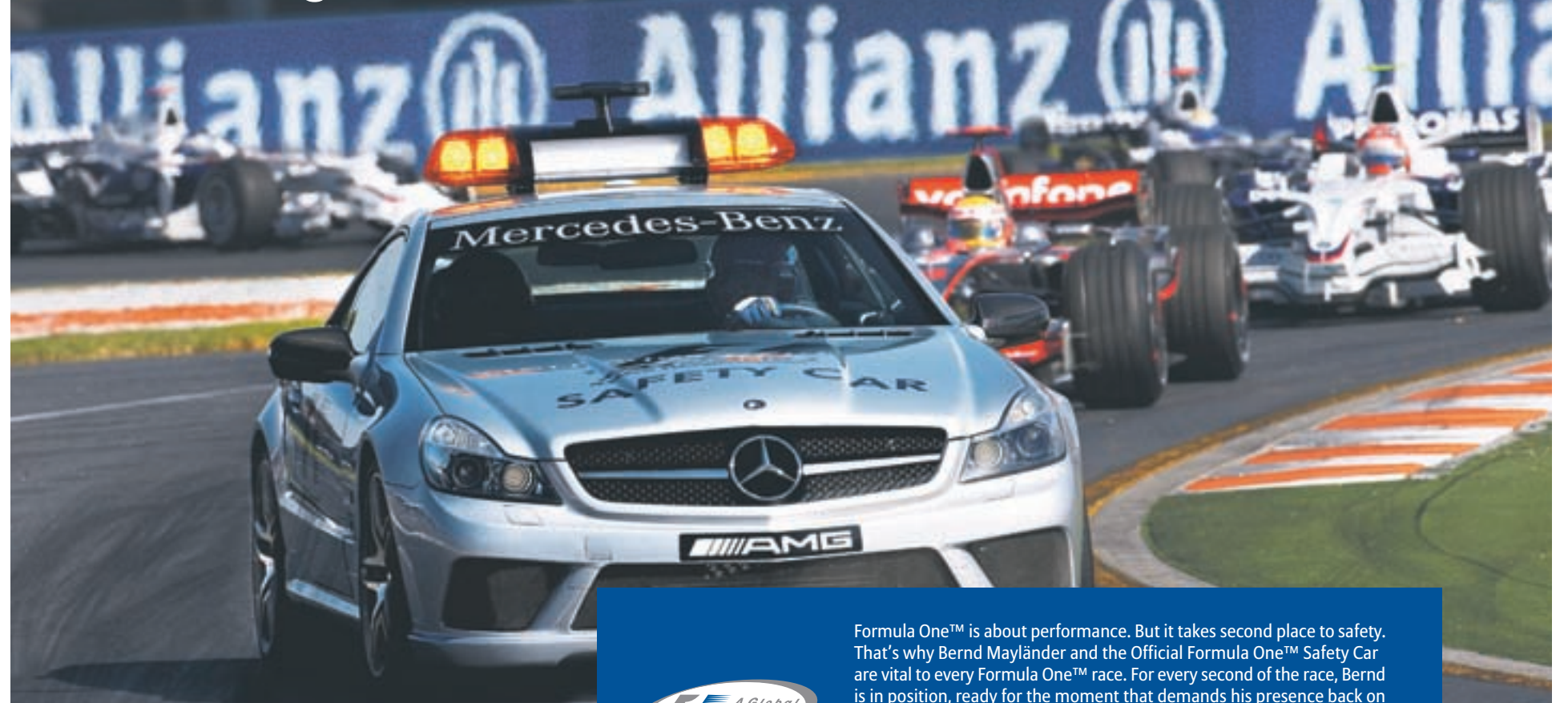
The potential sale of the Hummer brand would be a minor part of GM's plan to raise the \$15 billion in additional liquidity by the end of 2009 that it needs to remain viable

during a significant slowdown for the entire U.S. auto industry. GM will trim costs, pledge assets for new financing and sell assets to raise the needed cash.

Mr. Wagoner said Thursday that capital markets "have not opened up robustly" and are "moving in fits and starts." He noted that GM anticipated the tough environment when it laid out its \$15 billion liquidity plan.

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CORPORATE NEWS

Nadal to sport a new on-court wardrobe

Tennis star to morph into an older look; New traditionalist

BY MATTHEW FUTTERMAN

Turns out sleeveless shirts and calf-length shorts are not, in fact, fit for a king.

It has been quite a summer for Spanish tennis star Rafael Nadal.

First came the epic five-set victory over rival Roger Federer at Wimbledon. Then he struck gold in Beijing. Last week, he made his ascension official, displacing Mr. Federer as the top-ranked player in the world.

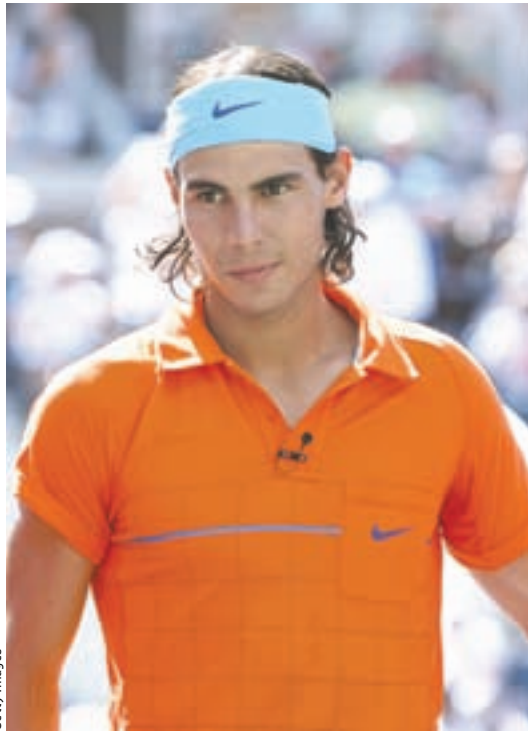
Now, as Mr. Nadal sets his sights on the U.S. Open, the hunky rebel known for his muscle shirts, Capri-length pants, and bandanna will morph into more of a traditionalist, starting with his on-court wardrobe. The shift appears part of a larger strategy by Mr. Nadal's tight-knit management team to transform the sublime baseliner from a teenage heartthrob into a grown-up star.

Since his win at Wimbledon, Mr. Nadal's visibility and marketing potential have risen significantly, and

his managers say the older look will allow him to emerge as the kind of sports marketing juggernaut that befits the best tennis player on the planet. "Rafa will have a new image at the U.S. Open," said Carlos Costa, an agent with IMG Worldwide Inc., who represents Mr. Nadal. In the past, Mr. Nadal, who is known as much for his sartorial choices as for his game, has said he has had little input on the design of his clothing. But Mr. Costa said he and the player worked closely with designers at Beaverton, Ore.-based Nike Inc. during the past year to come up with a new look.

"It is fair to say that it is more mature," Nike spokesman Kilee Hughes said of the new on-court look Mr. Nadal will sport for the first time when the U.S. Open begins Monday in Flushing Meadows, in the Queens borough of New York City. The shift comes with certain risks, even for what is perhaps the world's best marketing company.

Doug Shabelman, president of Burns Entertainment in Evanston,



Rafael Nadal's shift in wardrobe may transform him from a teenage heartthrob into a grown-up star.

Ill., a celebrity advertising consultant to top corporations, said Mr. Nadal has become a hero with a younger, hipper generation of fans

because he didn't conform to the traditions of his sport. "He is just becoming known, now that he has finally gotten over the Federer hump," Mr. Shabelman said. "You would think they would want to embrace the youthful exuberance of his personality and his look. Then again, Nike does have a way with these things. It's hard to argue with their success."

To be sure, Nike isn't aiming to turn Mr. Nadal into some Bill Tilden throwback. The company says the new outfits will continue to reflect the core of Mr. Nadal's image as the passionate Spaniard from the island of Majorca, whose flair and imagination on the court contrasts with Mr. Federer's Swiss-style efficiency and precision. Mr. Federer, 27, is often talked about as the greatest player in history.

He has won 12 Grand Slam titles, two behind Pete Sampras's record 14, and reportedly collected an estimated \$35 million in winnings and endorsement deals last year, enjoying the riches the corporate world usually

bestows on the player who dominates a sport with such a wealthy fan base.

Yet for all his greatness, Mr. Federer is more admired than beloved.

The 22-year-old Mr. Nadal, on the other hand, has been a cult figure among both passionate and casual tennis fans—as well as some people who have never picked up a racket—since his first successes on the professional tour five years ago. As a child, he shunned the tennis factories in Florida and learned the game mainly from his uncle, who is his longtime coach.

In an announcement this week that will accompany the unveiling of Mr. Nadal's new wardrobe, Nike says the short-sleeve polo shirts—complete with mesh side panels—will allow him to "counterpunch with color." "With colors as vibrant as the culture of Majorca, Rafa will burst onto the court in chlorine blue, orange blaze, white and concord. Rafa's contrasting tones are set to shine, day and night in the city that never sleeps."

His shorter shorts will be loose, as opposed to their tight, sometimes see-through predecessors. They will feature Velcro fastenings. Meantime, Mr. Nadal isn't quite done milking the hunky look: He appears topless on the cover of the latest issue of New York magazine.

Severstal to buy U.S. coal miner

BY ALEX MACDONALD AND ALEXANDER KOLYANDR

Russian steelmaker OAO Severstal agreed to purchase U.S. coal miner PBS Coals Corp., valuing the enterprise at \$1.3 billion, in another sign of the steel industry's move to source raw materials in house.

PBS owns six underground and six surface mining operations in Pennsylvania that mine, process and sell metallurgical and thermal coal.

The mines, located between Severstal's recently acquired steel mills, are able to produce more than four million tons of metallurgical coal a year from reserves of 228.3 million tons. Metallurgical coal is a key ingredient in steelmaking.

"The acquisition of PBS will help ensure that Severstal controls its operating costs by providing a guaranteed supply of metallurgical coal for our coke-making operations in the U.S.," said Gregory Mason, chief executive of Severstal International

and chief operating officer of OAO Severstal.

Severstal is buying PBS by way of a Canadian capital pool fund called Penfold Capital Acquisition Corp. for 8.30 Canadian dollars (US\$7.92) a share.

The deal includes the assumption of US\$40 million to US\$50 million in debt, said Boris Granovsky, chief of strategy at Severstal Resources, a unit of the parent company.

Steel companies have been actively buying coal assets in the wake of benchmark metallurgical coal prices tripling this year due to tight supplies. The jump in their coal costs is far outstripping a 65% to 97% rise in prices for iron ore, another key steelmaking ingredient.

Severstal needs more raw materials after recently acquiring Esmark Inc., the owner of the Wheeling-Pittsburgh steel mill, in a deal valued at more than US\$1.2 billion, and after purchasing Sparrows Point steel

mill in Maryland for US\$810 million net of debt this year.

The PBS deal will allow Severstal to source 40% to 50% of its U.S. metallurgical coal needs from its own facilities, thereby bringing the company's U.S. operating margins more in line with Severstal's Russian operations, which are entirely self-sufficient in terms of iron ore and metallurgical coal.

Severstal said it plans to make further coal and iron-ore purchases in different parts of the world to improve its self-sufficiency.

Severstal must first wait for PBS and Penfold to complete their transaction in September before it is able to acquire PBS.

Severstal plans to double PBS production in the short to medium term, the company said.

Severstal plans to fund its offer for closely held PBS through cash on hand and expects to close the deal by mid-October, pending regulatory approval.

TNK-BP chief assails Russian labor officials

BY WILL BLAND

A week after a Russian court banned him from holding executive office in Russia, the chief executive of U.K.-Russian oil company TNK-BP Ltd., Robert Dudley, has written to senior officials, accusing the country's labor authorities of abusing their power.

Mr. Dudley's leadership of the company—Russia's third largest oil producer—is one of the major flash points that threaten to break up the five-year-old partnership between BP PLC and its billionaire Russian partners.

The dispute burst into the open early this year when the Russian principals, Mikhail Fridman of Alfa Group, Len Blavatnik of Access Industries and Viktor Vekselberg of Renova, demanded Mr. Dudley's dismissal. They accused him of running the company like a unit of the British oil major, whose employees at TNK-BP were forced to leave Russia last month amid visa hassles that some have blamed on the Russian shareholders.

In the letter—sent to top officials in the employment, security, justice and corruption authorities—Mr. Dudley said the frequency and timing of inspections carried out against the company suggested "an abuse of power by the (Moscow) State Labor Inspectorate as well as a possible interest on its part in the outcome of the inspections."

"The unambiguous conclusion is that the said officials were carrying out somebody's orders," he wrote in the seven-page letter, which gave details of three inspections.

The CEO, who is currently manag-

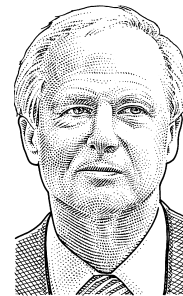
ing TNK-BP from outside Russia, asked for an investigation into whether the inspections were legal and specified three employees at the inspectorate who he said may have broken the law.

The head of the Federal Service for Employment and Labor Regulations, Yuri Gertsy, whose name was top of the list of recipients, said he hadn't received the letter and declined to comment on its contents.

"In principle, I think that our Moscow division acted properly, and their assessment was upheld in the deci-

sion of the court," he said, referring to the judgment of a Moscow court that recently ruled that Mr. Dudley broke labor laws, and barred him from holding executive office for two years.

Mr. Dudley, a U.S. citizen, left Russia last month, citing "harassment" by Russia's authorities, and has been unable to return after the authorities failed to issue him a new visa.



Robert Dudley

WPP posts rise in net, sounds caution

BY ERICA HERRERO-MARTINEZ

LONDON—Advertising company WPP Group PLC posted a 14% rise in first-half net profit, boosted by the Olympics and the U.S. presidential elections, but warned that its outlook for next year is less certain because of the economic slowdown.

WPP said 2008 revenue will be boosted by advertising spending around the elections and the Olympics, although overall activity will be about the same as in 2007.

Net profit rose to £208.2 million (\$385.4 million) from £181.9 million a year earlier. Revenue rose 14% to £3.34 billion. Organic revenue growth, which strips out the effects of currency move-

ments and acquisitions, was 4.3%.

But prospects for 2009 are less certain, the company said, particularly if the U.S. and Western Europe continue to be hit by the financial crisis and higher commodity prices.

"The slowdown in North America is evident in the second quarter," broker Panmure Gordon said, adding that WPP's outlook is cautious as expected, but importantly, the company stuck to its margin targets for 2009-2010. WPP maintained its 16% operating-margin target for 2009 and its 16.5% target for 2010. The company has a long-term margin target of 19%.

In an interview, Chief Executive Martin Sorrell said he expects 2010 to be stronger than 2009 thanks to

events such as midterm U.S. congressional elections, the Winter Olympics and the Shanghai Expo.

Mr. Sorrell also said rival GfK AG's access to capital to fund its bid for U.K. market-research company Taylor Nelson Sofres PLC is doubtful. "The financial backing GfK said it previously had to buy TNS is no longer there," he said.

WPP and GfK, a Germany-based market-research company, are locked in a battle over TNS following WPP's hostile £1.08 billion bid and GfK's zero-premium all-share merger offer for TNS.

GfK Chief Executive Klaus Wübbenhorst denied Mr. Sorrell's claim. "No financial commitments were withdrawn from," he said.

Managing

Inventing trouble
Some employees swoop in to fix problems they created themselves > Page 30



CORPORATE NEWS

Glaxo comes under fire for U.S. HIV-drug ads

Critics say campaign scares patients away from new treatments

BY JEANNE WHALEN

One of the biggest sellers of drugs to fight the AIDS virus is running magazine ads in the U.S. that are drawing sharp criticism from patient-support groups, which say the ads are an attempt to scare patients away from trying newer drug regimens.

Bob Huff, antiretroviral project director at Treatment Action Group, an advocacy group in New York, says he complained to Glaxo-SmithKline PLC a few months ago about an ad that shows shark-infested waters with the message: "Don't take a chance—stick with the HIV medicine that's working for you." Mr. Huff calls the ad offensive and said it aims to instill fear in patients. The ads carry Glaxo's logo but don't promote specific drugs.

In another ad in *Poz*, a monthly magazine for those who have tested HIV-positive, Glaxo promotes its protease inhibitor Lexiva and advises patients to ask their doctor, "Will the HIV medicine make my skin or eyes turn yellow?" Norvir, a protease inhibitor from competitor Abbott Laboratories, has been associated with that side effect.

The AIDS Healthcare Foundation, a nonprofit group in Los Angeles that provides health care to patients who test positive for HIV, the human immunodeficiency virus that causes AIDS, last month sent a letter to the Department of Health and Human Services complaining about Glaxo's advertisements. The group says it hasn't yet received a response.

"They are going to cause patients to not want to take drugs," says Michael Weinstein, president of the AIDS Healthcare Foundation. Mr. Weinstein wrote Health and Human Services Secretary Michael Leavitt seeking a meeting to discuss the ads. He attached a copy of Glaxo's shark ad, calling it "the most egregious example of this type of advertising." A spokesman for HHS said the department hadn't received the letter.

Glaxo says the ads are "educational" and appropriate. "While we acknowledge that some people may find the headline and imagery of the materials to be provocative, GSK stands firmly behind the ads and their underlying message: Patients considering changing HIV therapy ought to consult closely with their

physician to fully understand the near and potential long-term health implications of such changes," Marc Meachem, a company spokesman, said in an emailed statement.

The ads are part of a larger trend in the marketing of HIV medicines. Drug companies are increasingly taking aim at rival drugs, hinting at side effects and other drawbacks, experts say.

Among other controversial campaigns, a recent print ad from Bristol-Myers Squibb Co. shows an image of a toilet and says, "Ask your doctor if there are HIV medications with a low risk of diarrhea." That is a side effect of the HIV drug Kaletra made by Abbott Laboratories. Bristol-Myers's antiviral drug Reyataz isn't associated with diarrhea. Brian Henry, a spokesman for Bristol-Myers, said the ad is appropriate.

Such comparison ads are common elsewhere. But the pharmaceutical industry traditionally sold HIV drugs by offering patients images of hope and by explaining the benefits of their treatments. The tough new tack has some patient groups unsettled by the negativity, saying it could scare off patients.

A development fueling the sharp elbows advertising: The market for HIV medicines has grown crowded, and companies want to protect their market share.

"Treatments have become so comparable, so [companies] are really trying to split hairs to have a marketing advantage," says Regan Hoffman, editor of *Poz*, which has a circulation of 150,000. Ads for HIV treatments usually run in magazines that focus on the disease, or sometimes on billboards and street posters.

Glaxo is one of the world's biggest sellers of HIV drugs, but its medicines are relatively old and losing market share. Its share of the \$11 billion global market has fallen sharply in recent years, to about 25% today from about 39% in 2004, according to IMS Health. During that time, Glaxo launched few new HIV treatments. In a recent report, Morgan Stanley analysts noted the company's "shrinking" HIV franchise as a big challenge facing Glaxo.

Some of Glaxo's biggest HIV drugs, including Combivir and Trizivir, have been losing ground to newer treatments such as Truvada from Gilead Sciences Inc. and Atripla from Gilead and Bristol-Myers Squibb. AIDS groups say Glaxo's ads appear aimed at stopping patients from abandoning Glaxo drugs for others.

Dan Kuritzkes, a professor at Harvard Medical School who also treats HIV-positive patients at Brigham & Women's Hospital in Boston, says he worries that the shark ads "scare patients into resisting their doctor's advice."

Glaxo's Mr. Meachem says this isn't the case. The advertising is "just as likely to encourage a patient to stay with another medicine as it is one of our own, assuming that the medicine is working for a patient and is well-tolerated," he says.

However, Mr. Meachem says he is aware of the groups' concerns. The shark-themed ad campaign "ends this September, and, as always, we will take all the community feedback we have received into consideration for future campaigns," he says.

GLOBAL BUSINESS BRIEFS

Deutsche Bahn AG

'Tens of millions of euros' lost in rail-operator fraud

German rail operator Deutsche Bahn AG said that it discovered an accounting fraud totaling tens of millions of euros at its DB Schenker unit in Belgium, but that the planned flotation of its logistics business wouldn't be affected. "There were false accounts and we are talking about several tens of millions of euros," a spokeswoman for Deutsche Bahn said, adding the company was demanding an explanation from the Belgian management in Antwerp. Deutsche Bahn stressed that the fraud would not affect the books at DB Mobility Logistics AG, which it intends to privatize despite shaky market sentiment. It is set to be Germany's biggest stock-market flotation in eight years.

Czech Airlines

Czech Airlines could be put up for sale as early as this year as the Czech Republic looks to act before the market worsens, a Finance Ministry official said. An adviser for the privatization should be signed up in early September, said Tomas Uvira, head of the ministry's Asset Division. The government had not previously said when it might begin the sale of its 91.5% stake, which analysts said may fetch some 4 billion Czech koruna (\$242 million). The sale by the government, which also aims to sell the country's main airport in Prague, comes as high oil prices and increased competition weigh on airlines around the world. Neighboring Poland plans to launch an initial public offering for state-controlled airline LOT next year.

Sulzer AG

Swiss oil, gas and chemical industries supplier Sulzer AG Friday reported a 20% rise in first-half net profit and said it expects earnings to improve in the second half because of strong demand. Sulzer, a beneficiary of the recent boom in the oil industry, said net profit increased to 158 million Swiss francs (\$143.7 million) from 132 million francs a year earlier. Sales were up 6.3% to 1.76 billion francs from 1.65 billion francs, while orders, as reported previously, grew 6.2% to 2.27 billion francs from 2.13 billion francs. Sulzer said its outlook for the full year remains positive, as it continues to benefit from large infrastructure projects around the world. The company expects full-year sales and operating income to exceed last year's levels.

Rentokil Initial PLC

British services company Rentokil Initial PLC posted an 82% drop in first-half profit and said it could take as long as five years to recover to its target levels of profitability. Net at Rentokil—whose businesses include pest control, washroom operation, courier services and plant hiring—plummeted to £11.9 million (\$22 million) from £65.5 million a year earlier. Revenue was up 9.1% to £1.2 billion. The company, founded in the 1920s to sell rat poison, has cut its profit forecast four times since December, resulting in its stock price halving over the period. Both the chief executive and chairman lost their jobs in March. Rentokil's parcel delivery unit, City Link, had a loss of £28 million in the first half. Shares of Rentokil fell 4.5 pence, or 6.1%, to 69.25 pence on the London Stock Exchange Friday.

Volkswagen AG

Volkswagen AG said that its global sales last month were on a par with last year's, but world-wide sales from January to July reached a new record. The Wolfsburg, Germany, company, Europe's biggest automaker by sales, said Friday it sold 521,000 cars in July, the same as it sold a year ago. But for the first seven months of the year, the company said it sold nearly 3.8 million cars, up 5% from a year earlier, driven by strong demand in China, where 607,500 cars were sold—a record increase of 19%. Demand was also on the rise in Brazil, with 378,300 cars sold in the first seven months, up 22%, and in Central and Eastern Europe, where sales rose 19.6% to 333,100. In Europe, sales were up less than 1% with nearly 2.2 million cars sold. The company, whose brands include Audi, Skoda, Seat, Bentley and Bugatti, did not break down its sales in North America, where it plans to build a new manufacturing plant in Tennessee.

Samsung Electronics Co.

Television sales are continuing to increase despite concerns about a global economic slowdown. Research firm DisplaySearch said TV shipments world-wide rose 11% from a year ago in the second quarter, helped by strong growth in North America, where shipments jumped 28%. South Korean electronics maker Samsung Electronics Co. took top market share of 22.8% in terms of revenue, which rose 18% from the first quarter. Sony Corp. came in second with a 12.5% share, as revenue declined slightly. Both companies showed a roughly 50% jump in revenue from a year ago. Matsushita Electric Industrial Co., which makes Panasonic-brand TVs, had lost market share in the first quarter but recovered to 8.4% as it sold more fully-digital plasma televisions.

General Motors Corp.

Battered by high gasoline prices, the U.S.'s Big Three auto makers and their suppliers may seek much more help from Washington in the form of government-backed loans than the \$25 billion they had requested. The loans were approved as part of an energy bill last year, but now General Motors Corp., Ford Motor Co. and Chrysler LLC will need "well north" of that, a GM spokesman said. The companies, all three of which are struggling financially, hope to use the loans to accelerate the development of technologies and vehicles. "There's a real urgency in that all of the progress we have made on these new vehicles could come to a standstill if we can't get capital at reasonable rates," GM spokesman Greg Martin said.

Continental AG

Karl-Thomas Neumann will become the new chief executive of Continental AG, the German car supplier said Saturday. Mr. Neumann, who is currently the company's board member responsible for technology, will succeed CEO Manfred Wennemer in September, the Hannover-based company said after a meeting of its supervisory board. Alan Hippe will assume the newly created post of deputy chief executive. Mr. Wennemer had announced his resignation for the end of this month after Continental ended its takeover battle with family-owned Schaeffler Group earlier this week. Mr. Wennemer, whose contract would have expired in 2011, had strongly opposed Schaeffler taking a stake in Continental.

Qantas Airways Ltd.

Qantas Airways Ltd. will inevitably merge with another major airline as part of a global restructuring of the aviation industry, the company's chief executive said Friday. Geoff Dixon, who will retire from the helm of Australia's flagship carrier in November, said the airline must become larger to remain competitive. "Other airlines are starting to merge, and we must be part of that," Mr. Dixon told Australian radio. Singapore Airlines Ltd. has been named as a potential suitor. Mr. Dixon said he wasn't looking at any rival in particular. "All I am saying is that many airlines are now merging in situations where they probably would not have considered it three or four or even five years ago."

Cemex SAB

Venezuela's vice president said the government is willing to negotiate with the Mexican cement company Cemex SAB over the nationalization of its subsidiary in the country. Vice President Ramon Carrizalez said Venezuela wants to "carry out negotiations in an atmosphere of cordiality." Cemex has said it plans to seek international arbitration over the expropriation of its plants in the country earlier this week. Government officials backed by National Guard troops seized the plants on Monday night. Mr. Carrizalez said on Friday that there is still a "disposition to reach an agreement, on the part of the Venezuelan government and the company Cemex."

Alpharma Inc.

King Pharmaceuticals Inc. disclosed that fellow drug maker Alpharma Inc. rejected a \$1.43 billion takeover offer earlier this month, though King remains optimistic that a deal will be worked out. The \$33-a-share bid represented a 37% premium to Alpharma's Thursday closing price and was 49% above the price on Aug. 4, the date of the offer. Friday, Alpharma shares rose 44% to \$34.51, and King's stock rose 8.5% to \$12.19 in New York Stock Exchange composite trading. King Chief Executive Brian Markinson said in an interview that the company was still "very committed to this deal." Alpharma officials weren't available for comment.

China Pacific Insurance (Group)

China Pacific Insurance (Group) Co., which is 17.3%-owned by private-equity firm Carlyle Group LP, posted a 44% increase in first-half net profit on strong premium growth. China Pacific, the country's third-largest life insurer by market share, said net profit for the six months ended June 30 was 5.51 billion yuan (\$806 million), up from 3.82 billion yuan a year earlier. Though its total investment yield dropped to 5.2% in the first half from 7% a year earlier due to China's tumbling stock market, the insurer's investment income in the first half rose 22% to 16.33 billion yuan. China Pacific's premiums rose 52% in the half to 47.57 billion yuan.

—Compiled from staff and wire service reports.

Marketplace

Fewer, bigger films

Warner Bros. envisions wider role for DC comics characters > Page 28



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ECONOMY & POLITICS

RUSSIA

Former Yukos boss denied early release from prison



A RUSSIAN court rejected jailed oil tycoon Mikhail Khodorkovsky's request for parole, ordering him to serve out the remainder of his sentence in a ruling his lawyer called politically motivated.

Mr. Khodorkovsky, the former head of OAO Yukos and once Russia's richest man, was sentenced to prison for eight years in 2005 on charges of tax evasion and fraud in what critics slammed as a flawed trial.

Judge Igor Faliliyev cited Mr. Khodorkovsky's refusal to take part in professional training in sewing while in prison, and an alleged misdemeanor dating to October. Mr. Khodorkovsky showed little surprise at the decision. —Associated Press

LIBYA

Gadhafi's son says he will eschew political activity



LIBYAN leader Moammar Gadhafi's son said he will no longer be involved in politics, calling for democratic changes and denying he would succeed his father.

Seif al-Islam Gadhafi addressed thousands of young Libyans in a speech broadcast on state-run television. "I have decided not to intervene in state affairs," he said. He

gave no explanation for his decision, and it couldn't be determined whether it will be carried out seriously.

The younger Mr. Gadhafi holds no official post but has grown in prominence in recent years, directing economic changes and playing a major role in negotiations with the West. —Associated Press

FRANCE

Vote isn't likely to change presence in Afghanistan



FRANCE'S Parliament is expected to vote on whether to keep some 2,600 of the country's troops in Afghanistan, after an ambush last week killed 10 soldiers.

Public opinion has turned against French participation in the NATO peace-keeping force; a recent newspaper poll showed 55% of respondents thought the French should withdraw. But there is little chance that the French legislature, dominated by President Nicolas Sarkozy's conservative party, will vote to abandon the French presence.

Next month's vote is largely a gesture toward those who questioned Mr. Sarkozy's decision in April to send in 700 additional troops. —Associated Press

Nobel winners say nations should aid poor

Assistance is urged for have-nots hurt with globalization

BY JOELLEN PERRY
Lindau, Germany

GLOBALIZATION and technology have increased income inequality around the world, four Nobel Laureates in economics argued, and governments should intervene to try to help those at the bottom.

Meeting on a picturesque island in southern Germany, the Nobel laureates focused Saturday on the growing gap between rich and poor, which has become a big issue in elections around the world, including the U.S. presidential race. The discussion focused more on broad themes than detailed solutions. But the main thrust was clear: Free markets aren't always fair, and economists should help governments figure out how to make them fairer.

"Much of economics is about the relative efficiency of market allocation," said Robert Solow, a left-leaning economist who won the Nobel prize in 1987 for separating the components of economic growth into labor, capital and technological change. But, Mr. Solow said, economists also have to study how best to reroute income "to those who are damaged by otherwise useful developments in the economy from those who profit."

Mr. Solow, who served as a senior economist in the Kennedy White House, identified three main causes of growing global inequality. Globalization, he said, has dramatically increased the world's supply of low-skilled labor, damping wages for such workers in developed countries. Rapid technological change also has boosted demand for high-skilled workers, whose wages have risen as demand has exceeded supply. In addition, labor unions have lost

ground and workers' wages have suffered as wealthy countries have shifted to service industries from manufacturing.

To the extent that growing inequality is the product of such "fundamental forces," Mr. Solow said, "it's hard to know what to do about it, other than to accept it and repair it, rather than try to prevent it." In practice, that's likely to mean higher taxes on wealthier citizens.

Globalization can have mixed outcomes, said George Akerlof, who won the Nobel prize in 2001 for work on how markets function when buyers and sellers have different amounts of information on the product for sale.

"Opening up is a good thing for countries that have the administrative capacity to deal with it," said Mr. Akerlof, now an economics professor at the University of California, Berkeley. But in countries like India in the

19th century, globalization meant succumbing to foreign rule with "vastly bad consequences."

Now, however, many Indians are benefitting from open borders because of country's embrace of technological change, which is a plus for the global economy even if it puts some U.S. employees out of work. "Every time someone gets a job in Bangalore, I'm cheering because it means global distribution has been more even," said Mr. Akerlof, whose wife, Janet Yellen, is a former Clinton White House economist and currently president of the San Francisco Federal Reserve Bank.

Spreading the wealth within countries requires healthy institutions, said Finn Kydland, a Norwegian economist who is now also at

Cal-Berkeley. He won the Nobel in 2004 for work on the forces that drive business cycles and research showing how short-term political motivations can undermine sound economic policy.

"Globalization ought to be good for all countries," though it isn't unless government policies are up to the challenge, he said. Look at Brazil and Argentina over the past two decades, he added. In Brazil, global growth has boosted low-wage workers' income levels more than the levels of higher earners. Argentina, by contrast, saw its per capita GDP slide by some 20% in the 1980s as a series of government administrations piled on a debt load that eventually became crippling. Since then, real wages have fallen and the gap between rich and poor has widened.

What made the difference? "Bad economic policy," said Mr. Kydland. "If there's not a mechanism for redistribution, it probably

won't happen."

Governments tackling inequality need the right data, said Robert Fogel, who won the 1993 Nobel for applying statistical analysis to the study of economic history. U.S. data on inequality, he said, likely overstate the number of people who are stuck permanently in poverty.

U.S. inequality is far lower when measured by expenditures than by income, said Mr. Fogel, a University of Chicago economist. He said that might be because many of the people in the lowest income bracket are there temporarily: for instance when middle-class people lose jobs and haven't yet

got loans or sold off assets. "Governments in wealthy countries like the U.S. are obligated to improve conditions of life for the poor," said Mr. Fogel. "My message is: Make sure you know what you're doing when you yield this very heavy fiscal ax."



Robert Solow



George Akerlof



Finn Kydland

Euro-zone factory orders fall, exports rise

BY EMMA CHARLTON

LONDON—Euro-zone factory orders fell in June at the fastest rate since December 2001 as steep drops in demand for textiles and transportation equipment pushed the bloc closer to stagnation.

The European Central Bank said separately that exports rose in June, indicating that slowing domestic demand is the main source of the euro zone's economic weakness.

New industrial orders in the 15 countries that share the euro fell 7.4% in June from a year earlier, after falling 4.4% in May, Eurostat reported. The drop, exceeding economists' expectations of a 6.7% fall, marked the steepest drop since December 2001, when new orders fell 10%. New orders in June fell 0.3% from May, after a 5.4% drop in May. Economists had expected a decline of 1.6% for June.

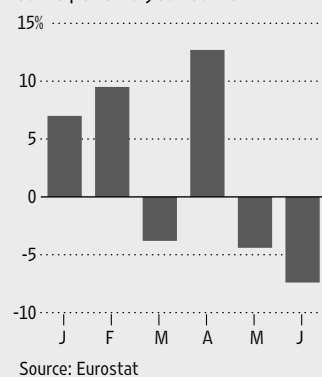
June's decline was led by a 30% drop from a year earlier in orders for transportation equipment, such as ships and railway and aerospace products. After stripping out these items, orders fell 1.5% from a year earlier and rose 0.6% from May.

"The available evidence shows ever more clearly that the euro-zone economy has fallen into semistagnation, or worse," said Holger Schmieding, an economist at Bank of America. "The further decline in industrial orders published today confirms the downbeat message from leading indicators: The euro-zone economy is heading for trouble."

The ECB on Friday reported that exports rose to a seasonally adjusted €131.3 billion (\$193.97 billion) in June from €130.7 billion in May. Imports also rose, to €133.3 billion from €132.9 billion. That left the euro-zone trade deficit in goods at €2 billion in June, nar-

Sharp drop

Change in industrial new orders in the euro zone compared with the same period a year earlier



Source: Eurostat

rower than the €2.2 billion gap in May.

The export strength indicates that the euro's strength at the end

of the second quarter hadn't made it impossible for euro-zone exporters to compete on global markets.

In the new-orders report, demand for textiles, machinery and electrical goods all fell in June from a year earlier, while orders for metal products and chemicals rose.

The new-orders data give an indication of the euro zone's future industrial output and so can be used to estimate overall economic activity in the common-currency area.

June was the second successive month of decline, and the weak second-quarter performance doesn't bode well for the third quarter. Some economists predict euro-zone gross domestic product will contract in the third quarter from the second, entering the common definition of recession, that is, two consecutive quarters of negative output.

U.S. DEMOCRATIC CONVENTION

National security has shift in tone in new platform

BY NICK TIMIRAOS

Democratic convention delegates are set to ratify a party platform this week that refers sparingly to the "war on terror," among other marked shifts in tone on national-security issues from four years ago.

In 2004, national security and terrorism had top billing and took up the first half of the Democratic Party platform, which was the first since the Sept. 11, 2001, attacks. The platform promised retaliation for a terror attack with "overwhelming and devastating force," making reference to the "war on terror" seven times. It identified winning "the global war against terror" as the primary national-security challenge.

This year's platform refers to a general "war on terror" just once and argues for policies that "expand our understanding of the circumstances and beliefs that underpin extremism." The primary national-security goal is "ending the war in Iraq responsibly." While the document also makes specific appeals to defeat al Qaeda, it does so by outlining U.S. policy in Pakistan and Afghanistan.

The party platform is written primarily for the party base and receives far less attention than prime-time convention speeches. But it offers clues to shifting priorities or a rethinking of stances.

With the economy and energy costs topping voters' concerns, the Democratic platform emphasizes the economy and "renewal." On national security, the platform both "is getting more specific, and spreading the net wider," says Rand Beers, a national-security adviser to John Kerry's 2004 campaign. "The circumstances that we're talking about in the world today, versus 2004, have changed."

While Sen. Barack Obama's selection of Delaware Sen. Joe Biden as his running mate adds foreign-policy heft to the Democratic ticket, the platform illustrates the difficult balancing act Sen. Obama faces on national security. Polls show Republican candidate John McCain has a significant advantage. Voters favor Sen. McCain on fighting terrorism by 51% to 23%, according to the latest Wall Street Journal/NBC News poll.

A committee of party stalwarts drafted the platform, but the framework arose from a series of 1,600 meetings with rank-and-file Democrats. "We really didn't look too much at 2004," says Michael Yaki, the national platform director. "When we were out there talking and listening to people, we concluded that, to paraphrase Bill Clinton in 1992, 'It's the economy, energy, and health care, stupid.'"

On social issues, the Democratic platform tries to strike a balance between the party's base and swing voters. The platform includes new language aimed at emphasizing a desire to reduce the number of abortions, while on immigration the party promises immigration reform that is "tough" and "humane." The platform also offers a section on faith and a section on fatherhood, a favorite theme for Sen. Obama.

The platform calls for an end to the military's "Don't Ask, Don't Tell" policy on gays serving in the armed forces and opposes the Defense of Marriage Act, which defines marriage as the legal union between one man and one woman.

Week gives opportunity, challenge

Humanizing Obama, indulging admirers part of party's goal

BY CHRISTOPHER COOPER

DENVER—Democrats open their convention Monday walking a tight-rope of uncertainty: As they head into an election that is bearish for Republicans by practically any measure, and with a likely nominee who has garnered intense excitement and record-breaking financial support, prospects for the party in November remain too close to call.

What Democrats do this week to allay voter concerns about one of the most unusual presidential nominees in American history—Sen. Barack Obama—will provide a likely template for the freshman senator's prospects in November.

In a week when many voters will be seriously tuning into the presidential race for the first time, the Obama campaign has devised a convention agenda that seeks to humanize a candidate perceived by many to be arrogant and aloof and perhaps out of step with the working class. At the same time, a tandem goal—to indulge the swooning enthusiasm that characterizes many of Sen. Obama's supporters—will provide a near-opposite view of the Illinois senator who remains a cipher to many Americans.

As he heads into the final leg of what will be a 22-month run at the presidency, Sen. Obama carries only the thinnest of leads against his Re-

publican rival. Public polls, including one conducted last week by The Wall Street Journal, show that many Americans—including a substantial number of Democrats—remain deeply ambivalent about the freshman senator from Illinois.

The Journal poll showed that even with fewer than two in 20 likely voters believing the country is on the right track under President George W. Bush, and with more than three-quarters of them convinced that likely Republican nominee Sen. John McCain will carry on the Bush administration policies, Sen. Obama beats his political counterpart in a straight-up contest by a mere three percentage points, 45-42, representing a statistical dead heat after accounting for the margin of error.

Among undecided voters, two-thirds say they have unanswered questions about Sen. Obama. Many of those questions, the poll suggests, come in the form of doubts about his fitness to be commander in chief.

As was true in 1992 of then-Arkansas Gov. Bill Clinton, Obama-campaign strategists are devoting much convention time to introducing Sen. Obama as a person, one who shares the values of ordinary Americans and understands—as campaign political adviser Anita Dunn put it—"that the price of a gallon of gas, like the increased price for a gallon of milk, is a very important subject right now to many Americans."

While Sen. Obama's wife, Michelle, will be the primary person respon-

sible for humanizing the candidate (she speaks on Monday evening), the campaign has taken pains to ensure that what Ms. Dunn calls "the voices of ordinary Americans" are heard throughout the proceedings.

One of those opportunities comes on Wednesday evening, during a so-called American Town-Hall meeting, when questions gathered from 10 remote sites around the country, in the form of text messages, emails and video clips, will be very important.

While Sen. Obama brings many strengths to the table—and is widely considered to be among the most gifted orators in U.S. national politics—he isn't an easy sell to voters, as he himself has acknowledged, even after running a disciplined campaign that rivals too admire.

His message of change, multi-racial background and lack of political experience have left even some Democrats wondering if he can in November beat Sen. McCain, whom many consider isn't a particularly strong candidate himself. Sen. Obama remains an unknown to many Americans, and is viewed by others as standoffish or arrogant. In a certain sense, some Democratic analysts say, the November election is as much a referendum on Sen. Obama as it is a close race between two candidates.

A substantial number of Democrats continue to wage the battle of the bygone primary season and harbor bitterness that the senator from Illinois was able to edge out Sen. Hillary

Clinton for the nomination. During this convention, advisers say, one task for Sen. Obama is clear: He must take advantage of the spotlight by introducing himself as a man who shares the values of ordinary Americans while maintaining the excitement that has attracted legions of young and casual voters to his candidacy.

He must do more to convince voters that he is capable of being an effective commander in chief. And he must settle his differences with erstwhile rival Sen. Clinton and her supporters, many of whom remain miffed that she was passed over for the vice-presidential slot. Sen. Clinton garnered an estimated 17 million votes during the primary season—many of them in states that Sen. Obama must take in November if he is to win the presidency.

As David Wilhelm, an Obama campaign adviser who chaired Bill Clinton's 1992 presidential campaign, put it, "By the end of this convention, there should be no doubt in any voter's mind that Obama is on their side and McCain isn't. This is going to sound a little strange, but even after all of these months of campaigning, he's just not that well known on the national stage. The convention is a great opportunity to have that introduction."

None of these objectives are lost on Obama campaign officials who have created an agenda for the four-day convention that seeks to capitalize on his strengths. One such strength—as perceived by both the campaign and people polled—is that most voters believe Sen. Obama will be a better steward of the economy than Sen. McCain.



Barack Obama

Biden choice offers link to working class

BY AMY CHOZICK

SPRINGFIELD, Ill.—Barack Obama used his first joint appearance with his vice-presidential nominee, Sen. Joe Biden, to push a more populist economic message, emphasizing his running mate's blue-collar roots and painting Republican Sen. John McCain as out of touch.

"This working-class kid from Scranton and Wilmington has always been a friend to the underdog," Sen. Obama said of Sen. Biden, of Delaware, to the 35,000 people gathered Saturday at the same site where he declared his candidacy 19 months ago.

The two men plan to take a tour of economically stressed swing states before arriving together in Denver for their party's nominating convention, which opens Monday.

Recently, the presidential debate has shifted to the candidates' personal wealth and who can best relate to voters struggling with high gasoline prices and mortgage payments. Sen. Obama has adopted a more specific economic message, borrowing some of the populist rhetoric used by his former rival Sen. Hillary Clinton. On Thursday, he attacked Sen. McCain, his Republican rival, for saying in an interview that he wasn't sure how many homes he had. The Obama campaign has launched two TV advertisements highlighting the gaffe.

Sen. Biden, 65 years old, used his speech Saturday to praise the pre-

sumptive Democratic nominee and paint Sen. McCain as elitist. "Your kitchen table is like mine... You talk about how much you're worried about being able to pay the bills," Sen. Biden told the crowd. Sen. McCain will "have to figure out which of the seven kitchen tables to sit at."

On Sunday, Sen. McCain's campaign said Sen. Obama snubbed Hillary Rodham Clinton as a running mate because of her criticism of the

Democratic presidential candidate, a claim the Obama campaign immediately dismissed. A new McCain ad, the second since Sen. Obama revealed his choice of Sen. Biden on Saturday, challenges Sen. Obama's motives in passing over his former top rival and choosing Sen. Biden, who dropped out of the presidential contest after a poor showing in Iowa, the first contest. Chief Obama strategist David Axelrod insisted that Sen. Biden was "a better fit."

House Speaker Nancy Pelosi (D., Calif.) said Sen. Biden offered "the full package." She said he "has challenged the status quo. And he's even criticized Senator Obama, so it's a tribute to Senator Obama that he's not just choosing a yes man but a person who will speak what he believes."

Republicans launched extensive attacks against Sen. Biden just hours after Sen. Obama sent a text message to supporters officially announcing his choice. A new Republican National Committee Web site calls Sen. Biden "Obama's Off-Mes-

sage Man" and provides a catalog of critical statements that Sen. Biden made about Sen. Obama during the Democratic presidential primary.

Sen. Obama dedicated a large portion of his speech Saturday to retelling Sen. Biden's personal story. Within weeks of his senate election in 1972, Sen. Biden's wife and daughter were killed in a car accident. He then adopted the habit of commuting by train from Wilmington, Del., to Washington on days the Senate was in session, a 1½-hour journey that he continues to make.

A Roman Catholic, Sen. Biden often talks about receiving a "second chance in life" after surviving surgery on two brain aneurysms, shortly after ending his first presidential bid in 1988.

"He is still that scrappy kid from Scranton who beat the odds; the dedicated family man and committed Catholic who knows every conductor on that Amtrak train to Wilmington. That's the kind of fighter who I want by my side," Sen. Obama said.

Sen. Obama has had a hard time connecting with Catholics and with economically strapped white voters in key swing states, who largely voted for Sen. Clinton in the Democratic primaries. The campaign is betting that Sen. Biden can help bring in these voters.

"I'm here for the cops and the firefighters, the teachers and the line workers, the folks who live—the folks whose lives are the measure of whether the American dream endures," Sen. Biden said. He called Sen. Obama "the son of a single mom, a single mom who had to strug-

gle to support her son and her kids."

Sen. Biden is one of the senate's least wealthy members. With the exception of a \$112,000 book advance, he showed little income in 2007 beyond his \$165,000 Senate salary and the \$20,500 his wife made teaching at Widener University in Chester, Pa.

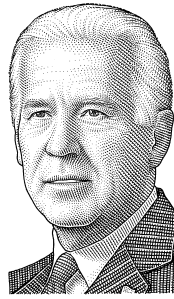
The setup at the Saturday rally was similar to the February 2007 event at which Sen. Obama first declared his presidential run. On both occasions, the Illinois senator evoked Springfield's other famous politician, Abraham Lincoln.

The rally came as Sen. Obama faced criticism for choosing an inside-the-Beltway senator whose three decades in Washington could run counter to the Obama campaign's message of change. "Joe Biden is that rare mix—for decades, he has brought change to Washington, but Washington hasn't changed him," Sen. Obama said.

Sen. Biden, chairman of the Foreign Relations Committee, could help fill a national-security void in Sen. Obama's resume. Polls show voters believe Sen. McCain is the more prepared candidate to serve as commander-in-chief. Sen. Obama called Sen. Biden "one of America's leading voices on national security" and "a statesman with sound judgment who doesn't have to hide behind bluster to keep American strong."

The Obama campaign declined to give details about the selection process, other than to say Sen. Obama called Sen. Biden Thursday night to offer him the nomination.

—The Associated Press contributed to this article.



Joe Biden

ECONOMY & POLITICS

Bernanke defends policy

Economic downturn is seen relieving inflationary pressure

BY SUDEEP REDDY

JACKSON HOLE, Wyo.—Federal Reserve Chairman Ben Bernanke defended the U.S. central bank's decision to keep interest rates low even as consumer prices rise sharply, saying a weaker economy is likely to bring inflation under control in the medium term.

Mr. Bernanke's comments, at the Kansas City Fed's annual symposium at Grand Teton National Park, suggested the Fed is likely to keep its target for its benchmark interest rate at 2% in coming months.

He said the "financial storm" that started last year "has not yet subsided." Financial turmoil and inflation triggered by higher commodity prices have resulted in "one of the most challenging economic and policy environments in memory," he said. Some Fed officials have called for raising rates before long to address worries about inflation. Consumer prices in the U.S. rose 5.6% in July from a year earlier, a 17-year high. However, most officials believe a weak economy will lessen the inflation threat, and they want to keep rates lower for now to offset tightening credit conditions.

Mr. Bernanke on Friday said the Fed's strategy for keeping its rate target "relatively low" is based on the expectation that prices for oil and other commodities "would ulti-

mately stabilize," in part due to slowing global growth. He said economic weakness would help bring inflation under control "in the medium run," indicating the Fed is looking beyond the recent price surges.

While Mr. Bernanke called the inflation outlook "highly uncertain," he said he is encouraged by the recent price decline in oil and "increased stability of the dollar."

Turning to oversight of the financial system, Mr. Bernanke suggested that the current approach to financial regulation—looking at individual firms—should be expanded to consider potential risks to the broader financial system. Overseeing financial firms in a broader fashion would allow for "stress-testing" of institutions and financial markets at the same time to determine where breakdowns could occur.



Fed Chairman **Ben Bernanke**, left, with New York Fed President Timothy Geithner in Wyoming, said the 'financial storm' that started last year 'has not yet subsided.'

That might help the overall economy, he suggested. A supervisor looking at an individual bank might push for conservative lending policies, but a broader view might allow for more liberal lending to avoid an economy-wide credit crunch, he said.

He said authorities should have a procedure in place to unwind companies that present a risk to the financial system, with the goal of avoiding hasty ad-hoc rescues like the one of Bear Stearns in March.

However, Mr. Bernanke warned against letting people think that financial crises could be eliminated entirely. "An expectation by financial market participants that financial crises will never occur would create its own form of moral hazard and encourage behavior that would make financial crises more, rather than less, likely," he said.

One area of potential financial-system instability cited by Mr. Bernanke involves so-called triparty repurchase agreements.

Plain-vanilla repurchase agreements, or repos, are a way for financial institutions to get short-term cash loans. They sell securities to another institution and agree to buy them back the next day.

In the triparty repo market, a clearing bank helps facilitate the repos by standing in between lenders and borrowers. Regulators worry that if a large financial institution runs into trouble, it might have difficulty making triparty repo transactions because the clearing bank might be worried about a default. That could disrupt the functioning of the broader repo market.

—Damian Paletta and Serena Ng contributed to this article.



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Chinese bank accused of aiding attacks in Israel

BEIJING—A lawsuit filed in Los Angeles Superior Court claims that one of China's biggest banks transferred millions of dollars for terrorist groups bent on attacking Israel, ignoring demands by Israeli counterterrorism officials to halt the practice.

The lawsuit, against Bank of China Ltd., was brought on behalf of more than 100 victims of terrorism in Israel and alleges that the money was transferred for the militant groups Hamas and Palestinian Islamic Jihad in Iran and Syria, and processed through Bank of China's branches in the U.S. and China.

The suit claims that in April 2005, Israeli counterterrorism officials informed officials of their concerns over the wire transfers.

The People's Bank of China Friday said in a faxed reply that it didn't hold talks in 2005 with Israeli counterterrorism officers about the matter and that such an account "doesn't conform with the facts."

Wang Zhaowen, a Beijing spokesman for Bank of China, said Bank of China "always complies with the United Nations' antimoney-laundering regulations."