



Asian regulators don't buy into banks' foreign forays

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A big deal lands in court as buyout bust turns bitter

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What's News —

Business & Finance

World-Wide

OPEC ministers are sharply divided on how to deal with falling oil prices as they begin a meeting in Vienna, but appear ready to shun an immediate production cut while warning that oversupply concerns could bring cutbacks. **Page 1**

■ **The LSE faces a difficult task** after its most serious breakdown in eight years in convincing traders that it won't happen again. **Page 1**

■ **Deutsche Post could sign a deal** to sell its stake in Deutsche Postbank as early as this week. **Page 4**

■ **U.S. stocks were battered** as the euphoria over the Fannie Mae and Freddie Mac bailout faded. European shares fell as a drop in oil and metals prices hit commodity plays. **Page 18**

■ **Russian stocks tumbled** to their lowest level in more than two years amid economic and political worries. **Page 17**

■ **Lehman shares plunged 40%** after a South Korean official said talks about an investment by Korea Development Bank have ended. **Page 17**

■ **The U.S. Justice Department** hired litigator Sanford Litvack for a possible challenge to Google's growing power in online advertising. **Page 5**

■ **Renault's largest labor union** called for a one-day strike after the French car maker detailed plans to lay off some 5,000 workers. **Page 3**

■ **A top ECB policy maker** said global central banks should coordinate further to ensure banks have easy access to funds during a crisis. **Page 3**

■ **Vodafone Group** appointed Michel Combes as European regional chief executive in a management shakeup. **Page 6**

■ **Nokia is slated** to announce it is deepening its relationship with Microsoft to give more mobile-phone users access to their office email. **Page 6**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11230.73	-280.01	-2.43
Nasdaq	2209.81	-59.95	-2.64
DJ Stoxx 600	279.60	-1.70	-0.60
FTSE 100	5415.6	-30.7	-0.56
DAX	6233.41	-30.33	-0.48
CAC 40	4293.34	-46.84	-1.08
Euro	\$1.4124	-0.0085	-0.60
Nymex crude	\$103.26	-3.08	-2.90

Money & Investing > Page 17

■ **Obama and McCain are even** in the U.S. presidential race, with 46% of voters favoring the Obama-Biden Democratic slate and 45% favoring McCain and Alaska Gov. Palin, who has given the Republican ticket a shot of adrenaline, a Wall Street Journal/NBC News poll shows. **Pages 1, 10**

■ **North Korean dictator Kim Jong Il** is believed to have had a stroke in the past month and has suffered serious health problems, though his current state isn't known, U.S. officials said. **Page 2**

■ **Russia said posts near South Ossetia and Abkhazia** are beginning to be dismantled. Moscow will keep at least 7,600 troops in the breakaway Georgian provinces for the foreseeable future.

■ **Russia said it regretted Bush's decision** to freeze a civilian nuclear deal with Moscow but that it wanted nuclear cooperation with the U.S. to continue.

■ **The EU said it would build closer economic and political ties** with Ukraine but stopped short of inviting the country to join the 27-nation bloc. **Page 2**

■ **Zardari was sworn in** as Pakistan's president and promised to work with Afghanistan to fight terrorism and bolster already-strong ties with China.

■ **Angolan ex-rebel group Unita** accepted defeat in parliamentary elections to the longtime ruling party, which won more than 80% of the votes with most counted.

■ **A Thai court ordered Prime Minister Samak** to resign for accepting money to host a TV cooking show while in office.

■ **Hurricane Ike roared** across western Cuba, killing at least four people, while Texas and northern Mexico braced for a weekend hit from the storm.

■ **The European Parliament's transport panel** voted to clamp down on drivers who break speed limits or other traffic laws outside their home countries.

■ **The death toll** from a landslide in China's Shanxi province that plowed into buildings Monday rose to at least 56.

■ **Tamil Tiger rebels attacked** a military complex in northern Sri Lanka. Thirteen troops, one civilian and 11 attackers were killed, the government said.

EDITORIAL & OPINION

Discussing Islam

Some Muslims try to use the law to limit free speech about their religion. **Page 13**

OPEC unlikely to cut oil production for now

Officials are divided over optimum price; close eye on demand

BY NEIL KING JR.

VIENNA—Despite sharp differences over how to respond to falling oil prices, OPEC ministers appeared ready to shun calls for an immediate production cut while warning that oversupply concerns could prompt cutbacks in coming months.

The Organization of Petroleum Exporting Countries' first formal gathering in six months has been fraught with the usual politics and posturing as factions tussle over whether to formally lop output even as oil still hovers above \$100 a barrel.

U.S. benchmark crude Tuesday fell to its lowest level in five months, settling at \$103.26 a barrel, down \$3.08, or 2.9%, on the New York Mercantile Exchange as the dollar continued to strengthen and Hurricane Ike looked set to miss the big oil platforms in the Gulf of Mexico. Crude has now plunged 30% from its record high of over \$147 in early July, but is still up 7.9% from the start of the year.

Analysts are closely scrutinizing OPEC's actions for any signs of a consensus on what might be the optimal price that the cartel would seek. *Please turn to page 31*

LSE shutdown leaves traders nursing doubts

BY CARRICK MOLLENKAMP AND NEIL SHAH

LONDON—After its most serious breakdown in eight years, the London Stock Exchange faces a difficult task: Convincing traders and investors that it won't happen again.

Business at the LSE returned to normal Tuesday, the day after a system failure rendered investors unable to buy or sell shares for more than seven hours on one of the heaviest trading days of the year. But as the LSE offered scant information on exactly what went wrong and how it was resolved, doubts remained about the reliability of Europe's largest stock exchange.

When an exchange is out for nearly an entire day, as opposed to an hour or so, "the market needs to know why," said Cubillas Ding, a senior analyst at research firm Celent LLC. "That needs to be part of the business continuity plan."

Monday's outage stemmed from problems surrounding a 15-month-old trading platform, known as TradElect, that forms the centerpiece of the LSE's strategy to fend off growing competition by offering cheaper and faster services to its cli-

Please turn to page 31



Reuters



Associated Press

Running in tandem: With the U.S. presidential race in a virtual dead heat, Sen. Barack Obama, left, and Sen. John McCain campaigned in Ohio Tuesday.

Palin pick helps McCain catch Obama in new poll

BY LAURA MECKLER

WASHINGTON—Alaska Gov. Sarah Palin has given the Republican presidential ticket a big shot of adrenaline, with a majority of all voters saying they would be comfortable with her as vice president, according to a new Wall Street Journal/NBC News poll taken after both parties completed their conventions.

The poll reflects the reality on the campaign trail, where she and Sen. John McCain are drawing huge, enthusiastic crowds who often chant her name.

"Coming out of the gate, this is as fast a start as you can see," said Democratic pollster Peter Hart, who conducts the poll with Republican Neil Newhouse.

When Sen. McCain picked her as his running mate, the move ap-

peared to have both advantages and disadvantages, but the new poll shows little downside so far for the Republicans. Her performance at last week's Republican National Convention, family story, conservative social positions and record as a reformer appear to have trumped any concerns about lack of experience for the job. She's been a governor for less than two years; before that, she was mayor of a small town.

The Palin effect helps explain why Sen. McCain is now even with Sen. Barack Obama in the head-to-head race. With eight weeks until Election Day, like other national polls, the Journal found a dead heat: 46% of registered voters favor Democrats Barack Obama and Joe Biden, and 45% favor McCain-Palin. The

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LEADING THE NEWS

North Korea dictator is ill

U.S. officials say Kim may have had stroke; leadership in doubt

North Korean dictator Kim Jong Il has suffered serious health problems and is believed to have had a stroke within the past month, according to U.S. officials.

Mr. Kim didn't attend the country's 60th anniversary celebration Tuesday, according to news agencies

By **Evan Ramstad** in Seoul, and **Siobhan Gorman and Jay Solomon** in Washington

with offices in Pyongyang, reinforcing speculation that he is in poor health after reports that he collapsed last month and has been visited by doctors from China.

The U.S. officials said the dictator's current state of health isn't known. A Bush administration official working on North Korea expressed concern about the country's apparent lack of leadership. The official noted that Mr. Kim's ill health has coincided with a significant hardening of rhetoric out of Pyongyang in recent weeks.

North Korea's military, the Korean People's Army, is seeking to appear strong at a time when the country's leadership situation is in flux, the U.S. officials said.

"It's not clear who's in charge," said the U.S. official tracking the situation.

Mr. Kim, who is 67 years old, is rarely seen in public, though he is usually present at major celebrations. North Korea's official media typically reports his presence at government meetings, military posts or businesses, but it has carried no such news since Aug. 14.

Last week, news reports in South Korea said a team of Chinese doctors went to North Korea to visit Mr. Kim and other government officials. And

Tuesday, the South Korean newspaper Chosun Ilbo reported, citing a South Korean intelligence official anonymously, that Mr. Kim collapsed on Aug. 22.

Mr. Kim's health is closely watched because the authoritarian control he wields over the government and military is key to the country's stability. Mr. Kim took control after the death in 1994 of his father, Kim Il Sung, who consolidated power in North Korea in 1948. Mr. Kim attended the giant military parades that commemorated North Korea's 50th and 55th anniversaries in 1998 and 2003.

In recent days, South Korean intelligence officials reported that tanks, rocket launchers and other military equipment had been massed outside Pyongyang, North Korea's capital, for this year's parade.

U.S. officials said Washington is trying to maintain a state of calm along the Korean Peninsula in order to guard against the North Korean leadership feeling under siege. These officials said that any signs that the U.S. or South Korean military are on heightened alert could cause the army to overreact. "You see the possibility of a catastrophic misunderstanding," said the U.S. official.

If Mr. Kim is incapacitated, the day-to-day leadership of North Korea would initially fall to his longtime second-in-command, Kim Yong-nam, whose official title is president of the Presidium of the Supreme People's Assembly. That Mr. Kim, who is 83, has long experience in foreign affairs, led the country's official delegation to the Olympic Games in Beijing last month and presided over Tuesday's anniversary parade.

A lengthy illness would pose a leadership dilemma for North Korea, which has never acknowledged an incapacitating health crisis involving Mr. Kim or his father before him. Outside analysts have little to go on since

the North Korean elite have never been seen to face such a test.

The prospect of a leadership vacuum exists because Mr. Kim has taken few steps to groom a successor among his three sons and daughter. Mr. Kim's father, Kim Il Sung, began to groom him to take control of the country in the early 1970s, two decades before Kim Il Sung's death.

Some analysts believe Mr. Kim's brother-in-law, Jang Song-taek, who is 62 years old, is the most likely candidate to take control of the country. Mr. Kim exiled Mr. Jang in 2004, in what some analysts saw as a sign of Mr. Jang's growing power in North Korea. Mr. Jang returned to the country in early 2006 and was reportedly put in charge of economic reforms.

White House press secretary Dana Perino said Tuesday that the Bush administration was watching the situation, but, "There's nothing I can provide for you now."

The U.S. along with four other countries have been urging North Korea to abandon its pursuit of nuclear weapons. North Korea had pledged in February 2007 to dismantle its nuclear power plant at Yongbyon in exchange for energy and financial assistance, which was valued at one million tons of heavy fuel oil. But last week, North Korea apparently began reassembling its Yongbyon nuclear reactor, according to U.S. officials.

In Pyongyang, the buildup to Tuesday's military celebration began early this year. Signs proclaiming the 60th anniversary lined major roads in Pyongyang in February, when a large contingent of international journalists accompanied the New York Philharmonic to the city.

Late Tuesday, Russian and Japanese news agencies with offices in Pyongyang reported that the parade occurred but that Mr. Kim didn't attend. North Korea's state news agency issued no reports about the parade.



Kim Jong Il

EU pledges closer ties to Kiev in cautious move

BY DAVID GAUTHIER-VILLARS

PARIS—The European Union said it would build closer economic and political ties with Ukraine but stopped short of inviting its neighbor to join the 27-nation bloc, despite hopes in Kiev that Russia's incursion into Georgia would prompt a stronger signal of European support.

After a meeting in Paris with Ukraine President Viktor Yushchenko, French President Nicolas Sarkozy, who holds the rotating presidency of the EU, said both sides would finalize an "association agreement" by March 2009 to gradually eliminate trade barriers and travel restrictions.

The EU's cautious step reflects the limits of what some of its most important members are willing to do to challenge Moscow on behalf of its neighbors. Germany and France have long opposed giving any guarantee of eventual membership to Ukraine, a nation of some 46 million that would have a major impact on budgets and power-distribution in the EU.

At a news conference with Mr. Yushchenko and EU Commission President José Manuel Barroso, Mr. Sarkozy summarized the EU's position toward Ukraine as "this is the maximum we can do."

Since the breakup of the Soviet Union, Ukraine has tried to free itself from Russian tutelage. Although

Ukraine has a large Russian ethnic minority, Mr. Yushchenko was elected four years ago on the promise that he would drive his country toward EU membership by 2020.

After Russia unilaterally recognized the independence of two Georgian separatist territories last month, it has been widely suggested that Moscow may covet other parts of its former empire, such as parts of Ukraine—though Russia has dismissed the idea. In early 2006, however, Moscow showed it could punish Kiev for its aspirations to join the West, severing natural-gas deliveries to Ukraine for several days.

Mr. Yushchenko said Tuesday he wanted to renegotiate with Russia a set of rules governing the use of the Black Sea Fleet, a group of Russian warships anchored in the Ukraine city of Sebastopol.

Ukraine didn't do itself any favors last week, when the government entered yet another political crisis. Mr. Yushchenko withdrew his party from the pro-Western coalition government, saying that Prime Minister Yulia Tymoshenko had become too close to a pro-Russian opposition party.

Asked at Tuesday's news conference whether he continued to nurture hope Ukraine would join the EU one day, Mr. Yushchenko said: "We are patient."



Nicolas Sarkozy

CORRECTIONS & AMPLIFICATIONS

In a bid to strengthen its portfolio, **Eni SpA** has spent more than €9 billion, or about \$13 billion, on acquisitions since 2007. A Corporate News article Tuesday incorrectly said Eni has spent more than \$12.8 million.

An IPO Focus column Monday and a Financial News article on Aug. 13 incorrectly said the IPO was part of Rio Tinto's strategy to thwart larger rival **BHP Billiton's** hostile takeover offer for Rio.

Anglo-Australian miner Rio Tinto filed an initial public offering of part of its U.S. coal business, **Cloud Peak Energy**, in conjunction with a 2007 strategic review of its assets following Rio's purchase of **Al-**

Kenneth Simons is a professor at Boston University School of Law. A Corporate News article Tuesday on the legal aspects of plane crashes incorrectly spelled his name as **Sim-**

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LEADING THE NEWS

Renault faces walkout

Layoff plan prompts largest labor union to call one-day strike

BY LEILA ABOUD

PARIS—The largest labor union at French car maker Renault SA called a one-day strike for Thursday after a tense meeting in which the company detailed plans to lay off some 5,000 workers.

At the Tuesday meeting, Renault presented the terms of a "voluntary departure" program under which 3,000 French employees working in nonproduction jobs would be given compensation to leave the group. An additional 1,000 workers who build cars at the Sandouville factory in Normandy would also be laid off, a Renault spokesperson said. Sandouville produces Renault's larger, high-end cars such as the Laguna, the latest model of which was launched this year but has since had disappointing sales. A further 1,000 job cuts are slated to take place in other European countries.

Chief Executive Carlos Ghosn announced the layoffs to investors in July and said they were the only way to maintain the group's profitability in the face of sluggish sales and dark economic clouds in key markets. Mr. Ghosn said Renault needed to cut costs by 10% to reach its objectives of a 4.5% operating margin this year, and 6% next year. He also said Renault would fall short of its original target to sell 3.3



Renault's labor troubles come at a difficult time for the French auto maker.

million vehicles in 2009, estimating sales would be 3 million instead.

The CGT, a national confederation of labor unions, slammed the layoffs as short-sighted and said workers were paying the price for Mr. Ghosn's overly optimistic growth predictions. "The layoffs aren't justified," said Fabien Gache, a delegate from Renault's branch of CGT. "The financial margins shouldn't be the only thing that determines the level of activity in factories."



Carlos Ghosn

The labor troubles come at a difficult time for Renault. Like other auto makers, Renault has suffered from lower demand, as global economic growth slows and fuel prices rise. The increase in commodity prices of everything from steel to plastics is also hurting profits. Renault's share price

has fallen more than 40% since the beginning of the year, more steeply than France's index of major companies known as the CAC 40, which is off about 24% in the same period.

Renault is also on the verge of a major product launch that could have a big impact on its fortunes. The new Megane, a compact family sedan, will be unveiled in a few weeks, and Mr. Ghosn met with Renault's marketing partners Tuesday to discuss it. The Megane range of cars accounts for about 30% of the group's annual sales, so the launch is crucial to its financial performance. The Megane sedan, which competes with the Volkswagen Golf and the Peugeot 308, will go on sale in November.

Spain official sounds warning on inflation

BY JONATHAN HOUSE

MADRID—Spanish economic growth is close to zero and the country's economy could fall into recession, Spain's Finance Minister Pedro Solbes said Tuesday.

"The possibility of recession exists and that is a concern," Mr. Solbes said in an interview with Cadena Ser radio station. The remarks are the government's most explicit recognition yet of the threat of recession.

Spain's gross domestic product grew 0.8% in the fourth quarter of 2007 over the previous quarter. But it has since slowed rapidly, growing 0.3% in the first quarter of this year, and 0.1% in the second. A Spanish recession would be a blow to the wider European economy, as in recent years it has been the fastest-growing large economy and the strongest generator of jobs in the euro zone.

Buffeted by soaring oil prices, a strong euro and financial turmoil, the euro-zone economy has already slowed sharply in recent quarters, raising the possibility of recession for the single-currency area. That slowdown has been particularly pronounced in Spain, where tougher financial conditions in the aftermath of the U.S. subprime meltdown hastened the collapse of a formerly booming housing market.

"We think the second half of the year will be very similar to the second

quarter and we think the first half of next year will be difficult," said Mr. Solbes. He added that he thinks the Spanish economy will begin to recover in the second half of 2009.

In answer to a question as to whether the worst was over for the Spanish construction industry, where activity has fallen and jobs

A Spanish recession would be a blow to the wider European economy.

been lost this year, Mr. Solbes said he thought the fall in housing starts might have bottomed out.

The number of new housing permits fell 56% in May and 39% in April, according to most recent government data.

Spanish Prime Minister Jose Luis Rodriguez Zapatero was scheduled to present in Spain's parliament Wednesday new measures to help unemployed construction workers. In April, his government became the first in the euro zone to craft a U.S.-style stimulus package. It approved a series of tax cuts and spending measures it said would inject €10 billion (\$14.14 billion) into the economy this year and €7.8 billion next year.

ECB official urges teamwork to promote greater liquidity

BY JOELLEN PERRY

FRANKFURT—A top European Central Bank policy maker Tuesday said global central banks should coordinate further to ensure banks have easy access to funds during a crisis.

Making currency-swap lines between central banks permanent or ensuring central banks can accept collateral in foreign currencies could ease global funding logjams that can crop up during turmoil, ECB executive board member José Manuel González-Páramo said, adding to a chorus of voices calling for greater central-bank cooperation in the face of persistent international market tensions.

"Central banks should take steps to strengthen their capacity to counter problems in the international distribution of liquidity," Mr. González-Páramo said at a London conference hosted by the Institute of International Finance, a group of 375 financial-services companies. His comments suggest policy makers foresee cooperation beyond the short-term solutions global central banks have organized between themselves.

In December 2007, the U.S. Federal Reserve opened a currency swap line with the ECB and the Swiss central bank that lets European central banks extend short-

term dollar-denominated loans to European institutions. In July, European central banks said they would lengthen the term of some dollar-denominated loans to 84 days, in addition to the 28-day loans they had been extending.

European banks' dollar demand remains strong. Results of the ECB's most recent auction of 84-day funds, released Tuesday, show 40 institutions sought more than triple the amount of funds on offer, bidding more than \$31 billion at the \$10 billion auction. The Swiss National Bank's auction saw similarly strong demand, with bids topping \$8 billion for the \$2 billion on offer.

Since the turmoil began last August, banks anxious about their own potential funding problems and worried about other banks' creditworthiness have been wary of lending to one another for longer periods of time.

That has pushed up the interest rates on loans banks make to one another and prompted central banks to flood money markets with cash.

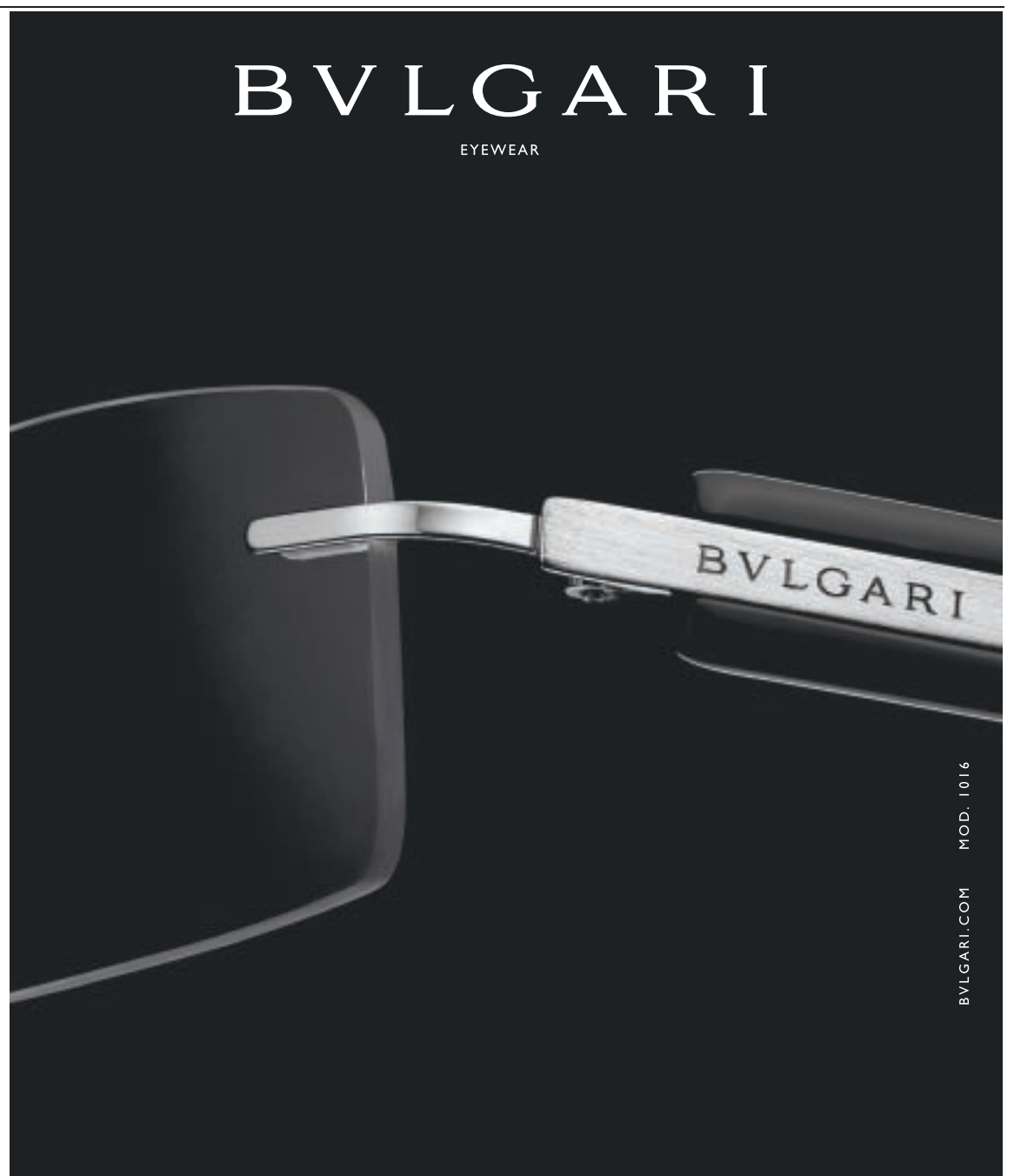
Compounding the problem for many European banks is the fact that their dollar-denominated debt has surged in recent years, leaving them hungry for greenbacks at a time when U.S. banks are likely to be keeping funds to themselves.



José Manuel González-Páramo

BVLGARI

EYEWEAR



CORPORATE NEWS

ENERGY

Siemens, E.On strike deal on 500 wind turbines



INDUSTRIAL conglomerate Siemens AG said it struck a deal with German utility E.On AG to build 500 wind turbines for projects in Europe and the U.S. The deal is valued at more than €1 billion (\$1.4 billion), said Siemens Energy's renewable energy division chief executive, René Umlauf.

Siemens will provide the wind turbines with a total capacity of 1,150 megawatts. The turbines will be delivered and installed in 2010 and 2011. In July, Siemens cited increased demand for wind turbines as a contributor to its 10% rise in first-half revenue from the year before.

—William Launder

AEROSPACE

Airbus presents measures to cut costs to unions



EADS Chief Executive Louis Gallois, above, wants to expand production in the dollar zone or in areas where labor is less expensive. He has promised the plans won't involve any additional job losses in Europe. The new cost cuts are largely an extension of previous measures.

—Roundup

PLANE MAKER Airbus on Tuesday presented cost-cutting measures to unions as part of parent company European Aeronautic Defence & Space Co.'s plan to seek €1 billion (\$1.4 billion) in savings starting in 2011-12.

In a bid to compensate for the euro's rise against the dollar as well as to improve competitiveness,

EUROPEAN UNION

Google agrees to cut time it keeps users' search data



GOOGLE Inc. said it is halving the amount of time it keeps users' search details, cutting the period from 18 months to nine to meet European Union privacy demands.

Peter Fleischer, Google's global privacy adviser, said the change would apply to Google's sites worldwide. The company had introduced an 18-month limit in 2007.

EU officials have questioned the need for search engines to keep data on users' searches. Google says the data help its search engine to better understand its users so it can deliver more relevant results and advertisements.

—Associated Press

Financier nears plea deal

Italian entrepreneur is accused of fraud in funding lavish life

BY JOHN R. EMSHWILLER

RAFFAELLO FOLLIERI, the 30-year-old Italian entrepreneur who has attracted attention for business dealings with U.S. billionaire Ron Burkle, is near an agreement to plead guilty to fraud and money-laundering charges in his U.S. criminal case, according to people familiar with the matter.

Mr. Follieri was charged in June with paying for a lavish lifestyle with money from a real-estate venture with Mr. Burkle's Yucaipa Cos. The venture was supposed to capitalize on Mr. Follieri's Vatican ties to redevelop surplus Catholic Church properties. Currently in custody in New York in lieu of \$21 million in bail, he could face roughly four to five years in prison under the proposed plea agreement, says a person familiar with the matter.

A court hearing on his case could take place this week. In a recent court filing, prosecutors said plea negotiations were being conducted in connection with the 12-count criminal complaint filed in June that charges Mr. Follieri with fraud

in his business venture with Mr. Burkle. Mr. Follieri is weighing whether to enter a guilty plea, say people familiar with the matter. There remains a possibility Mr. Follieri could decide to go to trial.

A plea agreement would climax an improbable business saga. Arriving in the U.S. as a little-known but charming twenty-something in 2003, Mr. Follieri became friendly with Douglas Band, the top aide to former President Bill Clinton. That helped Mr. Follieri navigate into the upper reaches of Mr. Clinton's world and meet Mr. Burkle. He persuaded Mr. Burkle to form a venture to purchase real estate from the Catholic Church in the U.S.

Soon, he was flying on private jets, vacationing on Mediterranean yachts and sharing a \$37,000-a-month Manhattan penthouse with his then-girlfriend, actress Anne Hathaway. He hosted John McCain, now the Republican presidential nominee, on a rented yacht off the coast of Montenegro and looked at possible business deals with a consulting firm partly owned by a top McCain presidential-campaign adviser.

Mr. Follieri's tale began to unravel last year when Mr. Burkle's Yucaipa investment operation filed a lawsuit in Delaware state court that accused the Italian of misappropriating more than \$1.3 million from their real-estate venture to finance

personal expenses, such as private jets and a Manhattan penthouse.

Mr. Follieri eventually settled the suit with Mr. Burkle. In a seemingly remarkable recovery, Mr. Follieri earlier this year found a new investor to reinvigorate his business operation. Federal agents arrested him June 24 and filed criminal charges that, in many respects, resembled those in the civil suit he had settled with Mr. Burkle.

Mr. Follieri's move toward a guilty plea comes despite some potential problems with the government's case. While prosecutors contend that Mr. Follieri overstated his Vatican ties to attract investors to his church real-estate deals, he did have some high-level connections in Rome. Last year, a Clinton spokesman said at least two senior Catholic Church figures had spoken up for Mr. Follieri, including Cardinal Angelo Sodano, who, as Vatican secretary of state, effectively ran church operations before retiring last year. Cardinal Sodano couldn't be reached. He has in the past declined to comment.

Mr. Follieri's Vatican ties also allegedly involved money. The federal criminal complaint says between 2005 and 2006, Mr. Follieri sent more than \$385,000 of allegedly stolen funds to unnamed Vatican recipients "in order to increase his ties" there.



Stephen Lovelace/Getty Images for IMG

Actress Anne Hathaway, left, with former boyfriend **Raffaele Follieri**, who could face four to five years in prison under a proposed plea agreement.

Another odd aspect to the case: the alleged principal victim, Mr. Burkle, had patched things up with Mr. Follieri. Before Mr. Follieri's arrest, the two men had socialized and examined at least one possible business deal, which didn't come to fruition, say people familiar with the matter. While Mr. Burkle's

Yucaipa operation sued Mr. Follieri for allegedly misusing the venture's money, Yucaipa officials never maintained that they were deceived by his Vatican claims. The venture bought some \$50 million of properties, and Yucaipa officials have consistently said they are satisfied with the portfolio.

Deutsche Post may reach deal to sell bank later this week

Deutsche Post AG could reach an agreement to sell its multi-billion-euro stake in Deutsche Postbank AG as early as this week, in a deal that would add to the growing merger-and-acquisition wave in Germany's highly fragmented banking sector.

German mail giant Deutsche Post may still put the sale process on hold

By Mike Esterl in Frankfurt and Dana Cimilluca in London

if it doesn't secure enough of a premium for Postbank, which has a stock-market capitalization of €7.4 billion (\$10.47 billion), people familiar with the matter said.

The most likely buyers are Deutsche Bank AG or Spain's Banco Santander SA, the people said.

The long-anticipated sale of Postbank, a leading retail bank, would further shake up the German financial-services sector, which has witnessed two major takeovers since July amid growing consolidation pressures. A decision could come Friday, when Deutsche Post's supervisory board meets, although talks could also go on for several more weeks, according to people familiar with the matter.

A spokeswoman at Deutsche Post, which owns just over 50% of Postbank and first signaled a possible sale late last year, said Tuesday talks are

continuing with interested parties but no decision has been made. A Deutsche Bank spokesman declined to comment on a possible Postbank bid but reiterated that it remains open to acquisitions. A Santander spokesman declined to comment.

Postbank has €230 billion in assets, significantly less than a handful of bigger domestic rivals, but it boasts about 14 million retail customers, more than any other bank in Europe's largest economy. It also controls one of Germany's biggest branch networks.

Just 10 days ago, Commerzbank AG, Germany's No. 2 bank by assets, agreed to buy Dresdner Bank AG, the

No. 3 bank, in a €9.8 billion deal to create a domestic banking powerhouse with €1.1 trillion in assets to rival Deutsche Bank. Deutsche Bank has about €2 trillion in assets but generates more than half its revenue outside Germany.

Deutsche Post Chief Executive Frank Appel is eager to satisfy shareholder demands that the company focus on its mail, DHL express delivery and logistics businesses. But talks have been held up for months over differing opinions on how much Postbank is worth as the credit crunch and financial-market turmoil battered global banking stocks.

Postbank's stock-market valua-

tion topped €10 billion earlier this summer, fueled by takeover speculation, before falling below €8 billion in recent months. After initially trying to secure a valuation above €10 billion, Deutsche Post may now accept a valuation closer to €8 billion or €9 billion, according to people familiar with the matter.

Some people familiar with the deliberations said Deutsche Bank appeared to have the inside edge on Santander. Deutsche Bank has made a handful of smaller acquisitions in recent years to build up its domestic retail operations and reduce its dependence on the more volatile returns from its global investment banking.

CORPORATE NEWS

U.S. hires special counsel as it weighs Google suit

BY JOHN R. WILKE

WASHINGTON—In a clear sign that the U.S. government is considering an antitrust challenge to Google Inc., the Justice Department hired a well-known litigator, former Walt Disney Co. Vice Chairman Sanford Litvack, as special counsel in the matter.

The stepped-up preparations suggest that Google and the government may be headed for a showdown next month if the company closes its online-advertising deal with Yahoo Inc. before the U.S. officials have completed a review of the deal.

Google dominates online advertising, especially search-based ads, the fastest-growing segment. The combined companies would account for more than 80% of U.S. online-search ads.

For weeks, U.S. lawyers have been deposing witnesses and issuing subpoenas for documents to support a challenge to the deal, lawyers close to the review said. Such efforts don't always mean a case will be brought, however. Mr. Litvack, who was the Justice Department's antitrust chief under former U.S. President Jimmy Carter, has been asked to examine the evidence and to build a case if the decision is made to proceed, the lawyers close to the review said.

It isn't clear whether a U.S. challenge would target the Google-Yahoo deal alone or other aspects of Google's conduct. The agreement with Yahoo, announced in June, gives Google, of Mountain View, Calif., the right to sell search and text ads on Yahoo sites, sharing revenue with Yahoo, of Sunnyvale, Calif.

Online advertising has transformed the media industry. As a result, a U.S. antitrust case against Google could set new boundaries for Internet competition, much as the Justice Department suit against Microsoft Corp. a decade ago broke ground applying antitrust law to new technologies.

Google has said the Yahoo deal doesn't violate antitrust law. It has forcefully argued in public testi-

mony before Congress and in private meetings with Justice Department lawyers that the deal is pro-competition. The companies say they voluntarily delayed closing the deal until early October to allow the U.S. to complete its review.

"We voluntarily delayed implementation of this arrangement to give the Department of Justice time to understand it, and we continue to work cooperatively with them," Google said. "While there has been a lot of speculation about this agreement's potential impact on advertisers or ad prices, we think it would be premature for regulators to halt the agreement before we implement it and everyone can judge the actual impact."

In a statement, Yahoo said: "We have been informed that the Justice Department, as they sometimes do, is seeking advice from an outside consultant, but that we should read nothing into that fact. We remain confident that the deal is lawful."

It is relatively rare for the Justice Department to hire a special counsel from outside. David Boies was brought in as a special counsel to build the landmark antitrust case against Microsoft in 1998. Stephen Axinn, another well-known New York litigator, was hired to challenge WorldCom Inc.'s proposed buyout of Sprint Corp. The companies abandoned that transaction in 2000 after the department and Mr. Axinn challenged the deal.

Mr. Litvack, who couldn't be reached for comment, resigned last week from Hogan & Hartson LLP, where he was a partner in the Los Angeles and New York offices. A Justice Department spokeswoman also declined to comment.

The Wall Street Journal reported Monday that a group of major U.S. advertisers complained to the department about the deal. The Association of National Advertisers, which represents companies such as Procter & Gamble Co. and General Motors Corp., warned that the deal could lead to higher prices and limited opportunities for Web advertisers.

Austrian Airlines CEO faces questions about Siemens

A WSJ NEWS ROUNDUP

German prosecutors said they will question the head of Austrian Airlines AG on suspicion of breach of trust and tax evasion in connection with his past at German conglomerate Siemens AG.

Alfred Ötsch succeeded Johannes Feldmayer—who was arrested in March 2007 on suspicion that he bribed one of Siemens's staff associations—as head of the Siemens automation unit.

Mr. Ötsch "is suspected of breach of trust at the expense of Siemens and tax evasion for the benefit of Siemens," Wolfgang Träg of the prosecutor's office in Nuremberg-Fürth said Tuesday. "He has not been heard on the issue yet."

Austrian Airlines said its chief executive had no case to answer. "Mr. Ötsch has nothing at all to do with this," said the company, adding that its CEO was never aware of the alleged payments.

German prosecutors are investigating whether Siemens paid tens

of millions of euros to AUB, an employer-friendly labor organization, to undermine Germany's largest industrial union, IG Metall. Mr. Feldmayer is due to stand trial at the end of this month. A lawyer for Mr. Feldmayer has said his client didn't do anything wrong.

The probe is separate from investigations in several countries—including the U.S.—into whether Siemens made hundreds of millions of euros in alleged bribes earlier this decade to win infrastructure contracts abroad.

The allegations against Mr. Ötsch come as the Austrian government seeks a buyer for its 42.75% stake in the airline, which posted a loss of €48.7 million (\$68.9 million) in the first half of the year. Germany's Lufthansa AG, French-Dutch airline Air France-KLM SA, as well as closely held Russian carrier S7 and Turkish Airlines Inc. have expressed interest in the stake, which is valued at about €250 million.

Apple touts new iPods

Jobs also announces NBC's programs will return to iTunes

ASSOCIATED PRESS

Apple Inc. Chief Executive Steve Jobs unveiled a revamped line of iPods and trumpeted a truce with NBC Universal that means the television network will begin selling programs again on iTunes.

Tuesday's product announcements were largely expected, and investors were less than energized by the news, sending Apple's shares down 4.6% to \$150.66 in late-afternoon trading on the Nasdaq Stock Market.

The iPod upgrades Mr. Jobs revealed Tuesday include two Nano models that Mr. Jobs said are the thinnest iPods Apple has made. A \$149 version comes with eight gigabytes of memory, and a 16-gigabyte version is \$199.

The new models represent the incredible appetite for iPods—Mr. Jobs said Apple has sold 160 million iPods since their introduction. But Apple has to work hard to differentiate them from the iPhone, Apple's combination cellphone and iPod that threatens to cannibalize some of the demand for iPods.

Mr. Jobs also showed off three new versions of the iPod Touch, the closest cousin to the iPhone. An eight-gigabyte version will sell for \$229, a 16-gigabyte version will be



Apple CEO Steve Jobs unveiled a truce with NBC Universal and the thinnest iPods Apple has yet made, above. But that **wasn't enough** to excite investors.

\$299 and a 32-gigabyte model will cost \$399.

In the deal with NBC, the television network owned by General Electric Co. is coming back to iTunes, a year after pulling out in a dispute over the prices Apple charges for shows it sells on the online service. At that time, television programming controlled by NBC Universal made up an estimated 40% of the video downloads on iTunes.

Appearing thin but energetic, Mr. Jobs kicked off the event by flashing a snarky message on a

screen behind him: "The reports of my death are greatly exaggerated." Mr. Jobs played off a famous line from Mark Twain in referring to a prepared obituary on him that was accidentally posted by Bloomberg News and then retracted. News organizations routinely prepare advance obituary material on famous people.

Questions about Mr. Jobs's health swirled after he appeared gaunt at a recent Apple event. Apple has since said Mr. Jobs, 53 years old, a survivor of pancreatic cancer, suffered from a bug and is better.

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CORPORATE NEWS

Firms want more from China

European companies say protectionism, rules hurt investment

BY ANDREW BATSON

BEIJING—Foreign companies are worried by protectionism and regulatory problems in China that can block their investments and acquisitions, a European business group said Tuesday.

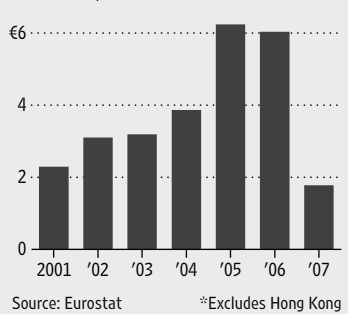
“Our members felt the regulatory climate has failed to keep pace with China’s growth, and there’s growing economic nationalism that’s of concern to us,” said Joerg Wuttke, president of the European Union Chamber of Commerce in China, which represents about 1,300 companies operating in the country. “In general we have the feeling that the reform process has slowed down.”

Releasing its annual position paper, the chamber said China had made progress by relaxing rules governing banking and transportation, reducing overlap between government ministries and improving oversight of the energy sector. But foreign companies are still often barred from participating in bodies that set industry standards and from receiving lucrative business contracts, according to the report.

Most European companies remain optimistic about their prospects in China, thanks to its continued economic growth and increas-

Blocked?

The EU’s foreign-direct investment in China*, in billions of euros



ing ties with the outside world, Mr. Wuttke said. But they are also concerned by regulations and trade barriers that keep the China market from living up to its potential.

The European Union exports more to Switzerland or Russia than it does to China, he said, while new investment into China from Europe has slowed and now accounts for 5% of all foreign investment.

Mr. Wuttke said the drift toward protectionism or economic nationalism was driven less by popular sentiment than by “economic interest groups” that are seeking to protect their position in the China market and exclude foreign competitors. Mergers and acquisitions are a particularly difficult area, he said.

“We have not seen a major acquisition of a Chinese company by a European company, even though Chinese companies are free to buy Euro-

pean ones,” Mr. Wuttke said. “The investment climate in some areas is not giving us the opportunity to come in and bid for a big company,” he said, naming steel and car manufacturing as sectors that are more closed.

That is one reason that businesses are closely watching how the government reviews the recent bid by Coca-Cola Co. to buy China Huiyuan Juice Group Ltd., Mr. Wuttke said. Huiyuan is one of the relatively few non-state companies to have developed a strong nationwide brand, and some Chinese commentators have expressed dismay at the prospect of it being absorbed into a multinational.

Overall, Mr. Wuttke said, “Transparency is the biggest obstacle we have in China.” For instance, banking regulators decreed limits on lending this year through orders that were never made public or even written down.

Other problems come up because two Chinese government agencies share jurisdiction over an area, such as the Internet, and have inconsistent requirements. Still others arise because a government regulator has close ties to one of the players in a particular market, as with the challenge to China’s regulation of financial-news providers that is now at the World Trade Organization.

The European Chamber is to brief EU Trade Commissioner Peter Mandelson on its findings next week before his planned visit to China later this month, Mr. Wuttke said.

BG Group drops attempt to acquire Origin Energy

BY ALISON BIRREANE AND JEFFREY SPARSHOTT

LONDON—BG Group PLC gave up on its hostile bid for Origin Energy Ltd., conceding that it couldn’t match a price set after U.S. oil major ConocoPhillips entered a joint venture with the Australian company.

The U.K.-based gas company said Tuesday it wouldn’t raise or extend its A\$15.50-a-share offer, which Origin had rejected. BG Group said it expects the offer, which amounted to 13.83 billion Australian dollars (US\$11.3 billion), to lapse.

ConocoPhillips agreed on Monday to pay as much as \$8 billion for a half-share in Origin’s coal-seam-gas assets.

“The price implied by this newly announced joint venture is higher than BG Group is able to justify,” BG Chief Executive Frank Chapman said in a statement.

Origin has “noted BG’s response,” a spokeswoman for the Australian company said. “We look forward to completing what we believe is an outstanding transaction with ConocoPhillips and we’re committed to continuing to create value

for our shareholders.”

Analysts had expected BG to walk away rather than try to match the valuation implied by the ConocoPhillips venture.

“There was no way BG was going to double its all-cash offer,” said Evolution Securities analyst Richard Griffith. BG’s management made the right decision in walking away from Origin, Mr. Griffith said, although the company now has to fill a strategic gap in the Asian-Pacific region.

BG had wanted to gain control of Origin’s gas resources in eastern Australia to feed a liquefied-natural-gas plant it is planning to build at Gladstone in Queensland state.

Instead, those resources will now fuel an LNG plant operated by ConocoPhillips.

Mr. Chapman said BG remains committed to Australia and to its existing joint venture there with Queensland Gas Co. BG paid A\$664 million for a 9.9% stake in the coal-seam-gas producer in February.

BG said Origin shareholders who had accepted the BG offer will retain their Origin shares if the offer lapses as expected on Sept. 26.

Vodafone taps TDF’s Combes for post

BY KATHY SANDLER

LONDON—Vodafone Group PLC said it appointed Michel Combes as its European regional chief executive amid a number of management and organizational changes that will put more executive firepower in emerging markets.

The moves are the first major strategic announcement since Vittorio Colao took over from Arun Sarin as chief executive of the world’s largest mobile-phone company in terms of revenue in July, and they allow Mr. Colao to put his stamp on the leadership team.

Mr. Combes was chairman and CEO of French radio and TV transmission company TDF Group and previously was chief financial officer of France Télécom. He plans to join Vodafone on Oct. 1 to take on

the role left vacant by Mr. Colao’s promotion.

The management shakeup comes two months after Vodafone warned that its full-year revenue would be at the low end of forecasts amid economic weakness and a softening market in Spain and Turkey, which sent shares tumbling more than 10%. European mobile revenue is beginning to stagnate amid saturated markets and increased competition and regulation, in stark contrast to the group’s emerging markets, which are showing double-digit revenue growth.

A perennial question looming over Vodafone is what to do with its 45% stake in U.S. mobile operator Verizon Wireless. On Tuesday, Vodafone moved oversight of its stake to Mr. Colao, along with chief finance officer Andy Halford, and hu-

man-resources head Terry Kramer, who also was appointed group-strategy and business-improvement director on Tuesday.

The Verizon stake had previously been part of the group’s Emerging Markets, Asia Pacific and Affiliates, or EMAPA group, but is now in top management hands to reflect its “financial and strategic importance,” the company said in a statement.

The move prompted some analysts to wonder if Vodafone could consider selling its stake at some point. A Vodafone spokesman said that the company’s position hasn’t changed and it isn’t selling its Verizon stake.

A Verizon spokesman declined to comment.

—Roger Cheng contributed to this article.

Vedanta to invest \$9.8 billion in aluminum business

BY ERICA HERRERO-MARTINEZ

LONDON—Vedanta Resources PLC, an India-focused metals and mining company, said it will invest \$9.8 billion to boost its aluminum-smelting capacity in a bid to become one of the world’s biggest producers of the metal.

London-listed Vedanta said it aims to increase capacity to 2.6 million metric tons a year by 2012, up from the 396,000 tons it produced in the fiscal year ended in March.

“Upon completion, Vedanta is expected to be Asia’s largest and among the top five integrated producers of aluminum world-wide,” the company said. The world’s biggest aluminum producers include Rio Tinto’s Alcan, Russia’s United Co. Rusal and U.S.-based Alcoa Inc.

Vedanta’s investment plans will focus on projects in India, where the bulk of its operations are. Of the total investment, \$5.65 billion will be spent expanding the capacity of the Jharsuguda II project; \$2 billion will be spent on the Korba III project,

and the remaining \$2.15 billion will be invested in expanding the Lanjigarh project.

Vedanta, which has a market capitalization of about \$4.5 billion (\$7.92 billion), also said the company will be restructured into three commodity-focused divisions: copper, zinc and lead; aluminum and energy; and iron ore. The restructuring will simplify Vedanta’s corporate structure, eliminate conflicts of interest, and increase efficiency, the board said. The restructuring is expected to be completed by March.

Merrill Lynch said, “Inasmuch as this is finally a step toward simplification of the group shareholding structure, we view this transaction as a positive.”

Nokia ties up with Microsoft to offer email by cellphone

BY ADAM EWING

Nokia Corp. is scheduled to announce Wednesday that it is deepening its relationship with Microsoft Corp., giving more mobile-phone users access to their office email—a move meant to combat the rising popularity of Research In Motion Ltd.’s BlackBerry and other smart phones.

The move comes as Nokia and Microsoft are facing new competition in the mobile-email sector from rivals such as Apple Inc. and Google Inc.

The battle over high-end smart phones is heating up as phone makers aim to differentiate themselves from rivals with unique content and services. As global handset sales slow, boosting smart-phone sales is a way to help increase the average selling price of phones, lifting profit margins.

Finland-based Nokia, the world’s biggest cellphone maker, with almost 40% of the global market, said it will offer software to connect to Microsoft’s Exchange ActiveSync software as a free download to all 80 million of its \$60 handsets in the market. The software will allow the phones to send and receive email through Exchange, which businesses use to manage their email systems. Nokia will also make the function standard on coming models of its business E series and high-end N series phones.

Anssi Vanjoki, Nokia’s executive vice president of markets, said in an interview that people who look at their email on a mobile device still represent a small proportion of the overall email market. He said that while Canada’s Research In Motion helped make wireless email popular, the additional investment a company typically makes to offer BlackBerry service is preventing mobile email from fulfilling its potential.

Nokia’s move means that even small companies with tighter bud-

gets will be able to offer their staff mobile email, as no new equipment or investment is needed, Mr. Vanjoki said. Nokia’s service “is simple and supports a huge population with no extra fees for mobility, no extra investment,” he said, adding that it is “available on a huge set of different models.”

He said Nokia has offered the service on a few of its business handsets in selected regions and decided to make the service standard, noting the company has a “fairly small” market share in terms of mobile email, which is dominated by BlackBerry.

“We are combating a competitor here, but we are also making this mar-

Nokia and Microsoft are facing new competition in the mobile-email sector.

ket much bigger,” Mr. Vanjoki said.

Research firm Gartner Inc. has said the wireless-email market should triple by the end of 2010, rising to 300 million users from the 100 million recorded at the end of May this year, 30 million of whom were business users.

Nokia is the top seller of smart phones by market share, though Research In Motion is seeing stronger growth. Nokia sold 15.3 million smart phones in the second quarter, for a global market share of 48%, according to Gartner. A year earlier, it sold 14.2 million smart phones. Research In Motion sold 5.6 million smart phones in the quarter, for a global market share of 17%, though this was more than double the 2.5 million units it sold in the year-earlier period.

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Russia

a cultural celebration

The drive to put high culture at the heart of Russian life is also reflected in recent high-level state appointments.



Hermitage Museum, St. Petersburg

Buoyant economy creates a cultural boom

WHEN THE NOVELIST and former dissident Alexander Solzhenitsyn died this summer, he achieved the extraordinary feat of being lauded as much in the West as in his homeland, Russia.

Though once exiled, he had been celebrated and revered under the leadership of Vladimir Putin, who awarded him the State Prize of the Russian Federation for his work.

Mr. Putin's appreciation of Mr. Solzhenitsyn is indicative of the importance of culture in today's Russia. Mr. Putin has vowed to restore the "moral fiber" of Russians and has held up Mr. Solzhenitsyn as "an example of genuine devotion and selfless

service of the people, fatherland, and the ideals of freedom, justice and humanism."

Prime Minister Putin's love of high culture was apparent during recent official visits of foreign leaders, who were taken on tours of the Hermitage Museum in St. Petersburg and Tretyakov, the famous Moscow art gallery, as well as spending evenings with the Bolshoi Ballet in Moscow.

Thriving cultural scene

Under Mr. Putin's presidency and now prime ministership, the buoyant Russian economy has given rise to a feel-good factor which has created a thriving cultural scene, with galleries, theater and cinema enjoying renewed

support and international recognition. The new wealth spilling down from the oil fields is driving a growing demand for high art, in particular.

The international auction houses Sotheby's and Christie's have opened Moscow offices and both have registered recent record sales in Russian art.

The five-day Moscow World Fine Arts Fair, which celebrated its fifth anniversary in May, has also seen a tremendous boom in interest — some 60,000 people came through its doors this year.

Sixtine Crutchfield, general manager of organizers Geneva-based ArtCultureStudio, says Russian collectors have traditionally been interested

in European art, but had recently moved into collecting contemporary Russian art. This has led to the emergence of galleries across the country, specializing in modern art works. Around 30% of the 60 exhibitors at this year's fair were Russian galleries.

Dollar billionaires

Many of those buying are the new Russian oligarchs, who are, she says, relatively young people.

And there are plenty of super-wealthy people these days in Russia. According to Forbes magazine, the number of dollar billionaires jumped to 87 in 2008, from just seven in 2002.

These super rich not only purchase and collect, but have also

set up artistic foundations and national prizes, such as the Kandinsky Prize — named for the 20th century Russian abstract painter Wassily Kandinsky — though the actual €40,000 award is put up by Germany's Deutsche Bank.

The drive to put high culture at the heart of Russian life is also reflected in recent high-level state appointments. President Dmitry Medvedev has created a new post of special representative in charge of international cultural cooperation. The role has been created to promote Russian culture and language abroad, reinforcing the country's international image in an area in which it is justifiably proud.



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VOICE OF RUSSIA WE TALK TO THE WHOLE WORLD FOR HUMAN SOULS AND HEARTS

The regular feature "VIS-À-VIS WITH THE WORLD", targeting foreign and Russian audiences, first went on the air 10 years ago at the initiative of the Chairman of the Russian State Radio Broadcasting Company "Voice of Russia" Armen Oganessian as live broadcasts which featured famous personalities answering spicy questions from foreign listeners. In 10 years that the program has been on the air questions have arrived from 96 countries and none has stayed unanswered. Today the feature comes out in Russian and in 36 foreign languages and it boasts an Internet and TV version.



Alexander Avdeev, Minister of Culture

Oganessian: A short citation for a start "no great country, great power exists without great culture". These are the words of Alexander Avdeev, Minister of Culture. It was his first press conference.

Tom Mellon, Chicago

Do you agree with the theory of the clash of civilizations of Samuel Huntington? Do you think interaction of Islamic and Christian civilizations is an important factor of the global process? Is it an acute issue for Russia?

Avdeev: An interesting theory. It is in contradiction with the one of Fukuyama who says the world will be ruled by liberal laws. The new formula "the end of civilization, the clash of civilizations" doesn't answer all the questions, it's too simple and full of internal contradictions. It says the world will be divided into poles, like North American, Slav, South American, Orthodox, West European and so on. But there is no Orthodox pole, we're divided. Orthodox Greece is a member of NATO and the EU, as well as Orthodox Bulgaria and Romania. It's a political division.

And we're not a civilization pole too. Collisions, or hot beds, are not engendered by conflicts between civilizations. Take Ireland, for instance. Or Belgium. They are Christians. Different branches of confession, perhaps, but civilization is one. I can enumerate a lot of hot spots. It's never a civilization that is in question. I think the world is more complex. We have a lot of challenges, like attempts to deviate the regime of non proliferation of nuclear, chemical, biological weapons, missile technologies. There may be collisions inside one civilization group.

Oganessian: In one of your interviews you said when different peoples live together for a long time, rub shoulders with each other, it's hard to expect a flare up. Russia is an old multinational society. But immigration waves cover the whole Europe. It's a new challenge for Europe and Russia as well. New situation, migration flows, break up of old established patterns, what is it all going to lead to?

Avdeev: Peoples with traditions do live together with others, of different culture and religion, they get used to it, flares ups are rare. If it happens many a time it's the fault of politicians, sometimes some of them are interested in aggravation. The American scholar is at fault here, he predicts a clash of civilizations, but a clash is usually provoked by someone. Like in the Balkans. Culture is always a stabilizing factor. But when migration changes old style of life then interethnic collisions may be engendered by provocateurs, terrorists and separatists.

We haven't had real large scale migration, it's all ahead. As soon as we join highly industrialized nations the wave of cheap labor will come. It's already in demand. We have to draw the lessons and arrange it in such a way that conflicts are avoided and absorption process is implemented and properly controlled.

Andrei, a musician, St. Petersburg

What are the prospects for cultural exchange between the RF and Europe?

Avdeev: Russia is simultaneously a European and an Asian country. We have a rich experience of mutual permeation, cultural interaction with Europe and we have common Christian values. Europe expects great cultural achievements from us. They are accustomed to the fact that we have the best ballet and best voices. The best opera performers. They expect cultural exchange, it has always been enriching in case of Russia. They expect us to come with a culture of a democratic state, rich and multifaceted as it has always been. We give the world the most interesting achievements in the field of art, design, museums, literature etc. The interest in Europe is great. We should show them that we're building a new democratic state, civil society. Their is 200 years old, we're just starting, we're only 15-16 years old. One of the goals is to show what we're capable of, who is the present day state of our culture. There are interesting things to be shown and there are common problems.

Ho Lin, China

What are the prospects for Russian cinema art? What is the proper role for the state here?

Avdeev: I would have faced difficulty answering it five-six years ago. Now it's different. We're out of crisis. We produce about a hundred films a year and mainly the films are a success. Here and abroad. There are masterpieces winning international event. I see bright future ahead for our film industry. The state should come up with funding the projects it finds profitable or of use.

Oganessian: Still, any endeavor needs funding. There are two ways here. One is state budget. The second — the funds coming from industry majors?

Avdeev: Their support for culture is gradually growing. 10% of projects are brought into life thanks to patrons. Russian patrons. Performing abroad is important, but touring Russia is important too. 38% of Russians don't go to cinema or theaters. They watch TV, no live contacts. They want to see the best here. They want to be part of such

events as the week of Russian cinema, the week of Youth cinema, the week of national cinema. Russia audience lacks live contacts and it should be made up for.

I can tell you that less musicians go to West Europe now. I asked the reason why and one of them told me they get more money in Siberia. I was proud to hear it. That means our industry majors can afford to invite the best to Siberia and pay to win competition.

Oganessian: Back to Russia. There are still lingering property disputes between the Church and museums. There is a presidential executive decree on culture objects of spiritual nature being returned to the Church. So a museum and a temple. How do you view this problem?

Avdeev: The state policy is defined. The property is to be gradually returned to the Church. Some space was given to cultural facilities in the Soviet times. It should be rectified. We should aid the Church to restore it. But time is needed to find another accommodation for moving. It's in the program till 2011, it'll last till 2015 and will be part of the program till 2020. We try to get everyone involved in the process. So that libraries and museums would be returned in good condition.

Svetlana, principal of lyceum

You hobbies and infatuations. Being so much busy, do you still find time for exhibitions, theater, music?

Avdeev: A good question. If a minister of culture visited theater. Movies, theater, music, — if not daily, then i do it all a few times a week. My soul longs for it. It makes me happy. I try to read as much as I can.

Our culture went through a terrible shock in the 90s. It was all devastation. Nobody cared about funds. We lost a lot. Now the restoration process is gradually gaining speed. We were destroying 5-7 years and restoration will require 15-20 years. Culture is a monument. Museums are not for muscle training, they enrich human souls and hearts.

The "Voice of Russia"	Time (UTC)	Frequencies (kHz)
English to Europe	0200-0900	603, 1548, 1575, 1431, 693, 630, 1323
	1300-1400	558 (English hour in London)
	1500-2000	12040, 9890, 11630, 12070, 7310
	1900-2100	12070, 9890

CORPORATE NEWS

Sanofi to tap Viehbacher

Glaxo veteran brings fresh face and insight to firm's top ranks

BY ELENA BERTON
AND JEANNE WHALEN

French pharmaceutical giant Sanofi-Aventis SA, run for more than two decades by a close-knit group of executives, is preparing to name GlaxoSmithKline PLC veteran Chris Viehbacher to a senior position, according to people familiar with the matter.

The hire, expected to be announced in the next few days, reflects Sanofi's urgent need for new leadership as the company grapples with tough generic competition, difficulty bringing new products to market, and a flagging share price.

It wasn't clear whether Mr. Viehbacher, 48 years old, would be replacing current chief executive Gerard Le Fur or reporting to him with a good shot at replacing him down the road. Given Mr. Viehbacher's position at Glaxo—head of North American pharmaceuticals and a runner-up for the CEO job there last year—he isn't likely to take a position without CEO potential.

A spokesman at Paris-based Sanofi declined to comment. Mr.

Viehbacher didn't return a phone call to his office, and a Glaxo spokeswoman said he had no comment.

At Sanofi, Dr. Le Fur has had a rocky reign since taking over as CEO last year from Chairman Jean-François Dehecq. He has failed to get several key drugs approved and failed to win over investors, often seeming better suited to his previous role as research chief, some analysts said.

Mr. Viehbacher would give Sanofi better insight into the world's biggest pharmaceutical market—the U.S., where the company has relatively weak market share, given its size, analysts say. Sanofi is among the top five drug companies worldwide by sales.

Mr. Viehbacher would also present a fresh face to investors at a time when many are frustrated with Sanofi. The company has faced a series of setbacks and its shares are down 22% from a year ago.

Among the setbacks: brief but damaging generic competition in the U.S. to one of the company's biggest drugs, the blood thinner Plavix; generic competition to Plavix in Germany; and the failure to get big new products, such as Acomplia for obesity and Multaq for heart disease, approved in the U.S.

"The stock has been besieged by a series of negative surprises in the last two to three years, and there are questions among some inves-

tors about whether these issues could have been better managed," says Gbola Amusa, a pharmaceutical analyst at UBS in London. "With large shareholders like Total and L'Oreal open about their intent to sell Sanofi shares and possibly putting pressure on Sanofi for change, it's not unexpected that Sanofi would seek out a seasoned pharma manager like Viehbacher."

A dual citizen of Canada and Germany, Mr. Viehbacher speaks fluent French and spent several years working for Glaxo in Paris before taking his current job. While in Paris, he got to know Mr. Dehecq, Sanofi's chairman, and developed strong relationships with French leaders, people who know him say. In 2003, the French government awarded him the Legion of Honor, the highest decoration in France, for his contributions to business and health care.

Glaxo said earlier this week that Mr. Viehbacher, who is based in Research Triangle Park, N.C., would be leaving the company in December for another job.

Mr. Dehecq helped found Sanofi in 1973 and led it through dozens of acquisitions, including the \$72 billion merger with rival Aventis in 2004. Mr. Dehecq was chief executive and chairman until he gave up the CEO job to Dr. Le Fur, his colleague of more than 20 years. Many investors didn't see Dr. Le Fur's arrival as CEO as a change in leadership.

News of Mr. Viehbacher's impending arrival helped send Sanofi up 2.8% in Paris to €47.50 (\$67.19).



Chris Viehbacher

GLOBAL BUSINESS BRIEFS

Air France-KLM SA

Carrier is prepared to make offer for Austrian Airlines

Air France-KLM Chairman and Chief Executive Jean-Cyril Spinetta said the Franco-Dutch airline is prepared to make an offer for Austria's holding in Austrian Airlines AG. A dozen carriers have expressed interest in Austria's 42.75% stake in Austrian Airlines. Until now, only three companies have confirmed their interest: Germany's Deutsche Lufthansa AG, Turkish Airlines and Russian carrier S7, formerly OAO Sibir. Mr. Spinetta said Merrill Lynch has been selected to organize proposals from investors. He also denied reports of a "secret agreement" that Air France had struck to buy the new company that a consortium of investors is trying to create out of the most profitable parts of failing Italian airline Alitalia SpA.

Thomas Cook Group PLC

The European Commission isn't required to pay tour operator Thomas Cook Group PLC compensation for wrongfully blocking the company's merger with rival First Choice PLC, a court ruled Tuesday. The Anglo-German travel firm was seeking £517.9 million (\$911 million) in damages for costs and loss of profits after a commission decision against the merger was overturned by a court several years ago. "The fact that the court annulled the decision of the commission prohibiting the acquisition of First Choice does not make the community liable in damages since the commission did not manifestly and gravely infringe community law," the European Court of First Instance said. The case was brought by MyTravel PLC, part of Thomas Cook.

ITV PLC

ITV PLC, the U.K.'s largest terrestrial commercial broadcaster by sales, said it tapped Ian Griffiths as finance director. Mr. Griffiths had been finance director at Emap PLC. He will report to Chief Operating Officer John Cresswell. Mr. Griffiths's start date is likely to be announced on or before the next board meeting, at the end of this month, a spokeswoman said. "This is an exciting opportunity in a vibrant and rapidly developing media sector, and I look forward to contributing to the implementation of the turnaround strategy," Mr. Griffiths said.

News Corp.

Investigators raided the Moscow offices of the outdoor-advertising unit of News Corp., owned by media billionaire Rupert Murdoch, a company spokeswoman said Tuesday. The Monday raid of News Outdoor's offices and two production facilities paralyzed its operations, company spokeswoman Irina Komissarova said. A Moscow court ordered the search as part of an investigation into negligence charges against a top official at the city government's advertising committee, which also was raided Monday, News Outdoor said. Ms. Komissarova said the company faces no charges. News Corp. owns Dow Jones & Co., the publisher of The Wall Street Journal.

Électricité de France SA

In a move to strengthen its position ahead of expected growth in the U.S. nuclear-power industry, Électricité de France SA nearly doubled its stake in U.S. electric utility Constellation Energy Group Inc. to

almost 10%. France's state-controlled utility declined to disclose what it paid for the stake or the exact timing of its acquisition. At current market prices, the additional 4.54% stake in Constellation Energy is valued at about \$513 million. Last year EDF and Constellation Energy set up a 50-50 joint venture with the aim of building four next-generation nuclear reactors. The EPR reactors are meant to eventually replace aging reactors around the world. The U.S. has 104 commercial reactors which supply about 20% of the country's power.

Deutsche Lufthansa AG

Deutsche Lufthansa AG said passenger traffic at its flagship airline fell nearly 4% last month, hit by the residual effects of a strike in July. However, the company, which also owns Swiss as well as LHA Cityline, Eurowings and other airlines, said its total number of passengers was down 1.2% from a year earlier to 6.1 million. Total load factor—a measure of how full airplanes are—was down by 0.8 percentage point to 82%, despite increased capacity at Lufthansa and Swiss. Business in Europe suffered the most from the recent strikes by pilots, cabin staff and ground crew. Sales in the Americas rose more than 7% as the airline increased capacity by 5% in its Americas and Asia-Pacific regions. Lufthansa's group-cargo load factor dropped slightly to 60.4%, partly because of the strike and the economic slowdown in the Americas.

Finnair Oyj

Finnish national carrier Finnair Oyj posted a rise in traffic and passenger numbers for August and said its planes were fuller on average due to more traffic on its Asian routes. The airline's traffic was up 9.3% last month, following a 6.5% increase in July, while its load factor—a measure of how well an airline fills its seats—rose 3.2 percentage points to 80.3%. Finnair transported 723,312 passengers in August, 1.8% more than a year earlier. The airline's Asian network alone carried 132,778 passengers, helping to push its traffic up 13.4%. Load factor in Asia was 84%, 1.4 percentage points higher than a year ago, whereas on European routes it was 71%, up 0.6 percentage point in spite of a slight decline in traffic.

Bertelsmann AG

Arvato AG, a unit of German media company Bertelsmann AG, has purchased Qualytel Teleservices SA in a move to expand its international service-center network. With seven locations and 6,000 employees, Qualytel is one of Spain's biggest call-center companies. Arvato said the deal has been approved by the regulatory authorities but didn't disclose the terms of the acquisition.

McDonald's Corp.

McDonald's Corp. reported an 8.5% increase in August global same-store sales, with a 4.5% gain in the U.S., boosted by beverages, the popular breakfast menu and a Southern Style Chicken Sandwich pegged to the Olympics. European same-store sales jumped 12%, the company said, citing menu variety and strong performance in the U.K., France and Germany. The company's Asian-Pacific, Middle East and Africa region saw 10% growth.

—Compiled from staff and wire service reports.

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ECONOMY & POLITICS

U.K.

Weaker output raises likelihood of contraction



BRITISH manufacturing and industrial production each fell again in July, raising the prospect that the U.K. economy could contract for the third quarter.

The Office for National Statistics said manufacturing output fell 0.2% in July from June and 1.4% from the year earlier. It was the fifth-straight monthly decline, the first time that has happened since 2001. It also said the wider industrial-production measure fell 0.4% in July from June, and 1.9% on the year.

Over the three months to July—considered a better guide to trends—industrial output fell 1.1% from the previous three months, while manufacturing output declined 1.1%.

—Joe Parkinson

SERBIA

Lawmakers back accords signed with EU, Russia



SERBIAN lawmakers ratified a pre-membership agreement with the European Union and an oil-and-gas deal with Russia after heated debate over the direction of the country's policies.

The accords, both considered crucial for the Balkan nation's future, were signed this year but needed parliamentary approval.

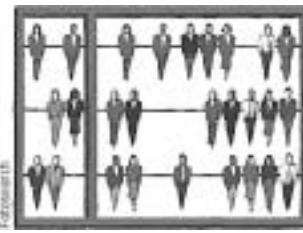
The EU pact will give Serbia access to EU funds and will ease trade with EU countries. The pro-Western government supports this first step to membership.

The deal with Russia envisages part of a pipeline running through Serbia and that the Russians will buy Serbia's state oil company, NIS.

—Associated Press

EUROPE

Worsening jobs outlook headlines global survey



THE GLOBAL jobs market is set to weaken in the coming months, with employers in Spain, Ireland and Italy planning to lay off workers, Manpower Inc. said.

A survey of 55,000 companies said employers in 25 out of 33 surveyed countries said they will slow their pace of hiring in the fourth quarter from the current quarter. Countries in Europe are set to fare the worst in the fourth quarter, and U.K. employers reported their least optimistic hiring outlook since the second quarter of 1992.

Italy and Ireland reported negative outlooks for the first time, while the Spanish index sank to a five-year low, the survey showed.

—Emma Charlton

Some Iraqis pine for the home they fear

Nasser family's limbo shows the anguish of being stateless

BY FARNAZ FASSIHI

THE PHOTOGRAPHS always make them cry. Stacked neatly, tied with a rubber band and hidden in a drawer next to the bed, the pictures represent the life that Ayad and Aseel Nasser left behind when the young couple fled Iraq to neighboring Jordan 18 months ago in search of safety and a brighter future for their children.

One picture shows the couple freshly in love as newlyweds, standing in front of a rose bush in the garden of their ancestral house. There's another photo of them donning graduation caps and gowns, hug-

times skip meals or fill up with bread and yogurt to save nutritious meat and chicken for the kids.

"Our situation is terrible. We are not happy at all," Aseel tells me. "I miss Iraq—you know, it's still my country. But I will never ever go back. There is nothing left there for us but memories."

Since the war in Iraq began in 2003, approximately four million of the country's 25 million people have been displaced. About two million have been displaced internally, and another two million have escaped for shelter in Syria, Jordan and Lebanon. The United Nations High Commission for Refugees registers them and tries to resettle them in host countries such as the U.S., Canada and Australia.

But their numbers are far greater than the available slots. While the refugees wait to hear from UNHCR, they live a stateless existence. They can't put roots down in the transitory country, because the laws won't allow them. They can't return to Iraq, even on a visit, since they have registered themselves as refugees. Some are lucky enough to get resettled, but for most it may become a way of life.

Aseel and Ayad registered with the UNHCR's Amman office in August of last year, but they were told their chances are slim. Neither of them technically met a criterion of persecution for working for Americans despite the fact that Ayad had received a death threat because he was doing computer work at Iraq's Ministry of Defense. At least once a month, one of them dutifully calls the offices of UNHCR to inquire about their application. But so far there is no news.

I met the Nasser family in October 2002, on my first trip to Baghdad, when Saddam Hussein was still in power. I attended a birthday celebration for Ayad where the anxiety of an impending war kept disrupting the cheer, an invisible intruder. While the Nassers didn't like Saddam, they were all vehemently against the war and critical of America's plan to invade Iraq.

Their fears were born more of pragmatism than ideology. Aseel was seven months pregnant with their first child and worried about the disruption of utility and hospital services under bombardment. Ayad



Many Iraqi refugees, like the one pictured here in Jordan, play a waiting game as they look to the UNHCR to resettle them. (The Nassers declined to be pictured.)

and his younger brother Ziad dreaded being drafted to fight. Their parents, Sabah and Marie-Rose, fretted over stocking enough food and water to survive the bombardment.

When Ayad blew out the candles on a heart-shaped cake baked by his mother, Aseel placed his hand on her belly and told him to make a wish. "I wish for my baby to be healthy. And I wish there is no war and we all live in peace," he said. Everyone cheered and clapped.

That's how I remember the Nasser family—kind, tightly knit and spirited. I found them again after the war began, in April 2003. Everyone was safe, and nothing was damaged. The family endured the war by staying put in their own house. Aseel had had a baby girl, Rita, and stuffed the baby's ears with cotton puffs to muffle the sound of bombs while she slept. I ate lunch with the family every Wednesday.

In those first months after the invasion, Baghdad simmered with the excitement of newfound freedom. The Nassers bought a satellite and spent the first week glued to the television, watching international news channels, Arabic soap operas and Bollywood movies. They bought cell-phones for the first time, their faces brightened as they dialed the num-

bers of relatives who had years earlier moved to the U.S. and Sweden. Ayad printed a resume and practiced his English with me, hoping to find a job as a computer engineer with one of the foreign companies that would be rushing to set up shop in Iraq. His father, Sabah, sold his kebab restaurant and opened a paint shop in anticipation of a post-invasion boom. He handed me a hundred business cards to pass to my foreign associates. They thought that with American tanks rolling in, so would American capitalism.

Their enthusiasm was short-lived. When I went to a Christmas party at their house in 2003, they could only tell me about their problems. Late in the afternoon, the electricity cut out, casting a dark gloom over the party. They lit the house with oil lanterns and candles, and in the distance we heard the crack of gunfire. Aseel had quit work because violence—car bombs, kidnappings, mortars, shootouts—had become so random that every time she took a taxi to work, she wondered if she'd get killed on the way. "I do not want my daughter to become an orphan," she told me. Ayad still sold ribbons in the shop, because the Americans weren't hiring many Iraqis, worried that they could be informants for the insurgency. Sabah's

paint shop was nearly bankrupt because reconstruction had stagnated as security fell apart.

When in the spring of 2004 the younger brother Ziad decided to get married, the senior Nassers desperately tried to persuade him to elope in Jordan and save them the stress of hosting a big party. Traveling after dark, even in a convoy, could get guests killed or kidnapped. It was a stark contrast to the big bash they had thrown for Ayad and Aseel's wedding, where four hundred guests had dined on a four-course meal and danced until dawn at the posh Allawiyah Country Club. Sabah seemed a little ashamed that his anxiety had overshadowed his dream of witnessing his younger son wed. He asked me, "Can you believe a father asking his son to take his joy and happiness elsewhere? Do you think I'm a bad father for saying this?"

As security deteriorated for much of 2004, the Nassers' neighborhood, Adhamiyah, became the bastion of the Sunni insurgency in Baghdad. Aseel wouldn't let their daughter, a toddler, play in the garden due to stray bullets. Marie-Rose whispered that after major explosions in the neighborhood, Sabah suffered from anxiety attacks. He would collapse to the floor in spasms. For the first time in their lives, the Nassers were missing church service, after a suicide bomb targeted their church. Even family gatherings, one of the remaining struts of normal life, were few.

Aseel was pregnant with a second child, and the couple pondered whether they should leave Iraq for good. Aseel said she wanted to leave when Rita was 6 and began first grade. But well before that, the civil war between Shiites and Sunnis that plagued Iraq for much of 2006 arrived at their doorstep. The neighborhood playground, a grassy patch of land with red swings and yellow slides where Rita played, was turned into a makeshift cemetery to accommodate the area's civilian corpses popping up here and there. One afternoon, a gunman shot at Ayad's shop and left a flier threatening to kill him if he didn't stop working for the Shiite government.

The entire family fled the house. Ayad and Aseel took a rickety taxi to Jordan with their children.

Adapted from the book "Waiting for An Ordinary Day: The Unraveling of Life in Iraq," by Farnaz Fassihi. Copyright 2008 by Farnaz Fassihi. Published by Public Affairs Books, a member of the Perseus Books Group. Used by permission.



ging their families, and another at a family Christmas lunch.

Now, Aseel and her husband, Ayad, 32 and 37 years old, are refugees living in a poor neighborhood in Amman. Their apartment is scarcely furnished and feels cramped with their two children, who are 6 and 3, and Aseel's parents.

Money is tight. Their limbo status as refugees doesn't entitle them to residency or work permits. Despite their engineering degrees—hers in civil, his in computers—they both work as lowly secretaries for Iraqi companies. Their combined monthly income is \$300. It's been over a year since either of them bought an article of clothing or ate at a restaurant. They some-

U.S. PRESIDENTIAL ELECTION 2008

Black unease is growing

Threat of Obama loss is stirring discussion on the subject of race

BY GARY FIELDS
AND JONATHAN KAUFMAN

An anxious murmur is rising among black voters as the presidential race tightens: What if Sen. Barack Obama loses?

Black talk-show hosts and black-themed Web sites are being flooded with callers and bloggers reflecting a nervousness—and anger—over the campaign. Monday night, Bev Smith, a nationally syndicated black talk-show host in Pittsburgh, devoted her entire three-hour show to the question: “If Obama doesn’t win, what will you think?”

“My audience is upset,” she said. “Some people said they would be so angry it would be reminiscent of the [1960s] riots—that is how despondent they would be.”

Warren Ballentine, a nationally syndicated black talk-radio-show host, added: “Once Sarah Palin was picked and African-Americans saw the Republicans ignited again, they got worried. We are scared now.”

Black nervousness could help Sen. Obama, the first African-American to head the Democratic—or any major party—ticket, by boosting black turnout in November. But if Sen. Obama loses, “African-Americans could be disappointed to the point of not engaging in the process anymore,” or consider forming a third political party, said Richard McIntire, communications director for the National Association for the Advancement of Colored People.

Black voters have had a roller-coaster relationship with the Obama campaign. Initially skeptical of Sen. Obama’s bid, a majority of blacks supported Sen. Hillary Clinton before the primaries began. They began to flock to Sen. Obama’s

camp following his January win in the Iowa nominating contest. The latest Wall Street Journal poll shows 88% of blacks backing Sen. Obama. Black voter registration has surged.

“There is so much about this campaign that people are taking very personally,” said Lynette Clemetson, managing editor of Theroot.com, a Web site that attracts African-American professionals in their 30s and 40s. “A large part of this hope surrounding Obama is generational—that he can crack through what some have long considered basic barriers. If he wins, it’s the ‘Hallelujah Chorus.’”

But the racial undertone of the campaign has some blacks—and some whites—unable to envision the Illinois senator losing the election without racism playing a role.

“If he loses, it will shake the very ground that we stand on mentally as far as what we need to be to succeed,” said Robert Gordon, a 48-year-old engineering surveyor from Dallas. “From day one, we’ve been told to be a certain way, to be neat, intellectual, speak clearly. He is the symbol of what we were told to be by our parents and by society as a whole. If this doesn’t work, what does that do to our psyche? What do I tell my sons? No matter what the hell we do, it doesn’t matter? We can only assimilate so far.”

Twyla Griffin, who works for a health-care company outside Detroit, said she was feeling optimistic about the country’s racial progress as she watched Sen. Obama’s acceptance speech on television two weeks ago. But with excitement surging over Alaska Gov. Sarah Palin as the Republican vice-presidential nominee and polls showing the race so close, she said she now finds herself asking: “Can people bring themselves to go into a voting booth and pull the lever for a black man?”

Melvin Thomas, a professor at North Carolina State University and past president of the Association of

Black Sociologists, said black response to the election likely will depend on “how African-Americans will see a vote against Mr. Obama. What does the racial distribution of that vote look like? If the answer for African-Americans to the question of why Obama lost is race, an Obama loss will have the potential to deepen the racial cut.”

New York Gov. David Paterson, a Democrat, acknowledged the concerns about race. “I am hearing those jitters,” he said. But he added that many Democratic candidates have lost the presidential race in recent decades and “they were white candidates. African-Americans need to remember that.”

Don Moses, a retired Army lieutenant colonel, said that while he supports Sen. Obama, attributing a loss to race would be an oversimplification and unfair to voters who have legitimate concerns about the candidate. Those concerns include his youth and lack of experience, as well as his alienation of “some strong members of the old guard in the Democratic Party,” Mr. Moses said. Concluding that the election will be decided by race also would ignore reasons some might have to support Sen. John McCain, including his military history, he said.

“I would hope if Obama is not elected, black America will not lose sight of the lessons learned and move forward,” he said. “After all, it won’t be a defeat for us. It will be a failure on America’s part as a whole to recognize and reward the better man.”

Obama campaign adviser Valerie Jarrett said the campaign isn’t spending its time wondering what happens if the senator loses. “One of the life lessons I’ve learned from Barack is that you can’t have a fear of failure. It is debilitating,” said Ms. Jarrett. “You can’t go into any venture fearful of what will happen if you fail.”

She recalled that when Sen. Obama lost a House race in 2000, she and others suggested he give it more time before seeking another seat. Instead, he ran for the Senate and won in 2004.

An affair by Palin aide may have led to firing

BY MICHAEL M. PHILLIPS

WASILLA, Alaska—Sarah Palin and John Bitney go way back. They were in the same junior-high band class. Mr. Bitney was a key aide in Gov. Palin’s 2006 gubernatorial campaign. When she took office, she gave Mr. Bitney a job as her legislative director, and a few months later stood beside him at a news conference and praised his work.

“Whatever you did, you did it right,” she told Mr. Bitney and his team.

Seven weeks later she fired Mr. Bitney for what her spokeswoman now describes as “poor job performance.”

What happened in between? According to Mr. Bitney, Gov. Palin got a call from another old friend, Scott Richter, informing her that his wife, Debbie Richter, and Mr. Bitney were having an affair. Mr. Bitney had kept that secret from the governor, even as he told her of his divorce, he said.

Gov. Palin and her husband, Todd Palin, were also close friends of the Richters. Ms. Richter served as treasurer of Gov. Palin’s gubernatorial

of staff “indicated to me that I needed to leave the governor’s office,” Mr. Bitney said.

“I understand why I had to go,” Mr. Bitney said. “I accept that. I was in the governor’s office and a trusted adviser. I betrayed that trust by not being forthcoming about what was going on in my personal life.”

Gov. Palin’s spokesmen have given conflicting explanations for Mr. Bitney’s dismissal. At the time, the governor’s office cited “personal reasons” for Mr. Bitney’s “amicable” departure, according to contemporaneous news reports. Last week, Sharon Leighow, a spokeswoman for the governor’s office, said “John Bitney was dismissed because of his poor job performance.” She declined to provide further details.

Mr. Bitney said he was shocked to learn that the governor had had any complaints about his performance as her liaison to the Legislature.

In May 2007, less than two months before she fired him, Gov. Palin had publicly declared the legislative session—Mr. Bitney’s major responsibility—“wildly successful.”

After he was fired, Mr. Bitney



Barack Obama



John Bitney, then Gov. Sarah Palin’s legislative director, speaks at a press conference on May 17, 2007, before the governor (right) fired Mr. Bitney.

Obama turns focus to education

BY AMY CHOZICK
AND JUNE KRONHOLZ

DAYTON, Ohio—Barack Obama reacted to a drop in support among white women by shifting the debate to education Tuesday, calling for big increases in federal school spending and vowing to “replace” bad teachers.

Playing to a Democratic base that is angry over the Bush administration’s No Child Left Behind testing regimen, Sen. Obama also said he would “fix” the law so that “our kids...become more than just good test takers.”

But some education policy experts said the Obama proposals are vague, recycled and don’t challenge the teachers unions on pay, seniority and training. Sen. Obama has “staked out traditional positions. He’s said things the Democrats like to hear,” said scholar Tom Loveless, of the Brookings Institution, which terms itself nonpartisan.

Speaking in a suburban high school here, Sen. Obama derided his opponent, Arizona Sen. John McCain, for his support of school

vouchers, which would provide public funds to pay private-school tuition. Instead, the Illinois Democrat proposed \$400 million in federal aid to public charter schools, to which Democrats have lately given only tepid support.

But Mr. Loveless said that isn’t likely to spur much change because it still leaves school districts with most of the bill for charter schools.

Sens. Obama and McCain have drawn clear distinctions over how they would tackle the myriad problems facing schools, with Sen. McCain proposing such free-market solutions as alternative teacher certification for those who enter the profession from other fields and the greater use of private tutoring companies to spur performance.

Sen. Obama’s proposals would help schools change from within, with big infusions of money for teacher training and incentive pay for teachers who he said make “a real difference in children’s lives.”

But Sen. Obama proposed Tuesday that teachers help design incentive programs and he neglected to spell out a key point: whether pay

should be linked to student performance. The teachers unions have long opposed giving a bonus to a teacher whose students, for example, made substantial progress on reading or math, and instead argue that all teachers should be paid more.

In earlier appearances before the unions, Sen. Obama has met with a frosty response when he proposed any links between pay and student outcomes.

Sen. Obama also proposed Tuesday that ineffective teachers should be “replaced,” although he didn’t say how. Even so, that sort of tough talk about teachers, a hugely important Democratic constituency, is “noteworthy,” said Andrew Rotherham, co-director of Education Sector, a think tank, and an informal adviser to the Obama campaign.

Sen. Obama also didn’t say how he would change No Child Left Behind, including whether he would reduce testing or how he would make tests more useful to teachers—key points among legislators who must reauthorize the law next year.

campaign and her inaugural committee. After taking office, Gov. Palin put Ms. Richter in charge of the Permanent Fund Dividend Division at the Department of Revenue. The fund allocates oil revenues to Alaska residents; this year each Alaskan is expected to receive \$3,269.

The two couples owned property together on Safari Lake, north of Wasilla, according to Gov. Palin’s financial disclosure reports. Each couple had its own cabin on the land, where the families would vacation side by side, according to Ms. Richter. In the most recent disclosure form, the governor reported that she and Mr. Palin now own the property with Mr. Richter alone.

“They were, you know, professionally my bosses, but they were my friends,” Mr. Bitney said of the Palins. “And so what caused them to want me to leave the governor’s office was my relationship, my divorce, my dating a woman with whom they had a personal relationship.”

When Gov. Palin was notified by Mr. Richter in July 2007, she called Mr. Bitney into her office. She already knew he was going through a divorce and, Mr. Bitney said, he had “led her to believe there weren’t going to be any more surprises.”

Mr. Bitney said the governor “indicated to me that she was hurt, disappointed and upset, and that she didn’t know what she wanted to do.”

A few days later, Gov. Palin’s chief

landed a job as chief of staff to Alaska House Speaker John Harris, another Republican. “I don’t think it was fair, but that’s just my personal opinion,” Mr. Harris said of Mr. Bitney’s dismissal.

Soon after she was elected mayor of Wasilla in 1996, Gov. Palin dismissed the town department heads, including the police chief, the city planner and the finance director.

State officials are investigating allegations that Gov. Palin fired the Alaska public-safety commissioner she had appointed because he refused to dismiss a state trooper involved in a messy divorce with the governor’s sister. The governor has denied any impropriety in the case.

“Gov. Palin only makes personnel decisions based on one thing—what is best for the people of Alaska,” McCain-Palin campaign spokeswoman Meghan Stapleton said in a written response to questions about Mr. Bitney’s dismissal. Mr. Richter didn’t respond to several phone messages left on his cellphone. Last week he filed a motion asking a state court to seal the record of his divorce proceedings. The court denied his request.

Ms. Richter said in an interview that she understood why her old friend fired her boyfriend. Gov. Palin “was blindsided, hit at 70 miles per hour from behind,” said Ms. Richter, who married Mr. Bitney on Aug. 23 and now goes by Debbie Bitney.