



**Lehman's restructuring plan is all talk so far**

HEARD ON THE STREET | PAGE 32

**Swiss particle accelerator starts up with a big bang**

MARKETPLACE | PAGE 28

## What's News —

Business & Finance

World-Wide

**Dismal forecasts** for European growth underscored a rising risk the region could slip into recession this year, a fate the U.S. economy may have skirted thanks to fiscal-stimulus programs. European policy makers have largely refrained from such measures and their strong anti-inflation stance may be one reason the euro-zone could see a sharper slowdown now. **Page 1**

■ **Lehman Brothers tried** to fend off deepening gloom about its future after a \$3.9 billion fiscal third-quarter loss. But analysts said it could face further losses. **Page 1**

■ **The U.S. military will halt** a disputed \$40 billion competition to replace its fleet of aerial-refueling tankers in a victory for Boeing. **Page 1**

■ **U.S. energy and tech stocks** gained on news from OPEC and Texas Instruments. Banking stocks pushed European shares lower after Lehman's hefty third-quarter loss revived concerns about the sector. **Page 20**

■ **Russian President Dmitry Medvedev** predicted a rebound in the nation's shares, but his comments had little impact amid growing concerns. **Page 3**

■ **Sanofi-Aventis ousted** Chief Executive Gerard Le Fur and named a GlaxoSmithKline veteran as his successor. **Page 8**

■ **Follieri pleaded guilty** to conspiracy, fraud and money laundering in connection with his buying of property from the Catholic Church. **Page 6**

■ **ImClone ripped** the \$4.5 billion offer from Bristol-Myers as "inadequate" and said an unnamed bidder had offered \$10 a share more. **Page 6**

■ **Auto makers** face a grim outlook as a potential Chinese sales slowdown and poor European demand add to weakness in the U.S. market. **Page 5**

■ **Alitalia may begin** temporary layoffs if its unions don't agree to its rescue plan. **Page 4**

### Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11268.92	+38.19	+0.34
Nasdaq	2228.70	+18.89	+0.85
DJ Stoxx 600	277.35	-2.25	-0.80
FTSE 100	5366.2	-49.4	-0.91
DAX	6210.32	-23.09	-0.37
CAC 40	4283.66	-9.68	-0.23
Euro	\$1.4061	-0.0063	-0.45
Nymex crude	\$102.58	-0.68	-0.66

Money & Investing > Page 19

■ **U.S. Defense officials** called off a disputed \$40 billion competition between Boeing and a team of Northrop Grumman and EADS to replace the Air Force's fleet of aerial-refueling tankers because officials don't think they can pick a winner before the next U.S. administration as planned, in a major win for Boeing. **Page 1**

■ **Russia asked** the U.N.'s highest court to dismiss Georgia's request for intervention, saying Tbilisi's legal team had misrepresented refugees' plight. **Page 2**

■ **European concerns** over Russia and support for NATO were increasing even before Moscow sent its military into Georgia, according to a survey. **Page 3**

■ **The U.S. military's chief** told lawmakers he wasn't convinced coalition forces are winning the battle in Afghanistan and added a new strategy would include militant havens in Pakistan.

■ **Two key al Qaeda operatives** were among four foreign militants killed in a U.S. missile strike in northwest Pakistan, officials said.

■ **Pakistan's military chief** lashed out at the U.S. over cross-border raids by U.S. troops from Afghanistan and said Pakistan's sovereignty will be defended.

■ **North Korean dictator Kim Jong Il's** second-in-command sought to dispel reports that the leader is seriously ill, though he remained out of sight. **Page 9**

■ **A bomb tore** through a car near Beirut, killing a Druse politician from a pro-Syrian party, in the first political assassination in Lebanon in about a year.

■ **U.K. prosecutors** said they would seek the retrial of seven men accused of plotting to blow up trans-Atlantic airliners. **Page 9**

■ **Poland hopes** to adopt the euro in 2011, Prime Minister Donald Tusk said, setting a timeline for the first time since he took office last year.

■ **The world's largest particle accelerator** was turned on near Geneva, sending beams of subatomic matter around a 27-kilometer underground ring. **Page 28**

■ **Two Russian bombers** landed in Venezuela as part of military maneuvers, Russia's Interfax news agency reported.

### EDITORIAL & OPINION

**Energy independence?** Wind turbines are good for Gazprom's bottom line. Business Europe. **Page 15**

# Lehman plans to sell off real estate, investments

*Dividends to be cut; stock slide is halted, but future uncertain*

BY RANDALL SMITH

Lehman Brothers Holdings Inc. tried to fend off deepening gloom about its future by announcing that it will shed most of its real-estate assets, sell a majority stake in its money-management business and slash its dividend to shore up its finances after a brutal \$3.9 billion fiscal third-quarter loss.

But analysts warned that the investment bank could face further losses before it can complete its plans early next year, raising questions about whether it can safely reach its goal of a smaller, less-risky profile.

Lehman rushed out its plans and quarterly results early Wednesday morning after its already-battered share price tumbled 52% Monday and Tuesday on word that talks to sell a stake in the company to Korea Development Bank had fizzled. The slide deepened questions about the firm's survival in the face of widely



A small rebound Lehman Brothers' daily share price



expected write-downs on real estate and other assets.

Wednesday's announcement halted the stock's swoon. In late New York Stock Exchange compos-

ite trading, Lehman was up 26 cents, or 3.3%, at \$8.05.

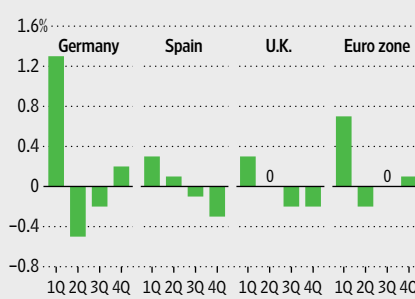
The stock's failure to rebound more strongly following a *Please turn to page 30*

### Trading places

Risks are rising that Europe's economy will slide into recession this year, while the U.S., bolstered by a fiscal-stimulus package and interest-rate cuts, escapes two consecutive quarters of contraction.

### GDP growth forecasts in 2008

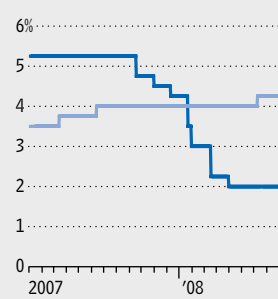
Quarter-to-quarter percentage change



Sources: European Commission (gdp forecasts); European Central Bank; U.S. Federal Reserve

### Key interest rates

— U.S. Fed — ECB



## Worsening economic outlook feeds fear of recession in EU

Sharply lower European growth forecasts Wednesday underscored mounting concerns that Europe could slip into recession this year, even as the U.S. government's fiscal-stimulus package and the Federal Reserve's sharp interest-rate cuts suggest the U.S. could escape the same fate.

Government intervention may help the U.S. avoid a recession—gen-

By Joellen Perry in Frankfurt and Sudeep Reddy in Washington

erally defined as two consecutive quarters of negative economic growth—this year despite turmoil in the credit and housing markets.

Similar global headwinds look increasingly likely to push the \$12.2 trillion euro-zone economy, the world's second-largest combined economy after the U.S., into a technical recession.

"The world's been hit by massive shocks, so everyone should slow down," says Erik Nielsen, an economist with Goldman Sachs in London. "But the U.S. has absolutely thrown the kitchen sink at the problem." European policy makers, by contrast, have largely refrained from goosing their economies with fiscal stimulus, and the European Central Bank raised its key interest rate in July to counter inflation threats.

Buoyed by government interven- *Please turn to page 31*

## Pentagon halts tanker bidding, in Boeing victory

BY AUGUST COLE

The U.S. Department of Defense is calling off a hotly disputed \$40 billion competition to replace its aging fleet of aerial-refueling tankers because officials don't think they can pick a winner before the next presidential administration as planned.

The decision is a major victory for Boeing Co., which had lost the initial competition in February to a team made up of Northrop Grumman Corp. and the parent company of Europe's Airbus. Boeing's protest of that decision was upheld by the Government Accountability Office, leading to a new round of bidding.

Most recently, Boeing had asked the Pentagon for extra time to submit a new bid after it became clear to the company that the Air Force was looking for a bigger plane than Boeing had originally bid.

Senior Defense Department officials notified key lawmakers Wednesday morning that Pentagon officials had determined that it would be impossible to meet a deadline of selecting a new winner by the end of the year.

In a prepared statement, Defense Secretary Robert Gates said he believed it was time for a "cooling off" period. Over the past few weeks, Mr. Gates concluded the competition had become too emotionally charged and compressed to rush. The decision will now be made under the next presidential administration, which takes of- *Please turn to page 31*

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THE WALL STREET JOURNAL

LEADING THE NEWS

# Russia begins diplomatic push in Moldova

*Offer to end dispute is reconciliation try; talking or tanks?*

BY ALAN CULLISON

MOSCOW—Russia's invasion of Georgia got a chilly reception even in its traditional sphere of influence, the former Soviet Union. In response, the Kremlin has started a diplomatic push to show it can offer carrots as well as sticks by helping one of its neighbors, Moldova, resolve a long-festering separatist conflict.

But intransigence on both sides and Moscow's own limited influ-

ence in the region may teach the Kremlin that its interests are more easily won by tanks than by talking, diplomats and analysts say.

Moscow's decision to send thousands of troops into Georgia last month to repulse a Georgian attack on Moscow-backed separatists sent shock waves throughout the region, where ethnic and border conflicts continue to simmer.

The move against Georgia, followed by declarations from President Dmitry Medvedev that the Kremlin is asserting an area of "privileged interests" in countries along its borders, departed from Russia's previous policy of seeking to block Western expansion in the region largely with threatening rhetoric.

Condemned in the West, the

Kremlin sought support from traditional allies in the former Soviet Union. But leaders in the region, many with their own separatist problems and fears about Moscow's intentions, have been slow to respond.

To win hearts, the Kremlin is highlighting its efforts in Moldova as evidence that it can provide benefits to countries that keep their distance from the West, particularly by not joining the North Atlantic Treaty Organization alliance, which the Kremlin sees as anti-Russian.

Moldova, a landlocked country sandwiched between NATO member Romania and NATO-aspirant Ukraine, has become the showroom for Moscow's new approach. The Kremlin is offering the Moldovan

government the prospect of resolving its long-running conflict with Moscow-backed separatists in a sliver of territory along its eastern border called Transnistria.

But in return, Moscow wants Moldova to renounce its West-leaning aspirations and refrain from following Romania into the European Union and NATO.

Moscow's help in bringing separatists to heel has "always been a kind of carrot that Russia could dangle in front of Moldova and offer as a reward," said Dmitry Furman, professor of history at the Institute of Europe in Russia's Academy of Sciences.

Last week, Mr. Medvedev met with the leader of the separatists, Igor Smirnov, at the Russian president's summer residence in the Black Sea resort city of Sochi. Mr. Smirnov emerged to tell reporters he thought a solution was possible and that he was ready to resume talks with the Moldovan government.

Officials close to the discussions confirm that Russia has stepped up its efforts to mediate the conflict. The Russian president also met with Moldovan President Vladimir Voronin last month and in the coming weeks may be hosting a face-to-face meeting between the separatist leader and the

Moldovan president in Russia.

"The message is coming from different corners suggesting that everyone is ready," said Mikko Kivikoski, an adviser in Vienna to the special envoy on frozen conflicts in the former Soviet Union for the Organization for Security and Co-operation in Europe, or OSCE. "Of course it will be a rocky road and it won't be easy, but at least they are moving now."

One hurdle is that some Moldovans see the Kremlin as part of the problem. Russian troops stationed in Moldova supported separatists when they wrested Transnistria from Moldova's control in 1992. Those troops remain, and Mr. Smirnov's separatist government, dominated by ethnic Russians and Ukrainians, has established its own currency, license plates and postage stamps.

Western diplomats say Transnistria would have withered away long ago without Russian help. With a population of a half million settled mostly on one bank of the Dniester River that separates Moldova and Ukraine, the region is about 400 kilometers long and 10 kilometers wide. But the government's official Web page says the region has its own unique history dating back to 600 B.C.

## CORRECTIONS & AMPLIFICATIONS

**A Reuters photograph** of a Saab Gripen jet fighter was incorrectly labeled as an F-16 on the back page of the Friday-Sunday edition.

**Spain's Finance Minister** Pedro Solbes said Tuesday that the country's economy could fall into recession. A headline Wednesday for a Leading the News article incorrectly said he sounded a warning on inflation.

**The Alaska Permanent Fund**, which distributes annual dividends to state residents, is composed of oil and gas royalties, as well as returns earned on stock, bond and real-estate investments made using oil and gas royalties. A U.S. Presidential Election 2008 article Wednesday about Gov. Sarah Palin's administration incorrectly implied the fund is composed of oil revenues alone.

**One of the problems** the London Stock Exchange experienced during its outage Monday was a

surge in firms attempting to reconnect to its trading system. Also, the LSE handled 1.1 million trades Tuesday. A page-one article Wednesday about the LSE's outage incorrectly stated that one of the exchange's problems was a surge in orders, and that Tuesday's trading volume was 1.1 million shares.

**German metal and engineering** workers got a raise of 4.1% from mid-2007, plus an additional 1.7% raise this summer. A page-one article Aug. 22 on U.S. and European wage trends incorrectly suggested that the 3.6 million workers covered by a union deal got a raise of more than 5% last year.

## INDEX TO BUSINESSES

This index of businesses mentioned in today's issue of The Wall Street Journal Europe is intended to include all significant references to companies. First reference to these companies appear in boldface type in all articles except those on page one and the editorial pages.

Advent International .....25	Deutsche Post.....20	Inmarsat .....21	Morgan Stanley .....30	Rosneft .....9	Tata Steel.....22
Air One .....4	Dillard's .....17	Impex Holdings .....22	Natixis .....20	Royal Bank of Scotland Group .....25	Tata Teleservices.....5
Alitalia.....4	Electronic Arts .....30	ITV .....21	Nike .....4	SABMiller .....6	Texas Instruments .....20
Anheuser-Busch.....6	Energy East .....8	Kazakhmys .....20	Nintendo .....30	Samsung Electronics.....30	The Alaska Permanent Fund .....2
AnnTaylor .....17	Enterprise Inns .....21	Kimco Realty .....17	Nokia .....30	Sanofi-Aventis .....8,20	TM International (Bangladesh) .....5
AnnTaylor Stores .....16	European Aeronautic Defence & Space.....31	Korea Development Bank 32	Northrop Grumman .....1,20	Santander .....20	Torchmark.....11
Apple .....30	Evraz Group .....8	Lehman Brothers .....22	NTT DoCoMo .....5	Sega of America .....30	Total SA.....8
ArcelorMittal.....5	Exxon Mobil.....20	Lehman Brothers Holdings 1,20,21,22,32	O&S Holdings .....17	SAP .....16	Trademark Property .....17
Astra Agro Lestari.....22	Fannie Mae .....20,22,23,31	Limited Brands .....16	Old Mutual .....20,8	Simon Property Group .....17	Tullett Prebon .....25
Autonomy .....21	Ferrexpo .....21	London Stock Exchange .....2	Oracle .....16	SongVest .....31	UBS .....11,30
Aviva .....8	Financière Richemont.....8	L'Oréal .....8	Polarbit .....30	Sony .....30	UPM-Kymmene .....20,21
Bank of America .....20,25	France Telecom .....5	Masters Capital Management .....20	Porsche .....32	Sony Ericsson Mobile Communications .....30	Volkswagen .....8,32
Barclays .....20,25	Freddie Mac .....20,22,23,31	Mechel .....8	Porsche Automobil Holding8	Sprint Nextel.....30	VTB .....3
Berkshire Hathaway .....22	Fresnillo .....21	Merck & Co. ....8	RAB Capital.....21	Stagecoach .....21	Wal-Mart Stores .....16,17
BlackRock .....30	GameStop .....16	Merck KGaA .....6	Raiffeisen International Bank-Holding .....8	Starbucks .....17	Washington Mutual .....20
BMW .....32	Gap .....16	Merrill Lynch .....30	Raspadskaaya .....8	Stora Enso.....20,21	Weingarten Realty Investors .....17
Boeing .....1,20	GameStop .....16	MGHerring Group .....17	Raymond James Financial11	Swarovski .....4	Wieden + Kennedy .....4
BP .....3	Gap .....16	Midac Capital .....25	RedPrairie .....16	Tata Group.....5	Williams-Sonoma .....16
Bristol-Myers Squibb .6,8,20	Gazprom .....3	Mitsubishi Corp.....22	Regency Centers .....17	Tata Motors.....5	WPP Group.....11
British American Tobacco...8	General Growth Properties .....17		Rio Tinto.....20		Yahoo .....8
Bumi Resources .....22	General Motors .....11				
Carphone Warehouse .....21	GFI Group .....25				
Cheesecake Factory .....17	Glu Mobile .....30				
Chico's FAS .....17	Home Depot .....17				
China Overseas Land.....22	Iberdrola .....8				
China Resources Enterprise .....6	IBM .....20				
Crédit Agricole .....20	ImClone Systems.....6,20				
Daimler .....32	InBev .....6				
DeBartolo Development...17	ING Groep .....11				
Deutsche Bank .....20					

## INDEX TO PEOPLE

This index lists the names of businesspeople and government regulators who receive significant mention in today's Journal.

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Abramovich, Roman ..... 8	Flabbee, Pierre ..... 20	Lowitt, Ian ..... 30	Scott-Smith, Lisa ..... 20
Arkani-Hamed, Nima ..... 28	Franzese, Michael ..... 21	Lykken, Joseph ..... 28	Setser, Brad ..... 20
Austen, Mark ..... 21	Frey, Falk ..... 5	MacFarquhar, Rory ..... 3	Sfakianakis, John ..... 21
Baker, Kevin ..... 6	Fuld, Richard S. Jr. .... 30	Maguire, Glenn ..... 12	Shane, Chris ..... 17
Bentz, Tom ..... 9	Fuld, Richard ..... 32	Mandell, Christiane ..... 25	Shea, Michael ..... 23
Bernath, Mark ..... 4	Garrod, Daniel ..... 25	Masters, Michael ..... 19	Sheng, Felix ..... 30
Bottome, Robert ..... 11	Gibbons, John M. .... 16	McNerney, Jim ..... 31	Simon, David ..... 17
Bradford, Joanne ..... 8	Gómez, Eduardo ..... 11	Mervis, Ari ..... 6	Simpfendorfer, Ben ..... 12
Buffett, Warren ..... 22	Hawes, Roger ..... 25	Mitchell, Andrew ..... 25	Smith, Brian ..... 17
Casesa, John ..... 5	Hecht, Michael ..... 30	Mittal, L.N. .... 5	Smith, Ron ..... 3
Chandan, Sam ..... 30	Herring, Gar ..... 17	Mudd, Daniel ..... 23,31	Smith, Terry ..... 25
Coffey, Sean ..... 8	Hoek, Niek ..... 8	Narayan, Rajeev ..... 5	Smolin, Lee ..... 29
Colaninno, Roberto ..... 4	Hogan, Art ..... 20	Niculescu, Peter ..... 23	Steidtman, Carl ..... 16
Curran, Paul ..... 6	Hughes, James ..... 21	Nielsen, Erik ..... 1	Stepic, Herbert ..... 8
de Margerie, Christophe 8	Icahn, Carl ..... 6	Nielsen, Peter ..... 25	Stoekmann, Jim ..... 23
de Vallois, Gonzague ..... 30	Jenni, Peter ..... 29	Norton, Shirley ..... 20	Sutcliffe, Jim ..... 8
Dehecq, Jean-Francois .... 8	Karnstedt, David ..... 8	Olsson, Patrick ..... 25	Syron, Richard ..... 23,31
di Galoma, Tom ..... 21	King, Mike ..... 6	Phillips, Mike ..... 25	Towle, Chuck ..... 22
Drake-Brockman, Symon ..... 25	Knaut, Scott ..... 16	Prohaska, David ..... 31	Valroff, Patrick ..... 20
	Knight, Jack ..... 6	Reilly, Pete ..... 17	Viehbach, Chris ..... 8,20
	Knight, Philip H. .... 4	Rein, Shaun ..... 6	Villella, Paul ..... 23
	Krill, Kay ..... 16	Richards, Philip ..... 21	Vogel, John H. Jr. .... 23
	Laperriere, Andy ..... 22	Roberts, Julian ..... 8	Wakida, Clayton ..... 30
	Laven, Charles ..... 23	Rodríguez, José ..... 11	Wattret, Ken ..... 19
	Le Fur, Gerard ..... 8	Rutherford, Colin ..... 25	White, Adam ..... 20
	Lockhart, James ..... 23	Sceppaguerchio, Maria ... 16	Wieden, Dan ..... 4
			Wilders, Erik ..... 21
			Zandi, Mark ..... 22

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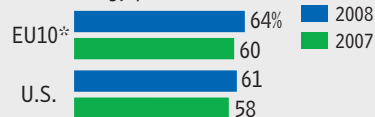
## LEADING THE NEWS

## Cooling on Russia

Respondents who answered positively when asked:

## Are you concerned about Russia:

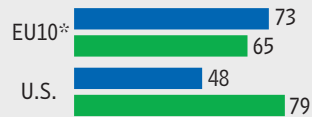
As an energy provider?



In behavior to its neighbors?



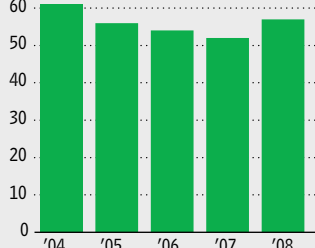
In arming the Middle East?



Source: German Marshall Fund of the United States

## Is NATO still essential to your country's security?

EU10 responses



\*France, Germany, Italy, Netherlands, Poland, Portugal, Slovakia, Spain, Turkey (an EU candidate), U.K.

Note: The poll was conducted June 4 to June 24 by TNS Opinion on samples of 1,000 people in each country. The margin of error on Europe-wide figures is +/- 1 percentage point.

## Europe increasingly wary of Russia, survey reports

BY MARC CHAMPION

BRUSSELS—Even before Moscow sent its military into Georgia last month, European concerns over Russia and support for NATO, the U.S.-led military alliance, were rising, according to an annual survey of trans-Atlantic attitudes released Wednesday.

The trends in a 13-nation survey by the think tank German Marshall Fund of the U.S. are likely to accelerate in the wake of events in Georgia and the election of a new U.S. president in November who is sure to be more popular than George W. Bush, says Ronald K. Asmus, director of the fund's trans-Atlantic center in Brussels.

The U.S. and Europe have "an opportunity to re-create a trans-Atlantic consensus on the issue that initially brought us together 60 years ago, which was Russia," Mr. Asmus said in an interview.

The latest annual GMF survey showed a clear trend of increasing public concern about Russia in Europe. Across 10 European Union countries, 64% of people surveyed in June said they were concerned about Russia as an energy provider, up from 60% last year and slightly higher than among Americans sur-

veyed. Sixty-two percent of Europeans said they were worried by Russia's behavior toward its neighbors, slightly up from last year, while support for the North Atlantic Treaty Organization rose five percentage points to 57%.

But a key obstacle to a Russia-inspired revival of the trans-Atlantic alliance is the role of the EU, Mr. Asmus says. During the Cold War, the EU lacked a mandate even to discuss foreign or security policy, but the EU has taken the lead in attempting to resolve the Russia-Georgia conflict since it broke out last month.

The EU has brokered a cease-fire as well as a follow-up agreement requiring Moscow to withdraw its troops from parts of Georgia. And it has said it will now redouble efforts to improve energy security, including a reduction of dependence on Russian fuels.

But for countries lying in Russia's claimed sphere of influence, the EU so far has shown that it isn't willing to confront Moscow strategically. In Ukraine, pro-Westerners were deeply disappointed by the EU's failure at a summit Tuesday to offer Kiev the prospect of eventual membership, said former Ukraine Foreign Minister Boris Tarasyuk. "I sincerely hoped the situation in the Caucasus would have changed this EU approach, but unfortunately it was not the case," he said.

Germany isn't only the EU's biggest economy, but also is Russia's most important energy partner. If the EU wants to put pressure on Moscow, individual countries such as Germany need to take action to cut their reliance on Russian gas by reviving nuclear-power programs or building terminals to import natural gas by ship, according to Katinka Barysch, Russia expert at the Center for European Reform in London. So far, there is no sign of this kind of radical action.

Like previous surveys, the poll found Europeans prefer the prospect of Barack Obama to John McCain as U.S. president by 69%-26% among all 12 European nations surveyed.

With Sen. Obama in power, 47% of Europeans said they thought relations with the U.S. would improve, while 11% said they thought relations would improve with Sen. McCain in the White House.

The GMF surveyed 1,000 people in each of Bulgaria, France, Germany, Italy, the Netherlands, Poland, Portugal, Romania, Slovakia, Spain, Turkey and the United Kingdom, as well as in the U.S.

# Investors punish Russia

*Medvedev is upbeat, but investors focus on Kremlin and oil*

BY GREGORY L. WHITE

MOSCOW—With stock prices plunging to two-year lows, Russian President Dmitry Medvedev sought to boost investor confidence, predicting an impending rebound. But his assurances had little impact amid growing concerns about the outlook for Russia's economy.

Over the past few weeks, Russian share prices have fallen more than 40% from their May highs, battered by fears about Kremlin pressure on companies as well as the surge in tensions between Moscow and the West after the war in Georgia.

Russian officials initially brushed off the declines as transitory, driven mainly by weak global markets. But as stock prices and the ruble's exchange rate against the dollar have continued to slide, official concern appears to be growing.

In a meeting with the country's top securities regulator, shown on state TV, Mr. Medvedev called Russian stocks "undervalued" and predicted "the situation will straighten itself out and return to the levels seen at the beginning of the year." Mr. Medvedev endorsed a series of steps proposed by the regulator to shore up the market over the medium term by attracting new domes-

tic investors and issuers.

Though relatively few Russians own stocks or investment funds, market performance is a sensitive political issue beyond the business elite. For years, Mr. Medvedev and other top officials touted the surging market capitalizations of big state-controlled companies like OAO Gazprom as evidence of Russia's growing might. The government also pitched shares in state companies like bank OAO VTB to ordinary Russians in "people's IPOs."

Now, those companies' shares have dropped sharply. Gazprom, whose executives this past spring predicted a \$1 trillion market capitalization, is worth less than \$200 billion.

Many investors and analysts share Mr. Medvedev's view that Russian shares are cheap, but they are more cautious about a rebound. "It's probably true, but it might not be until 2011," said Ron Smith, strategist at Alfa Bank in Moscow. Russia's dollar-denominated RTS index fell 4.4% Wednesday to 1334.33 as foreign funds continued to unload Russian shares in what Mr. Smith described as "capitulation on the country."

Mr. Medvedev blamed Russia's troubles on the U.S. "Let the Americans solve the problems with their mortgage system," he said. "To put it simply, they let almost everyone else down."

But investors and analysts say that while the Russian market's swoon is partly due to the global credit crunch and weak foreign markets, Moscow's behavior has been a

big contributor. Even before the Georgia crisis, a public attack by Prime Minister Vladimir Putin against a major steelmaker spooked investors, as did a conflict involving BP PLC and its Russian partners in their TNK-BP Ltd. joint venture.

With prices falling for oil, metals and other commodities that are vital Russian exports, analysts question the outlook for the Russian economy, whose strong growth had been a major driver of investor enthusiasm.

Growth began to slow in the second quarter, according to government data released Wednesday that showed gross domestic product grew at an annual rate of 7.5% over the period. That was down from 8.5% in the first quarter, a level that had prompted fears the economy was overheating. Data on industrial output from June and July have showed an even deeper slowdown, especially in the red-hot construction sector. Economists say investment, another major driver of growth, also slowed sharply as lenders tightened credit.

"These may be the first hints that Russia is feeling what the rest of the world has been feeling," said Rory MacFarquhar, an economist at Goldman Sachs in Moscow. He added that some slowing of growth could help ease inflationary pressures.

Other economists say government plans for double-digit increases in wages and pensions for state workers will keep inflation high. Tight labor markets mean price increases are quickly matched with wage hikes, driving inflation steadily higher.

## Japan posts fall in trade surplus for a fifth month

BY AKANE VALLERY UCHIDA

TOKYO—Japan's current-account surplus shrank further in July as the nation's import bill hit a record high amid increased prices for oil and other raw materials.

The surplus in the current account, the broadest measure of Japan's trade, fell for the fifth straight month, contracting 17.3% to 1.532 trillion yen (\$14.3 billion) in July from a year earlier before seasonal adjustments, the Ministry of Finance said.

Analysts said the comparatively sluggish growth in exports amid high costs is likely to further eat into corporate profits, weighing on capital expenditure plans and suggesting little support from the corporate sector for the overall economy.

The advertisement features a large, detailed image of a Breitling Superocean Héritage Chronographe watch. The watch has a black dial with three sub-dials, a date window at 3 o'clock, and a rotating bezel. The Breitling logo, a winged anchor, is prominently displayed at the top. Below the logo, the text reads "BREITLING 1884" and "INSTRUMENTS FOR PROFESSIONALS™". At the bottom of the watch image, the text "SUPEROCEAN HÉRITAGE CHRONOGAPHE" is visible.

## CORPORATE NEWS

## AUTOMOBILES

## Romania faces EU probe over grant to Ford Motor



THE EUROPEAN Commission opened two inquiries into restructuring aid given to companies in Romania and Poland.

The European Union's executive arm is looking into whether

a €57 million (\$80 million) grant from the Romanian government for staff retraining at a Ford Motor Co. plant results in an unfair competitive edge. Ford bought the plant last year from the government.

Also, a probe was opened into a €37.5 million package Warsaw gave to PZL Hydral. The company makes hydraulic products and is in financial trouble due to declining demand. If the EU finds the aid illegal, it will have to be repaid.

—Associated Press

## BANKS

## Deutsche Bank considers Postbank a strategic fit



DEUTSCHE Bank AG continues to be interested in acquisitions in retail banking, and Deutsche Postbank AG would be a strategic fit, Chief Executive Josef Ackermann, said.

The German bank wants to expand retail banking in Germany, Italy and Spain, but will continue to show "price discipline," he said. "An acquisition must be a strategic fit and create value for shareholders," he added.

"Postbank would be a strategic fit" in many ways, thanks to its strong position in the German retail market, Mr. Ackermann, above, said. However, he emphasized that it isn't willing to pay any price.

## LUXURY GOODS

## Swarovski to cut 290 jobs at Austrian crystal factory



LUXURY-GOODS manufacturer Swarovski AG said Wednesday it plans to cut 290 jobs at its crystal-cutting factory in Austria's Alps by the end of the year.

The announcement marks the latest in a series of job cuts at Swarovski, which blamed high inflation and the

weak U.S. dollar for flagging sales. By Dec. 31, the company said, it will have trimmed its Austrian work force by 10% to 6,000 employees.

World-wide, the company employed 22,000 workers and had revenue of €2.56 billion (\$3.6 billion) last year.

—Associated Press

## Nike chases university women in Europe

## New ad campaign's slogan, 'Here I am,' softens 'Just do it'

BY AARON O. PATRICK  
London

NIKE HAS BEEN marketing its "Just do it" slogan since 1988. In Europe, it is trying out a new, softer catchphrase on young women: "Here I am."

The sportswear titan recently launched a new ad campaign in Europe aimed at selling more clothing to university-aged women.

Made by the Amsterdam office of the independent Wieden + Kennedy agency, the campaign includes five short animated cartoons about the life stories of five top European female athletes.

One shows tennis player Maria Sharapova overcoming doubts as she grows up and goes professional. "You're just another pretty face," critics say in the spot. "You won't be agile enough. You won't stay on top for long." At the end, the animated Sharapova morphs into the real Sharapova, who forms the "I" in "Here I am."

The aim of the slogan and ads is to deliver the message that there's more to sports than getting fit or competing. "It is about building self-esteem. Once you have taken part in sport, you have the confidence to



One of the animated shorts featured in Nike's new European ad campaign features tennis star Maria Sharapova overcoming doubts as she grows up.

say, 'Here I am,' says Abi Findlay, a Nike account manager at Wieden + Kennedy.

The agency decided to use animation to make the athletes less intimidating. The idea for the slogan came out of research commissioned by

Nike that found that university-aged women in Europe are not as competitive about sports as men. The women also told the researchers that they enjoy the social aspect of exercise and yoga classes, and feel happier when they work out.

The agency said the research was done in Europe, and it doesn't have data on U.S. women.

To appeal to them, the agency's copywriters decided they needed a different slogan from the "Just do it" message, says Mark Bernath, a creative director for Nike at Wieden + Kennedy. "Here I am" promotes the personal benefit of exercise without being aggressive, he says. "We want to make sure normal women can relate to it," he says.

Nike executives liked the slogan because they thought it would be understood in English across Europe. (Though in parts of Italy, it is being translated into Italian.) The company also wanted a slogan that would not sound odd alongside "Just do it." "When you are dealing with a pan-European business, you need a degree of simplicity and openness," says Charlie Brooks, a Nike spokesman.

In the U.S., Nike doesn't have a slogan aimed at women. That's because advertising for Nike's women's line in the U.S. is handled by different Wieden + Kennedy offices. There are no plans to use the European campaign in the U.S., Ms. Findlay says.

In recent years, the agency, based in Portland, Ore., has been one of the hottest in the ad world, winning big clients such as Procter & Gamble and Coca-Cola, and leading an industry trend for big marketers to hire small "hot shop" agencies to produce innovative ads. Nike is one of the agency's oldest accounts, and Nike Chairman Philip H. Knight and

agency co-founder Dan Wieden have a close relationship.

Wieden + Kennedy has had big success with slogans for Nike before. Within a year of Nike adopting its "Just do it" slogan, sales were booming. Nike plans to continue using "Just do it" for its overall brand and "Here I am" to promote its Her Favourites line of women's clothing in Europe, Nike and Wieden + Kennedy said.

Underscoring how big marketers can use the Internet, particularly with younger consumers, Nike is paying for the spots to appear on Facebook, Bebo and other social-networking sites popular with young women, but doesn't plan any TV ads.

Nike, based in Beaverton, Ore., has also booked time for the ads on video screens in gyms and university student unions across Europe, including the U.K., France, Italy, Germany and Russia, Ms. Findlay says.

Ms. Sharapova has appeared in Nike ads for years. But apart from her, Wieden + Kennedy chose athletes who aren't as well known, so their lives don't seem out of reach to ordinary women, Mr. Bernath says. Also appearing in the spots are Simona La Mantia, an Italian triple-jumper, Nicola Spirig, a Swiss triathlete, Nicola Sanders, a British sprinter, and Delphine Delsalle, a French Judoist.

On Thursday evening, Nike is scheduled to hold a party to promote the campaign at its main London store. Ms. Sanders and other female British athletes it sponsors plan to attend, Mr. Brooks says.

## Alitalia unions say layoffs loom if rescue plan isn't backed

BY GORDON SORLINI,  
ELISABETTA ROVIS  
AND GUGLIELMO VALIA

MILAN—Alitalia SpA's government-appointed bankruptcy commissioner, Augusto Fantozzi, warned that the Italian carrier will start temporary layoffs if it cannot get unions to agree to changes related to its rescue plan, people close to the company's unions said.

Contract terms and labor produc-

tivity have become important issues in efforts to keep the carrier alive. In a statement issued after the meeting between Mr. Fantozzi and the unions, Alitalia said that as part of efforts to shore up its finances, it will annul contracts with employees.

Alitalia said the move was related to the airline's negotiations with a group of investors, led by Piaggio SpA Chairman Roberto Colaninno, who have offered to purchase some assets from Alitalia and merge them

with rival carrier Air One SpA.

Unions are divided on the plan by the investor group, which has set up a company called Compagnia Aerea Italiana, or CAI, to attempt to relaunch Alitalia. The pilot and flight-attendant unions have rejected proposed cost-cutting and productivity measures.

Late Wednesday, pilot union Upisued a statement on behalf of Air One pilots rejecting the terms sought by CAI and asking for separate, direct

talks with the Colaninno-led group.

The airline is running out of cash and all parties have until Friday—a deadline set by Mr. Fantozzi—to agree on a solution. In an effort to come to an agreement, representatives of CAI, Alitalia's commissioner and government ministers will meet Thursday to seek a compromise.

On Aug. 29, Alitalia filed for bankruptcy protection under a revised law that facilitates splitting the company's viable assets from its loss-

making ones. CAI has offered about €400 million (\$564 million) to purchase the potentially viable assets. The less-profitable parts of the company are proving a hard sell.

In a parliamentary hearing Wednesday, Economy Minister Giulio Tremonti said, "Had there been someone available to [purchase the liabilities], they would have come forward; they can still come forward. Unfortunately, no one wants to do it."

## CORPORATE NEWS

# Auto makers' prospects darken

*Sales fall in Europe, may slow in China, adding to U.S. woes*

A worsening slump in auto sales in Europe and signs of a possible slowdown in China are fueling worries about a global auto industry already battered by trouble in the U.S.

Some forecasters in Europe are considering lowering sales projections following sharp declines last month in auto sales in Spain, Britain and Germany. In China, where boom-

By Edward Taylor in Frankfurt and Gordon Fairclough in Shanghai

ing sales have been offsetting the shortfalls in more mature markets, auto sales fell in August, the first monthly decline in two years.

Though analysts think growth in China will resume in the months ahead, a softer market there would leave the world's auto makers facing a bleak landscape.

"There is a lot of concern out there that the slowdown that we are seeing in the U.S. is spreading across the globe," said John Casesa, a partner at the Casesa Shapiro Group, an automotive consulting firm. In the U.S., the world's largest auto market, sales of new cars and light trucks are on track to fall 10% or more this year to between 14 million and 14.5 million vehicles, down from 16.1 million in 2007.

Until a few months ago, other regions seemed to be holding up and softening the blow of the U.S. downturn. China was a key bright spot with sales rapidly expanding. But over the summer, Western European auto sales began to falter, and now the decline appears to be worsening.

## Shrinking auto sales

Customers shun auto showrooms as the economic outlook worsens. August sales in Western Europe and even China are dented, signaling the downturn has spread beyond North America. Not all models are affected. In the U.K., sales of the Opel Corsa, right, rose, reflecting demand for smaller, fuel-efficient cars.

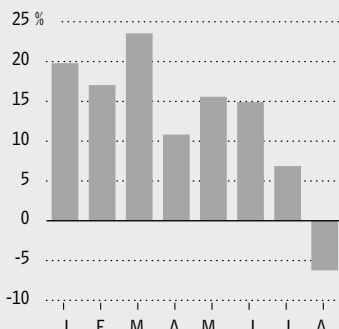


New passenger-car registrations, in selected countries, in August

Country	No. of vehicles	Year-to-year percentage change, in August sales
Spain	58,530	-41.3%
Italy	77,156	-27
U.K.	63,225	-18.6
Western Europe	717,776	-16
Germany	214,286	-10.4
France	103,350	-7.1
China	451,300	-6.2

Sources: Anfac (Spain); Italian Government; SSMT (U.K.); VDA (Germany); CCA (France); J.D. Power & Associates (Western Europe); China Association of Automobile Manufacturers

Year-to-year change in the number of passenger-vehicle sales in China



And the outlook for China now seems more uncertain than before.

Last month, the number of autos sold in China fell about 6% from a year earlier, the first such decline in two years, according to the China Association of Automobile Manufacturers. Sales for the first eight months of the year were still up more than 13% from the 2007 period. That is a robust expansion compared with the lagging mature markets of North America and Western Europe, but slower than the 30% increase in Chinese car sales in 2006, and a rise of more than 21% last year.

A slower pace of growth had been widely expected in China this year, as rising gasoline prices, mounting inflation and government efforts to cool the economy combined to damp

sales. A weak stock market has also hurt consumer spending. The August results were also affected by the Olympics, which analysts said diverted the attention of would-be car buyers. Manufacturers also delayed new models until after the Games.

Michael Dunne, managing director of market-research firm J.D. Power & Associates' China operations, said September's sales total will be "pivotal" for giving industry executives a

clearer picture of the future trend.

Mr. Dunne added that inventory has been rising at Chinese dealerships, which are accustomed to selling nearly every car that rolls onto their lots. "Dealers say they just aren't seeing the same number of people going into showrooms as they did earlier in the year," he said.

In Europe, the trend is clearer—and darker. In August, new-car registrations fell 41% in Spain, 18% in Britain, 10% in Germany and 7% in France. Pan-European sales figures are due out Sept. 16.

Falk Frey, senior vice president at Moody's Investors Service, said bigger-than-expected declines in passenger-car registrations in Spain and Britain over the past two months may force the ratings service to scale back its car-sales outlook for 2008, beyond the downward adjustments it made earlier.

In June, Moody's lowered its projection for new-car registrations in Western Europe in 2008 to 14.4 million cars from a January estimate of 14.9 million for the year.

"Figures for registrations for key markets in Europe for the past two months indicate we may have to take an even more cautious view for 2008," Mr. Frey said Wednesday. While markets in Eastern Europe, such as Russia, aren't showing signs of a downturn, this "cannot offset the downturn in Western Europe," Mr. Frey said.

—Chrisoph Rauwald in Frankfurt and David Pearson in Paris contributed to this article.

## DoCoMo weighs buying a stake in Tata business

By Yukari Iwatani Kane

TOKYO—Japan's largest mobile-phone operator, NTT DoCoMo Inc., is in talks with Tata Group to invest in the Indian conglomerate's cellular-tower business, a person familiar with the situation said Wednesday.

The Tata Group has been looking for the past six months to sell a stake in Wireless-TT Infoservices, an unlisted company that operates 14,000 telecom towers, to raise money for its expansion plans. The tower unit in March was spun off from India's sixth-largest telecom firm, Tata Teleservices Ltd. It recently acquired licenses to operate in the northern state of Jammu and Kashmir, and in northeast India.

Rajeev Narayan, vice president of corporate affairs at Tata Teleservices, said the company is "looking at strategic partners in our tower business" but declined to comment on potential partners. An NTT DoCoMo spokesman said the company is interested in Indian partnerships and investments. But the spokesman said no decisions have been made.

DoCoMo has been adding to its overseas stakes amid a saturated and competitive domestic market. In June, DoCoMo agreed to invest \$350 million for a 30% stake in TM International (Bangladesh) Ltd., Bangladesh's third-largest mobile operator.

—Tariq Engineer in Bombay contributed to this article.

## ArcelorMittal sticks by plan to construct plants in India

By John Satish Kumar

MUMBAI—ArcelorMittal, the world's largest steel producer by capacity, will press ahead with plans to build two plants in eastern India despite a political protest halting construction of a Tata Motors Ltd. factory in a nearby state.

"We're not going to revise our plan because of Singur [where the Tata plant is being built]," ArcelorMittal Chairman and Chief Executive L.N. Mittal said Wednesday at a New Delhi company briefing that was telecast live. "We're still very excited about our Indian projects and we urge the government and other stakeholders to expedite the process."

ArcelorMittal has outlined plans to build two steel plants, each with an annual capacity of 10 million tons, in the eastern Indian states of Jharkhand and Orissa. Both projects have been delayed due to issues related to allotment of mines.

States such as West Bengal and Orissa, where a large percentage of the work force is engaged in agriculture, have witnessed often violent protests against industrialization.

Tata Motors suspended construction of a factory in the West Bengal town of Singur, about 40 kilometers from Kolkata, on Sept. 2 because of a political protest. The factory will pro-

duce the Nano, the world's cheapest car at \$2,500.

South Korean steelmaker Posco, which plans to build a steel plant and a port in Orissa with a capacity of 12 million tons a year, has faced violent protests and even the kidnapping of employees over its plans to take over thousands of acres for the project.

ArcelorMittal had initially signed a pact with the Jharkhand state government in 2005 to set up a steel plant there. In 2006, having made little headway in Jharkhand, it began talks with the neighboring state of Orissa to explore the possibility of setting up a steel plant there. It now says it wants to build two plants.

Mr. Mittal said that delays in getting mining licenses is costing the company as prices are rising. "Already there has been a delay of two years and costs have gone up by more than 50%. The more the delay, the more will be the cost overrun," he said. He added that there is a continuing dialogue with the governments of Orissa and Jharkhand to expedite the allocation of mining reserves.

Mr. Mittal said that the initial estimate on these projects was \$20 billion. He also said the company is considering other opportunities related to the steel business, including distribution of steel products before steel production starts.

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## CORPORATE NEWS

# Follieri admits guilt in fraud case

## Funds raised to buy Church properties fed lavish lifestyle

BY JOHN R. EMSHWILLER  
AND CHAD BRAY

Raffaello Follieri, the 30-year-old Italian who used his purported ties with senior Vatican clergy to win entry into the inner circles of former President Bill Clinton and other leading U.S. politicians, as well as billionaire businessmen, pleaded guilty Wednesday to conspiracy, fraud and money laundering in connection with his business of buying property from the Catholic Church.

Mr. Follieri, who not long ago was sharing a \$37,000 a month Manhattan penthouse with his then-girlfriend, actress Anne Hathaway, now faces between 51 to 63 months in a U.S. federal prison under stipulated sentencing guidelines.

At federal court in Manhattan, he pleaded guilty as part of an arrangement with federal prosecutors to 14 criminal counts and agreed to forfeit \$2.44 million. In addition, he agreed to forfeit many of the trappings of his former lifestyle, including more than a dozen watches bearing brands such as Rolex, Omega and Donald Trump, a Louis Vuitton box, a pearl necklace and a jewel-encrusted cross.

The federal judge in the case, John G. Koeltl, has the authority to give a sentence outside of the 51-to-63 months range. He scheduled a sentencing hearing for Oct. 3. Mr. Follieri has been in a federal prison here since his arrest June 24, in lieu of \$21 million bail.

Those who met and worked with

Mr. Follieri in his business meetings described him as suave and charming, often dressed impeccably in designer suits. At Wednesday's hearing, however, Mr. Follieri, clad in baggy blue prison garb, admitted that he had been siphoning off his investors' money in order to bankroll his own lavish lifestyle. Referring to several of the counts against him, he said, "I wired money from the joint venture account in New York to my personal account to pay for personal expenses." He said he wired money to another account in Europe so it couldn't easily be found or traced. "I did not have investor authorization to use the money that way. I knew what I was doing was wrong."

While Mr. Follieri's guilty plea had been expected, those in his camp indicated that he had been debating for several weeks about whether he should try to fight the charges in court. On Wednesday, his lawyer, Flora Edwards, said Mr. Follieri was having a "very hard time" adjusting to life inside the fortress-like federal detention center in lower Manhattan.

Mr. Follieri arrived in New York from Italy in 2003, at the age of 25, with a plan to buy up property from the Catholic Church and either resell it or develop it. To aid him in his venture, he brandished what he claimed were close ties to senior clergy at the Vatican, and flaunted those connections as he sought to buy property from local Catholic dioceses in the U.S. Those ties are partly what helped him meet and do business with some top aides to former President Bill Clinton.

It is still unclear exactly how solid Mr. Follieri's connections were. He so-

cialized with the Vatican's envoy to the United Nations, Archbishop Celestino Migliore. He also was a business associate of Andrea Sodano, the nephew of Cardinal Angelo Sodano, who until last year served as the Vatican's secretary of state.

Last year, a spokesman for President Clinton said that Cardinal Sodano had contacted Douglas Band, Mr. Clinton's top aide, on Mr. Follieri's behalf. The spokesman added that the Sodano contact, along with contacts from others, including Archbishop Migliore, led Mr. Band to believe that "Raffaello was legitimate and well-connected to the Vatican."

However, in court on Wednesday, Assistant U.S. Attorney Reed Brodsky said investigators found a March 2006 letter from Cardinal Sodano in a safe in Mr. Follieri's apartment after he was arrested. In the letter, the cardinal said he was "perturbed" Mr. Follieri and his company were representing themselves as having ties to the Vatican.

Whatever the true extent of his Vatican ties, Mr. Follieri spoke about them often and, claimed to investors to be the chief financial officer to the Holy See, according to a court document filed by the government earlier this year. No such position exists.

Nonetheless, his purported ties to the Catholic Church helped attract investors to his proposed business of buying surplus Church properties and redeveloping them.

His ascent was further aided by a friendship he struck with Mr. Band, the top aide to Mr. Clinton. The Band relationship allowed Mr. Follieri access to the upper levels of Mr.



Raffaello Follieri

## ImClone claims new rival offer beats Bristol bid

BY DAVID BENOIT  
AND THOMAS GRAYA

ImClone Systems Inc. called Bristol-Myers Squibb Co.'s \$4.5 billion offer for a majority of the biotechnology company's shares "inadequate" and said another bidder it didn't identify had made an offer that was \$10 a share higher.

ImClone's stock has been trading well above the Bristol-Myers offer of \$60 each for the shares of ImClone the company doesn't already own. After the report of a rival bid

Wednesday, ImClone's shares were up 7%, or \$4.45, at \$68.10 each in midday composite trading on the Nasdaq Stock Market.

In a statement, ImClone said Chairman Carl Icahn had "several conversations" with the chief executive of an unnamed pharmaceutical company that has offered \$70 a share for ImClone, not subject to financing. That company is being given two weeks to study ImClone's books. New York-based ImClone said it hasn't made a decision on the \$70-a-share offer.

Bristol-Myers, also based in New York, declined to comment. In midday composite trading on the New York Stock Exchange, Bristol-Myers shares were down 1.9%, or 42 cents, at \$21.62.

In late July, Bristol-Myers made the \$4.5 billion proposal to acquire the 83% of ImClone it didn't already own, a bid that Mr. Icahn in particular has said was too low.

ImClone had been studying breaking up into two businesses, one for Erbitux, the company's sole product, the other for experimental drugs. Erbitux, a drug used to fight head, neck and colon cancers, generated revenue of \$1.3 billion in 2007.

ImClone put itself up for sale early in 2006, the year Mr. Icahn gained a 14% stake in the firm, when it was valued at about \$2.4 billion. It took itself off the market seven months later after it was unable to attract a price it wanted. The company said at the time that its prospects were brightening and that remaining independent had become a better option.

A special committee of ImClone's board rejected as "inadequate" the July Bristol-Myers offer. But it is unclear how much weight should be placed on the offer disclosed by Mr. Icahn.

"The wording is vague enough that I don't know how much reliance I would place in it," said analyst Mike King with Rodman & Renshaw.

According to a news release, Mr. Icahn has had "several conversations" with the chief executive and the offer isn't subject to financing.

It is unclear who the new bidder might be, although Merck KGaA has been mentioned as a possible candidate because the German Merck, which isn't related to the U.S.-based Merck & Co., is ImClone's partner for selling blockbuster cancer drug Erbitux outside North America. According to a person familiar with the situation, however, Merck KGaA isn't the suitor.



Carl Icahn

# King of beers? China's Snow takes on Bud Lite

BY SKY CANAVES

SANHE, China—Without leaving home, an obscure Chinese beer is challenging Bud Light's position as the world's top-selling brand of suds.

Market watchers say Snow Beer, the product of a joint venture between London-based SABMiller PLC and China Resources Enterprise Ltd., will overtake or has already overtaken Anheuser-Busch Co.'s Bud Light in terms of consumption, depending on how the numbers are crunched.

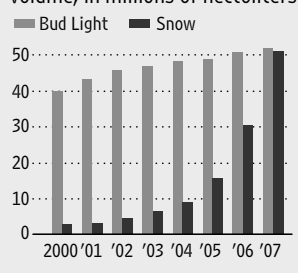
"I can confirm that the Chinese brand Snow is now the largest beer brand in the world," says Kevin Baker, account director for alcoholic beverages at the U.K.-based market-research firm Canadean Ltd. About 51.2 million hectoliters, or about 1.35 billion gallons, of Snow were consumed last year, compared with 48.4 million for Bud Light as a stand-alone brand, the firm says.

Another research firm in the U.K., Plato Logic, says Bud Light remained the top brand in 2007, with



### Battle of the brands

Top two beer brands by sales volume, in millions of hectoliters



Source: Plato Logic

51.8 million hectoliters consumed to Snow's 51.2 million. But that slim lead faces a challenge: China Resources said last week that the Snow brand's sales volume jumped 22% in the first half of this year compared with a year earlier, putting it on pace to unseat Bud Light, which is consumed mostly in the slower-growing U.S. market.

"I think it's inevitable in certain respects that Snow will become the largest beer brand in the world," says Paul Curran, an alcoholic-drink analyst at another research firm, Euromonitor International.

St. Louis-based Anheuser, soon to be acquired by InBev NV, of Belgium, isn't giving up Bud Light's crown easily. A spokesman said Bud Light remains the top brand when sales of its Budweiser brand are included. Plato Logic, which, like other research firms and analysts, considers the two brands separate,

says 44.2 million hectoliters of Budweiser were consumed last year, down 2.2% from 2006.

Snow's production was less than one-tenth of its current level six years ago, when the regional brewer started developing a now-extensive national distribution network and began buying competing brewers in the fragmented Chinese market. That helped it tap China's growing ranks of beer drinkers. "Success has largely been driven by the supply side," says Ari Mervis, managing director for SABMiller's Asian and African operations.

Though the Chinese drink less beer per person than Americans or Europeans, China's beer market has been the world's largest for the past six years and is growing 10% a year, according to Euromonitor. Snow's rapid growth illustrates the promise of China's vast consumer base.

But China's price-sensitive mass

market produces thin profit margins compared with many other countries. Chinese beer makers have profit margins of roughly \$2 per hectoliter, compared with \$50 to \$80 in Europe and the U.S., according to Mr. Mervis, who says beer prices have barely moved over the past five years. SABMiller says that while Snow accounts for 30% of the brewing giant's global sales volume, it contributes less than 5% to overall profits.

SABMiller and China Resources are now pushing a more upscale image and putting an emphasis on quality to appeal to more-affluent consumers, a potentially big growth area that both domestic and foreign brewers are chasing. In 2007, premium beer accounted for only 2% of total China sales volume, well below the global average of 12.7%, according to Plato Logic.

Snow's parents are promoting higher-end offerings such as Snow Draft, Snow Super Premium and a beer marketed as "The Great Expedition," which is linked to an advertising campaign focused on outdoor adventure sports such as whitewater rafting and mountaineering and which targets younger, higher-income customers. They are pushing for more urban consumers in places like Beijing and are updating the look of the product with smaller bottles similar to the kinds imported beers come in. "We are moving from a supply-driven focus to more of a demand focus," says Mr. Mervis.

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# Russia

a dynamic economy



"A free market and openness to the world guarantee the irreversibility of our changes."

## Massive investments aim to transform society

**A** WINDFALL resulting from extraordinarily high commodity prices has seen Russia emerge from economic chaos to be the world's third-richest country in terms of cash in the bank. The government is using the money to push through reforms and build reserves that should ensure the country sees lasting benefits.

Ten years ago, on the eve of the financial crisis that tore through the country, Russia had less than \$10 billion in hard currency reserves, according to the World Bank. By the middle of last month, it had amassed just under \$600 billion. Other economic indicators are equally impressive.

A quick look at the macroeconomic

numbers tells the story: Gross domestic product last year was \$1.3 trillion, compared with \$196 billion in 1999; unemployment was 6.1%, compared with 13%; and there was a budget surplus of 6.1% of GDP, compared with a budget deficit of 3.1%. And, according to Rosstat, Russia's official statistics gatherer, GDP growth, which averaged 6.5% between 2002 and 2007, topped 8% in the first half of this year.

But growth has been so rapid that the economy is overheating. Inflation — expected to end this year at over 13% — is now the main problem in an otherwise rosy economic picture.

"The Russian economy is operating at the limits of its productive capacity," the World Bank said in its most recent

assessment of the economy, published in June. "Unabated inflation in Russia, growth in capacity and labor utilization and real wages rising faster than productivity all point to overheating in the Russian economy."

The Central Bank of Russia (CBR) has responded by hiking both interest rates and the mandatory reserve requirements of banks, among other things, to slow growth and reduce inflation. This year's excellent harvest will also remove some pressure as food makes up over 40% of Russia's consumer-price-index basket.

The current collapse of confidence on the international credit markets and falling commodity prices will also slow growth but do little other damage. As

the Kremlin prudently used its windfall revenues to pay off almost all its international debt early, the state has no need to tap international markets. And thanks to the CBR's enormous reserves, there are plenty of domestic resources for funding investment in the broader economy.

Indeed, investment is likely to increase. At the start of last year, the Kremlin launched a massive \$1 trillion investment program that runs to 2015 to rebuild and replace Russia's crumbling infrastructure. The Kremlin's goal is to transform Russia's society over 20 years so that 60% of the population is middle class by 2030 — an ambitious target which can only work with effective market reforms.

Bank reform is well in hand and

since the beginning of the year, reforms to the domestic capital market have been placed at the top of the agenda. Both President Dmitry Medvedev and his predecessor, now prime minister, Vladimir Putin, have emphasized the need for modernization — with particular focus on improving management skills — in industries such as agriculture, high-tech, textiles and pharmaceuticals.

"A free market and openness to the world guarantee the irreversibility of our changes, not only a qualitative upturn but a qualitative transformation of the social structure of Russian society, including support to the fast-growing middle class," said President Medvedev in an address to German lawmakers in June.



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VOICE OF RUSSIA WE TALK TO THE WHOLE WORLD

## GLOBAL TRENDS

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.



Igor Yurgens, Vice-President, Russian Union of Industrialists and Entrepreneurs

**Olga Shnorrvon Karelsfeld, Bruchner company**

*What's your estimation of the present state of Russia's economy?*

**Yurgens:** From point of view of comparative analysis the state of economy is the best since the post-war years. Since 2000 pure family income annual growth is nine percent a year. It's telling. A steady growth of seven percent a year is one of the best records in the world. The consumer demand grows. We have budget profit. The gold reserves grow. So the state of economy is great the other matter is that we face a crossroads but that's the horse of another color.

*What will be the consequences of the further oil prices?*

**Yurgens:** The general influence on economy is about 20%. Even if the process fall the economy will adapt and find its niche.

*What are the prerequisites for Russia becoming the third economy of the world by 2020?*

**Yurgens:** At present we are number ten. From point of view of comparative purchasing power parity our GNP is number seven. We expect a surge at the beginning of the next year. So the most bright forecast is number three by 2020. What is realistic is to preserve the present position and become number five. But

to achieve it we should go on with reforms. The place will not come by itself, you should apply efforts to get this result.

**Andrei Akulov, international analyst**

*Do you support the President Medvedev's recent decision to take part of the Stabilization Fund and use it for internal investment purposes? What can it lead to?*

**Yurgens:** The decision to invest funds in infrastructure is obviously the right one. Infrastructure upgrade is an imperative for further economic growth. The consequences are of dual character. First — growth and employment. But inflation may bring the middle class income increase to naught and make life real hard for the poor. There is a very delicate balance between mass investment into economy and inflation.

*What are the prospects for world financial center in Russia and the ruble becoming world reserve currency?*

**Yurgens:** It's hard to say that tomorrow Moscow would become as London from point of view of quality of life, infrastructure and so on. A financial center is not a stock exchange and banks only. It's infrastructure,

the one that the cities like London, Frankfurt, Singapore, Hong Kong, Dubai and other possess. We have the means to compete and we can make a Moscow a regional financial center from, I put it roughly, from Warsaw to Astana, if not Beijing. But this goal requires a lot of efforts in the fields of technology, legal basis and funds. Special programs are required and that's what the government, the Finance Ministry and Central bank are doing actually.

**Maxim, development manager**

*What are the prospects for a new basic RF-EU agreement, can we expand our relations?*

**Yurgens:** It's gradually going ahead. Over 54% of our trade turnout falls on Europe. The same figure goes for our import. It goes the hard way. We have problems with new EU members like Poland and the Baltic states. I think it all can be settled. Because the EU majors like France, Germany, Italy, Great Britain are interested in broadening ties with Russia in all spheres. Of course, they are interested in the treaty. The hindrance is that they want the treaty to be too detailed, up to what the size of bolts produced in Russia will be. As I get it we want a binding framework agreement, that could be amended. That's the gist of the problem.

*The head of the European Commission Moscow Office has come up with a proposal recently to establish a Joint Unified Investment Interaction Code. What's your opinion?*

**Yurgens:** The very process serves good purpose. Another thing is how you perceive it. Like in case of Europe, they say give us your energy,

open your oil and gas routes. That's one sided. We say we want long term guarantees for metal, energy and other exports so that we would know the requirements and what investments to make to satisfy the needs. That's kind of a dialogue I support.

**Alice Paskal, a professor, Brussels**

*There is a global liquidity crisis going on. Will it affect Russia?*

**Yurgens:** To lesser extent due to the right fiscal policy of the last eight years. We have now a security cushion to mitigate the results and we efficiently control our financial system. There were some difficulties with liquidity but the central powers did the right things to immediately deal with the problems and the debts were refinanced. Russia faces nothing like American subprime or the situation in Great Britain. Though many IPOs were put off due to inability of Western financial centers to finance young Russian companies. It's the only negative aspect that affects us actually.

*Russia has managed to avoid deep involvement into the crisis. Still the food and oil prices are on the rise. How well are we protected from a world crisis?*

**Yurgens:** The tendency is serious, we cannot fully avoid it, we get more money for budget due to oil prices growth and that's positive, but there are negative results as well, because our prices tend to catch up with the world ones. We're a part of the world economy. Our efficient management has saved us from serious trouble so far. But discontent is here, you don't have to know all the ins and outs of the global trends to see prices go up.

The "Voice of Russia"

English to Europe

Time (UTC)

0200-0900

1300-1400

1500-2000

1900-2100

Frequencies (kHz)

603, 1548, 1575, 1431, 693, 630, 1323

558 (English hour in London)

12040, 9890, 11630, 12070, 7310

12070, 9890

## CORPORATE NEWS

# Sanofi ousts CEO Le Fur

*Large shareholders pushed for change; Glaxo veteran hired*

BY JEANNE WHALEN  
AND ELENA BERTON

After a series of setbacks that have depressed its stock price, French pharmaceutical giant Sanofi-Aventis SA ousted its chief executive and named GlaxoSmithKline PLC veteran Chris Viehbacher as his successor, saying the company needs new management to help it bring drugs to market and expand into new areas of health care.

Sanofi shareholders have become increasingly frustrated with the company's 35% drop in stock price since Gerard Le Fur took the CEO job in January 2007. Oil company Total SA and consumer-products maker L'Oréal SA, which together own about 20% of Sanofi, pressured Sanofi's board for a change in management, a person familiar with the matter said. Total declined to comment. L'Oréal didn't return a phone call seeking comment.

Dr. Le Fur, who led drug research before becoming CEO, will step down on Dec. 1, when he will become an adviser to top management on scientific issues, a Sanofi spokesman said.

Sanofi investors welcomed the change by lifting Sanofi shares 7.2% to €50.90 (\$71.78) in Paris, their

highest close in four months.

The appointment of Mr. Viehbacher, an outsider with German and Canadian citizenship, marks a change for Sanofi, which has been run by a tight group of mostly French managers for more than two decades. People familiar with the matter said Sanofi's board began vetting replacements for Dr. Le Fur several months ago. Mr. Viehbacher and Dr. Le Fur declined to comment Wednesday.

Sanofi's board issued a statement announcing Mr. Viehbacher's appointment after meeting Wednesday morning. "The evolution of the world-wide pharmaceutical sector requires the key players to acutely redefine their strategy," it said.

The board said it was recommending three areas of strategic focus for Sanofi: adapting drug development to the "new regulatory and economic constraints of the markets," strengthening Sanofi's business in emerging markets, and branching out into other areas of medicines and health care.

Mr. Viehbacher will have a very involved chairman looking over his shoulder. Jean-Francois Dehecq built the company through acquisitions, served as CEO for many years, and retains a strong voice at Sanofi.

Analysts said the change in leadership could reignite Sanofi's interest in acquisitions, including Bristol-Myers Squibb Co., which Sanofi has considered acquiring in the past, according to people familiar with the

matter. Spokesmen for Bristol-Myers and Sanofi declined to comment.

Under Mr. Viehbacher, Sanofi may also begin licensing more experimental drugs from smaller biotech companies, analysts said. The French drug maker has lagged behind rivals in tapping the biotech sector, which has discovered many of the industry's most-promising medicines in recent years. Sanofi's new chief is also likely to focus on cost-cutting, which Sanofi has pursued with less intensity than rivals.

Deutsche Bank said in a research note that there would be no quick fixes. Its pipeline of drugs in development is "still poor," and Sanofi is late to license drugs from biotech companies, which "leaves the company exposed to losing" at least 20% of its revenue to generic competition by 2013, it said.

Mr. Viehbacher, who lost a race last year to become Glaxo's chief executive, resigned from his role as head of Glaxo's pharmaceutical operations in North America this week. He spent eight years working for Glaxo in Paris in a number of roles.

Dr. Le Fur, a pharmacologist by training, is well respected as a scientist inside Sanofi. As head of drug research, he helped develop blockbuster drugs such as the blood-thinner Plavix, which is among the world's best-selling drugs.

—David Gauthier-Villars  
and Joann S. Lublin  
contributed to this article.

## GLOBAL BUSINESS BRIEFS

## Total SA

**Oil firm has upbeat view, expects to lead in output**

French oil major Total SA gave an upbeat outlook, predicting industry-leading production growth in the coming years, and it proposed a bigger-than-expected 14% rise in its interim dividend. At a midyear review of its business, Chief Executive Christophe de Margerie said Total's finances would be supported by continued high oil prices, despite a recent fall from a record high in July above \$147 a barrel to just over \$100 a barrel on Wednesday. Analysts, who had expected Total to raise the interim dividend by only 7%, said the increase reflected confidence in Total's financial outlook. Total also said it planned to spend €5.5 billion (\$7.8 billion) on research and development until 2013.

## Cie. Financière Richemont

Luxury-goods company Cie. Financière Richemont said it is well positioned to cope with the economic downturn, as the rich are still spending lavishly, though it added that it is seeing signs of a U.S. slowdown. The owner of brands such as Cartier, Piaget, Van Cleef & Arpels and Alfred Dunhill said that in the first five months of its fiscal year, April to August, sales rose 11% from a year earlier. The Switzerland-based company, in the midst of sharpening its luxury focus by spinning off its 20% stake in British American Tobacco PLC, said its jewelry and watches saw good demand, particularly in Europe and the Asian-Pacific region. It didn't disclose sales figures. Stripping out currency fluctuations, sales were up 18%, Richemont said.

## Yahoo Inc.

Yahoo Inc. hired former Microsoft Corp. executive Joanne Bradford to lead its U.S. advertising sales force, helping to rebuild its executive ranks after a string of high-profile departures. The Sunnyvale, Calif., company announced the move Tuesday, along with the departure of David Karnstedt, a longtime Yahoo executive and senior vice president of U.S. sales. Mr. Karnstedt is joining venture-capital firm Redpoint Ventures. Ms. Bradford, who will carry the title of senior vice president of U.S. revenue and market development, inherits a challenging role. Yahoo is trying to retain its prime position in selling display advertising during tough economic times while pushing out new products. Meanwhile, a number of senior advertising and product executives have left the company.

## Aviva PLC

British insurer Aviva PLC's Dutch business, Delta Lloyd, has agreed to compensation of about €300 million (\$423 million) for unlinked insurance policyholders. The deal, hammered out with two consumer groups, "fulfills the wish of our customers, consumer organizations and the company to remedy the formerly perceived lack of cost transparency," Delta Lloyd chairman Niek Hoek said in a statement. In 2006, Dutch regulators had said that information about some Dutch insurance products wasn't adequate, and significant portions of premiums weren't invested but were lost on costs and commissions. Aviva said £50 million (\$88 million) of the settlement had been included in its first-half report and the rest would be charged in its full-year results.

## Old Mutual PLC

The chief executive of British insurer Old Mutual PLC resigned after the company revealed an additional \$135 million in write-downs at its U.S. life-insurance business. Old Mutual said Julian Roberts, the former head of the company's Skandia operations and former finance director of Old Mutual, would succeed outgoing CEO Jim Sutcliffe. The insurer said the U.S. government's rescue of mortgage giants Fannie Mae and Freddie Mac resulted in a sharp fall in the market value of the preferred stock of those companies. "This has led to a write-down of around \$135 million in the value of the preferred stock in these companies held by the Old Mutual U.S. Life business," the company said. Mr. Roberts said it was too soon to tell if the U.S. unit will require further write-downs. Mr. Sutcliffe couldn't be reached for comment.

## Raiffeisen International

Raiffeisen International Bank Holding AG, one of the largest banks in Central and Eastern Europe, said it expects bank-asset growth in the region to halve to 18% this year, but it stuck to its own targets. Growth in the region "has cooled down notably," said Raiffeisen Chief Executive Herbert Stepic, who attributed the slowdown to the global financial crisis. "It is still on a high level, but the risk of an overheating has reduced." Last year, Central and Eastern Europe experienced asset growth of 36%. The fallout from Russia's war with Georgia will be confined to stock markets and capital inflows into Russia, Mr. Stepic added, but not weigh significantly on Russia's economic situation or Raiffeisen.

## Evraz Group SA

Russia's antitrust body said Wednesday that steelmaker Evraz Group SA—part-owned by billionaire Roman Abramovich—had breached antimonopoly rules, overcharging customers for coking coal. The Federal Antimonopoly Service opened parallel investigations into Evraz, OAO Mechel and OAO Rospadskaya in July after it noted a steep rise in coking-coal prices at the end of last year. Coking coal is used in the production of steel. The FAS has yet to set a fine but said it wouldn't be more than 2% of Evraz's annual revenue. Evraz, which declined to comment, has said it expects 2008 revenue of \$23.2 billion to \$24.6 billion. Rospadskaya, an Evraz affiliate, has also been charged with manipulating prices.

## Iberdrola SA

Spanish electricity company Iberdrola SA said it is going forward with the purchase of U.S. utility Energy East Corp., agreeing to accept conditions set by New York state regulators. The deal for the holding company that owns Rochester Gas & Electric Corp. and New York State Electric & Gas was valued at \$4.5 billion at the time of its announcement in June 2007. The New York Public Service Commission Tuesday released details of conditions set Sept. 3 for the purchase. Among those conditions, the commission ordered the company to divest Energy East's fossil-fuel-powered plants. Under state policy, power companies shouldn't own both transmission lines and generating plants. The commission's approval was the deal's last hurdle.

—Compiled from staff  
and wire service reports.

# German state may raise VW stake

BY CHRISTOPH RAUWALD

BERLIN—The governor of Lower Saxony, Christian Wulff, said the German federal state is ready to raise its stake in auto maker Volkswagen AG as a way to maintain the region's ability to veto important decisions at Europe's largest auto maker by sales.

"I'd rather spend the money on something else," Mr. Wulff said Wednesday during an industry conference in Berlin. "But we would do it if necessary."

Lower Saxony's veto power will falter if the European Commission succeeds in blocking a new "Volkswagen law," which is being discussed by the German government. Through its stake of just more than 20%, Lower Saxony currently has the ability to block significant deci-

sions at Volkswagen because of a decades-old law that set the voting threshold for approving major decisions at 80%.

Lower Saxony, the German state where Volkswagen is based, owns a stake of more than 20% in Europe's largest auto maker by sales. It wants to retain influence at the auto maker as a way to prevent jobs from being moved outside the region.

But the threshold for blocking major decisions at VW may change because the European Commission has threatened to take the German government to court for trying to keep the threshold at 80%, rather than the 75% level that applies to other German companies. The original version of the VW law was deemed illegal so the German government was forced to redraft it.

To retain its veto power, Lower Saxony would have to raise its stake in VW to at least 25%.

Lower Saxony has clashed with Porsche Automobil Holding SE, Volkswagen's largest shareholder, for seeking to maintain the blocking minority rule. Porsche currently owns 30.6% in Volkswagen and will move to a majority by year end. A potential change to the blocking minority rule was "the only remaining disagreement" with Porsche, Mr. Wulff said.

Mr. Wulff reiterated that Lower Saxony in principle welcomes Porsche's investment in Volkswagen and said he was optimistic about reaching an agreement with Porsche.

—Edward Taylor in Frankfurt  
contributed to this article.

# Lawsuit against Merck is reinstated

A WSJ NEWS ROUNDUP

A U.S. federal appeals panel ruled that a securities lawsuit can go forward against Merck & Co. stemming from the removal of its painkiller Vioxx from the market.

In a 2-to-1 ruling, a panel of judges from the Third U.S. Circuit Court of Appeals on Tuesday reversed a ruling by a federal judge in Newark, N.J., who had dismissed the lawsuit brought on behalf of investors in April 2007. The suit seeks class-action status.

The Whitehouse Station, N.J., drug maker said it may ask the full circuit court or the U.S. Supreme Court to review the three-judge decision that reinstated the suit.

Judge Stanley Chesler had dismissed the case on statute-of-limitations grounds. The appeals panel

disagreed with that rationale.

Merck said Tuesday that it "presented several alternative grounds for dismissing the lawsuit" that weren't addressed by Judge Chesler in his decision. The company said that if the ruling isn't reversed again, it will "renew its request to dismiss the suit on those alternative grounds." Merck also highlighted a Supreme Court ruling subsequent to the April 2007 dismissal that imposes a higher bar for plaintiffs pursuing a securities case.

Merck pulled Vioxx from the market in 2004 after its study showed that the big-selling painkiller doubled the risk of heart attack or stroke. Merck shares plunged 27%—a loss of about \$30 billion for investors—on the day of the Vioxx withdrawal, and fell further in the

ensuing months.

Lawyers for the plaintiffs applauded the ruling and said it will permit them to move forward with the case, which seeks billions of dollars in damages. "Merck investors will have their day in court," said Sean Coffey, a co-lead attorney for the plaintiffs.

The securities suit is unrelated to a \$4.85 billion settlement between Merck and plaintiffs who filed personal-injury lawsuits against the company. More than 97% of eligible U.S. claimants have elected to participate in the settlement. Partial payments began last month.

Merck shares were down 2% at \$33.66 in afternoon trading Wednesday on the New York Stock Exchange.



## ECONOMY &amp; POLITICS

## TURKEY

## Steep economic slowdown raises hopes for rate cut



**T**URKEY'S ECONOMY braked sharply in the second quarter as rising inflation and high interest rates ate into consumption and reduced investment. The sudden slowdown was steeper than expected and affected all sectors. Economists see the combination of slowing economic growth and softening commodity prices giving the central

bank a chance to cut interest rates, which now stand at 16.75%. Gross domestic product grew 1.9% from a year earlier, down from a revised 6.7% annual growth rate in the first quarter and the slowest rate since Turkey's long expansion began in 2002, Turkstat, the statistical institute, said.

—Christopher Emsden

## U.K.

## Prosecutors want retrial in airline terrorism case



**B**RITISH prosecutors said they would seek the retrial of seven men accused of plotting to blow up trans-Atlantic airliners bound for the U.S. and Canada.

Britain's Crown Prosecution Service said it will ask a judge to authorize a second trial. After a five-month trial, jurors on Monday convicted three men on separate conspiracy-to-murder charges and acquitted an eighth man. But they were unable to reach a decision on the most serious charges connected to the alleged plot. The men will face new charges specifically related to an accusation they planned to explode bombs aboard airliners.

—Associated Press

## UNITED NATIONS

## El-Baradei won't pursue new term at nuclear body



**I**NTERNATIONAL Atomic Energy Agency Director General Mohamed El-Baradei won't seek re-election when his term expires in 2009.

Mr. El-Baradei's decision, presented to the United Nations

nuclear watchdog's board of governors in a five-page memo, said he "is not available" for another term.

Mr. El-Baradei is ready to retire and hasn't come under pressure, according to a Vienna-based diplomat. The U.S. opposed his reappointment for a third term in 2005, due to differences over the body's pursuit of alleged nuclear-weapons programs in Iraq and Iran.

—David Crawford

## OPEC to curb oil output as price weakens

## Russians make offer to work with cartel, raising EU concerns

BY NEIL KING JR.,  
SPENCER SWARTZ  
AND ANNA RAFF

**O**PEC said it will cut oil production by about 520,000 barrels a day in the face of falling prices and slowing demand growth, just hours after Russia upped the ante in its face-off with the West by proposing "extensive cooperation" with the cartel.

The reduction agreed to by the group's 13 ministers represents less than 1% of world oil supply and will occur over the next 40 days. Officials of the Organization of Petroleum Exporting Countries described the move as necessary to avoid a buildup of excess supply. After initially rising because of the surprise decision, crude-oil futures fell Wednesday following a U.S. government report that showed further demand weakness in the world's top energy-consuming nation.

Even so, oil prices remain at more than \$100 a barrel, high enough to be a significant drag on the world's major economies. The International Energy Agency, the energy watchdog for big oil-consuming nations, said Wednesday the cut could derail the oil-price relief that consumers have seen in recent weeks. "Removing supply may not be very helpful for consumers.... We think \$100 a barrel is still high by any condition and especially given the current world economic conditions," IEA supply analyst David Fyfe said.

The cuts would put OPEC's output—now at around 32.7 million barrels a day—back to where it was during the first three months of the year. The secretary-general of OPEC, Abdalla Salem El-Badri, said Wednesday that the organization didn't discuss a price target when it decided to cut output.

"We are cutting oversupply," Mr. El-Badri said at a news conference Wednesday. Members who are producing over their OPEC quota "should go back to it," he said, adding that members' output above their quotas currently totals 900,000 barrels a day.

The decision, following hours of debate, came after U.S. benchmark crude fell Tuesday 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. Wednesday afternoon, crude was down 45 cents at \$102.81 a barrel on Nymex.

The offer of cooperation by Russia's energy czar and vice premier, Igor Sechin, came as a surprise twist at the start of the OPEC session. OPEC supplies around 40% of the world's oil, while Russian output makes up 11%.

Mr. Sechin made his offer in person in a visit that OPEC officials said was arranged in recent days. The Russian delegation of more than 20 officials raised eyebrows at the cartel's usually cloistered headquarters along the banks of the Danube; it was among the largest sent to Vienna by a nonmember state, an OPEC official said. It was also the most high-profile visit from Moscow to the cartel in at least a decade. Among the group was Sergei Bogdanchikov, the chief executive of Russian oil giant OAO Rosneft. Mr. Sechin is board chairman of state-controlled Rosneft.

The Russian outreach to OPEC comes at a time of strain between Moscow and the West after Russia's invasion of Georgia last month. While an actual alliance with OPEC seems far-fetched, concerns run high in the U.S. and Europe that Moscow is trying to

## Crude-oil prices

Nymex-traded, light, sweet crude-oil price on the continuous front-month contract, in dollars per barrel



increase its chokehold over Europe's energy needs. Moscow supplies Europe with most of its natural gas and much of its crude oil and gasoline.

OPEC's first formal gathering in six months was otherwise fraught with politics and posturing as factions tussled over whether to cut output. The decision to reduce output means that Saudi Arabia will likely scale back its production to where it was earlier this year, before Riyadh began ramping up in a bid to drive down record prices.

The latest action suggests OPEC considers the optimal price for the group's purposes stands at around \$100 a barrel, though oil is up nearly

33% from a year ago and nearly quadruple what it was in 2003. At the same time, there are signs that global demand for oil is slackening. The IEA said Wednesday that global crude throughput at refineries would average 74.9 million barrels a day in the third quarter, a downward revision of 500,000 barrels a day from last month's report.

OPEC intended with its cut to keep supply in balance with falling demand, but it's too soon for the market to know whether the cartel will succeed, said Tom Bentz, an analyst and broker with BNP Paribas in New York. "It's all going to depend how much further demand deteriorates and how the global economy fares in the next six months," he said. IEA chief Nobuo Tanaka said Wednesday that OPEC shouldn't have cut its production plans.

The decision came as a surprise. Arriving at his hotel around dawn Tuesday, Saudi oil minister Ali Naimi, the principal voice within the cartel, had described the market as "fairly well balanced" and "in a healthy position." But the Iranian oil minister, Gholam Hossein Nozari, and Libya's top oil official, Shokri Ghanem, had spoken of oversupply.

OPEC President Chakib Khelil, who is also Algeria's oil minister, said the group's action was unlikely to ease the recent slide in oil prices because weakening U.S. and European demand had allowed crude in-

ventories to build.

For months, OPEC ministers have blamed everyone from market manipulators to doomsayers for driving oil prices to records, arguing that the price had no relation to the fundamentals of supply and demand.

Mr. Sechin said Russia was working on a draft memorandum of understanding on deeper cooperation between Russia and OPEC. Part of the cooperation, he said, could include providing for a "stable pricing environment" for producers and consumers.

Bringing Russia into OPEC would give the group additional clout but would also present myriad headaches, which is why analysts were largely skeptical that any meaningful cooperation would bloom from Moscow's visit. Saudi Arabia, the biggest power in OPEC, is a close U.S. ally and is loath to see the group used as a forum to take shots at the West. Russian officials didn't specify whether they were seeking admission as a regular OPEC member.

Even formal cooperation short of membership would be a watershed for the global oil market. OPEC officials declined to comment on what might become of the Russian outreach. Mr. Khelil declined to say whether OPEC would extend membership to Russia.

—Benoit Faucon, Brian Baskin and Gurdeep Singh contributed to this article.

## North Korea denies reports Kim is seriously ill

BY EVAN RAMSTAD

**SEOUL**—North Korea put on a show of strength Wednesday in the face of reports that dictator Kim Jong Il is seriously ill, with his second-in-command holding a rare meeting with a foreign media organization to dispel the accounts.

Mr. Kim remained out of sight, however, a day after missing celebration activities for North Korea's 60th anniversary.

In neighboring South Korea, government officials reinforced reports that emerged from U.S. intelligence officials Tuesday that Mr. Kim suffered a debilitating illness recently.

In a hearing at the National Assembly, South Korean intelligence officials told lawmakers that Mr. Kim experienced a stroke several weeks ago and can't walk, a lawmaker who attended said.

South Korean President Lee Myung-bak met with senior secretaries to discuss the situation in North Korea and steps the South might take if Mr. Kim's health problems created political instability.

Mr. Kim, 67 years old, has led North Korea since the 1994 death of



Kim Jong Il

his father Kim Il Sung, who founded the country in 1948. Reports of his illness raise the prospect of a second change in power in North Korea, a development that would affect stability and security in north-east Asia.

North Korea's state-run media haven't said anything about Mr. Kim's health. The country has never disclosed illnesses involving Mr. Kim or his father before him.

In China, the foreign ministry said it had nothing to add Wednesday to its statement the day before

that it wasn't aware of any health problems besetting Mr. Kim.

Liu Ming, a North Korea specialist at the Shanghai Academy of Social Sciences, says that whatever happens to the leadership in Pyongyang, China's interest is in "maintaining stability, promoting economic reform" and encouraging North Korea to give up its nuclear arms. Mr. Liu said he expects one of Mr. Kim's sons to succeed him if he isn't able to continue in office, but he said a power struggle could erupt among factions in the military and Korean Workers Party.

—Gordon Fairclough in Shanghai contributed to this article.

## ECONOMY &amp; POLITICS

# Obama revises strategy

*Battleground states take on new urgency as the race tightens*

BY CHRISTOPHER COOPER  
AND ELIZABETH HOLMES

CHICAGO—For a view of Barack Obama's Election Day strategy, look no further than his campaign-event calendar.

A few months ago, the rhetoric coming out of the Obama camp was that the Democratic presidential nominee's victory could be sweeping, coming from flipping deep Republican states in the West or the South. But after the Democratic convention, Sen. Obama made a beeline for the traditional swing state he may need most, Pennsylvania, before quickly moving on to Ohio and Michigan.

Winning two of these three states isn't only key to Sen. Obama's strategy, but also critical for his Republican rival, Sen. John McCain. "I think that what you're going to see settling in is that the race is going to be very close in most of the battleground states, which is really what matters," Sen. Obama told reporters Tuesday.

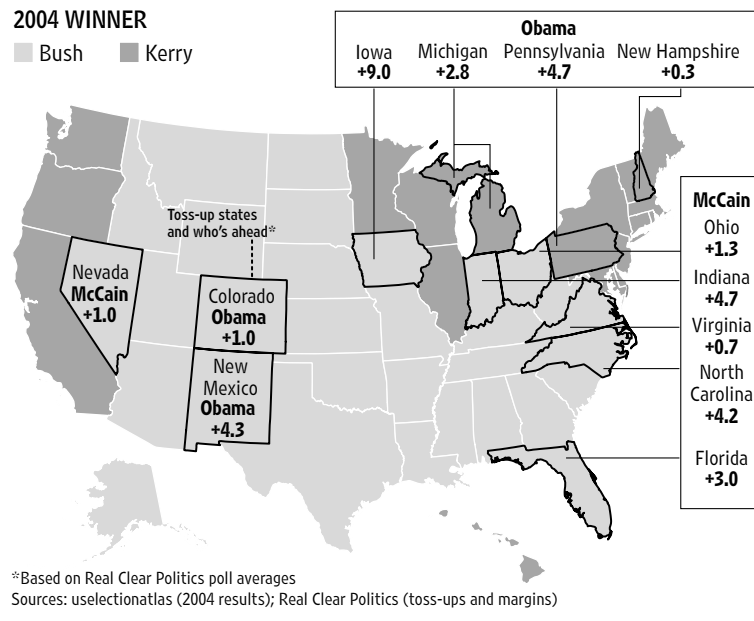
Tightening polls, a more competitive money race than originally envisioned and a McCain campaign invigorated by his unconventional vice-presidential pick are prompting a return to the old political map—and a grudging concession by some Obama campaign operatives that certain states once deemed winnable may be more of a long shot than once thought.

For Sen. Obama, this has prompted a change in focus: A campaign that visited nine states in mid-August has focused almost exclusively on three this month. Since closing out the convention, Sen. Obama will have held 21 campaign events through Tuesday, 18 of them in Pennsylvania, Ohio and Michigan. All three states went to either George W. Bush or John Kerry in 2004 by a margin of less than 4%.

Despite talk this political season about changing the national electoral map by bringing Southern and West-

## Toss-up territory

The U.S. presidential candidates are focusing on many of the traditional battleground states, as well as a few generally reliable ones that could switch this year.



ern states into play, it is clear Sen. Obama's strategy resembles the one pursued by losing Democratic predecessors Sen. Kerry and former Vice President Al Gore.

Just a few months ago, his campaign had unveiled a "50-state strategy" to mount a national campaign and dispatched scores of workers to the Republican strongholds of Georgia, Montana, Indiana and North Carolina. This week, the campaign said it had abandoned an earlier advertising blitz in Georgia and pulled out some of its campaign staff.

Though the campaign remains active in these states, Sen. Obama has begun emphasizing the importance of the big battleground states.

In Pennsylvania, which has the fifth-largest haul of electoral votes, a seven-point Obama polling lead in late August has fallen to a two-point advantage. Michigan has seen a similar trend, while in Ohio, voters have pinballed between the two nominees.

In Florida, where vice-presidential nominee Sen. Joe Biden and Sen. Hillary Clinton have both campaigned on

Sen. Obama's behalf recently, Sen. McCain's lead appears to be eroding. The race is a dead heat in two recent polls there. The McCain campaign said it needs Ohio and Florida to win in November.

The results of state polling are far more significant than those of national surveys, many of which show a resurgent Sen. McCain. "When you strip this down to its barest essentials, this is about the pursuit of 270 electoral votes," Obama campaign manager David Plouffe said this week.

Mr. Plouffe said Sen. Obama starts with a good chance of winning every state Sen. Kerry won in 2004, along with Iowa and New Mexico. That outcome and retaining Pennsylvania and Michigan would yield Sen. Obama 264 of the 270 electoral votes he needs to eke out a November win.

Adding one of a handful of states that went for President Bush in 2004, such as Colorado, North Carolina, Indiana or Virginia, would put Sen. Obama over the top. Polling in these states suggests they are toss-ups, though some have been surveyed only sporadically.

# China, Taiwan to explore daily flights, ocean links

BY TING-I TSAI  
AND ALEX PEVZNER

TAIPEI—Taiwan and China plan to hold a new round of talks within the next two months aimed at establishing the first daily flights between the two sides, Taiwan's top negotiator with Beijing said.

The talks will focus on expanding the frequency and number of destinations of weekend charter flights across the Taiwan Strait that began in July, Chiang Pin-Kung, chairman of Taiwan's Straits Exchange Foundation, said in an interview Wednesday. The negotiations, which Taiwan expects to take place in late October or early November, also will cover the possible establishment of direct ocean-shipping links between Taiwan and China and the launch of charter flights for cargo, Mr. Chiang said.

The comments indicate Taiwanese President Ma Ying-jeou aims to press ahead with expanding ties to China despite deep dissatisfaction with his efforts since taking office in May.

Even as trade and investment have boomed in recent years, executives and tourists traveling between Taiwan and China have been forced to make time-consuming stopovers in third locations like Hong Kong. The weekend charter flights that began in July were widely seen as a breakthrough in Taiwan-China ties, marking the first regularly scheduled, nonstop air traffic between the longtime adversaries since they split amid civil war nearly 60 years ago.

Mr. Chiang said the two sides have yet to finalize the date for the new negotiations, which are to be held in Taipei. China's government didn't comment specifically on the new talks, but at a routine press con-

ference Wednesday, a spokesman for the Taiwan Affairs Office in Beijing said that both sides have reached "some fundamental agreements" over the direct-air-traffic links.

Mr. Ma took office four months ago, promising a "new era" of peace and economic normalization with China, after years of contentious relations under his predecessor. But Mr. Ma's approval ratings have plummeted since, and he has faced growing challenges within Taiwan to his accommodating stance toward Beijing.

Nevertheless, the Taiwan president is sticking to his goal of realizing full air-traffic links with China by the end of this year.

"We'll talk about daily charter flights and even scheduled [direct] flights," said Mr. Chiang, 75 years old, whose foundation is Taiwan's designated negotiating body with Beijing in the absence of formal governmental links.

In the future, Taiwanese and Chinese negotiators will meet once every six months to finalize agreements, Mr. Chiang said. He said Taiwan aims to begin talks with China next year on various components of a proposed economic agreement, such as investment protection and avoidance of double taxation. In order to allow Taiwan banks to open branches in China, Taiwan also hopes to sign a memorandum of understanding on financial supervision cooperation with China next year.

Mr. Chiang acknowledged that reaching an accord on abolishing tariffs between the two sides could be a sticking point.

China is the largest export market for Taiwan, which enjoys a sizable surplus in their trade relationship. The island's exports to China totaled US\$73.87 billion in January-August, about 40% of its total exports.



Chiang Pin-Kung

# Biden faults Palin over stem cells

BY ELIZABETH HOLMES

Sen. Joe Biden brought a sensitive social issue to the fore of the U.S. presidential campaign on Tuesday by suggesting that opposition to stem-cell research signals less dedication to people with disabilities.

The Democratic vice-presidential nominee's comments were apparently aimed at his Republican rival, Alaska Gov. Sarah Palin, who has an infant son with Down syndrome and opposes embryonic-stem-cell research.

"I hear all this talk about how the Republicans are going to work in dealing with parents who have both...the joy and the difficulty of raising a child who has a developmental disability, who were born with a birth defect," Sen. Biden said at a rally in Columbia, Mo., on Tuesday. "Well, guess what folks? If you care about it, why don't you support stem-cell research?"

The McCain campaign responded quickly. "Barack Obama's running mate sunk to a new low to-

day, launching an offensive debate over who cares more about special-needs children," said McCain spokesman Ben Porritt. "Playing politics with this issue is disturbing and indicative of a desperate campaign."

Gov. Palin's social-conservative background has energized the Republican base. Many social conservatives had been leery of supporting Sen. John McCain because they disagree with some of his positions. The Republican presidential nominee favors embryonic-stem-cell research. The Republican Party's 2008 platform calls for a ban on all embryonic-stem-cell research.

Politics aside, stem-cell research appears to hold little promise of mitigating Down syndrome or helping those with the condition.

People with Down syndrome are born with an extra chromosome, and "that is something that does not seem to be easily addressed with stem cells," said Brian Skotko, whose research and medical practice at Children's Hospital in Bos-

ton focuses on Down syndrome.

The greater potential for stem-cell technologies is as a source of replacement cells and tissues for the treatment of Parkinson's and Alzheimer's disease, spinal-cord injury, strokes, burns, heart disease and arthritis, according to the National Institutes of Health stem-cell Web site.

Sen. Biden has been largely overshadowed by Gov. Palin since her nomination. The Project for Excellence in Journalism, which tracks media coverage of the candidates, found that nearly half of the news coverage around the Republican National Convention, on Sept. 1-7, had to do with Gov. Palin—and almost nothing about Sen. Biden.

News that Sen. Barack Obama had chosen Sen. Biden as his running mate accounted for 9.3% of media coverage the week of that announcement. Gov. Palin accounted for 12% of the coverage during the week she was selected, even though the announcement took place during the week of the Democratic convention.

—June Kronholz  
contributed to this article.



Joe Biden

# Thailand's PPP is seeking consensus on a new premier

BY PHISANU PHROMCHANYA  
AND STEPHEN WRIGHT

BANGKOK—Thailand's ruling People Power Party softened its stance on picking toppled Prime Minister Samak Sundaravej to lead once more, as investors and business leaders warned that his reappointment would prolong the country's political turmoil.

The Constitutional Court ruled Tuesday that Mr. Samak violated the constitution by accepting payments to host a TV cooking show and ordered him to quit. He hasn't been seen in public since the verdict.

Thousands of antigovernment protesters, under the umbrella of the People's Alliance for Democracy, have occupied Government House in Bangkok since Aug. 26, demanding Mr. Samak's resignation because of his close ties with ousted premier Thaksin Shinawatra.

Party executives said after the court ruling that the PPP is prepared to re-elect Mr. Samak, 73, as prime minister, a move the Federation of Thai Industries warned would intensify the political crisis.

PPP secretary-general Surapong Suebwonglee said Wednesday that some lawmakers have different views and a consensus will be sought at a party meeting before Parliament meets Friday to elect a new premier.

Mr. Surapong said the party would make a decision Thursday before nominating the new prime minister to the Parliament. "We don't want to let the political vacuum drag on too long," said Mr. Surapong, who is also finance minister and deputy prime minister.

Economists say the political crisis will worsen an expected economic slowdown in the second half of the year. A study by the University of Thai Chamber of Commerce predicted the economy will grow only 4.5% this year if the unrest doesn't end soon. The economy grew at a 5.7% pace in the first half of the year.

Thailand's stock market has fallen about 25% since antigovernment street protests began in late May, and analysts said it would sink further if Mr. Samak were reelected.

—Piyarat Setthasiriphaiboon  
contributed to this article.