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In a digital age, the LP record makes a comeback

WEEKEND JOURNAL | PAGES W10-W11

Financials, investors are caught in a vicious cycle

HEARD ON THE STREET | PAGE 28

Deutsche Telekom, union set for showdown on jobs

Streamlining effort may spur strikes; layoffs threatened

By Mike Esterl

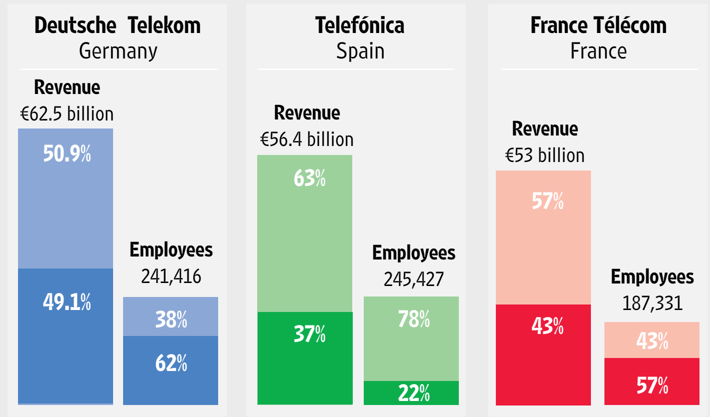
BONN—**Deutsche Telekom** AG is preparing for a downsizing that promises another round of labor strife and raises the possibility of something rare in Germany: forced layoffs.

Fifteen months after enduring a bitter strike over plans to slash labor costs, Europe's largest telecommunications carrier by revenue is planning new steps to streamline a domestic work force and boost profit. Talks with labor representatives are expected to begin in earnest in the coming days and thousands of jobs hang in the balance.

The former state telephone monopoly says the restructuring is necessary to survive rising competition and falling prices on its home soil, where smaller rivals have made big inroads in recent years with slimmer and lower-paid work forces. Two-thirds of Deutsche Telekom's 236,000 employees are in Germany, but they generated less than half the company's €30 billion ($42 billion) in revenue during the first half of this year, when domestic sales slumped 6.4%.

Home-field disadvantage

Deutsche Telekom makes half its money abroad, but most of its staff are still at home



Note: Employee figures based on active full-time equivalents as of Dec. 31, 2007
Source: the companies' annual reports 2007

Management floated plans late last month to collapse its 63 German call centers into 24 locations, affecting some 8,000 workers. It also says it wants to shift 6,000 fixed-line service technicians into a lower-paying unit and ax a still-undisclosed number of jobs—believed to be in the thousands—at its struggling information-technology unit.

The measures are being launched as German unions in other sectors aggressively pursue—and often secure—hefty wage increases to offset rising inflation.

Upping the ante, Deutsche Telekom recently signaled it could resort to forced layoffs if worker representatives balk at concessions in coming talks. Forced layoffs are uncommon in Germany, where employ-

Please turn to page 27

What's News—

Business & Finance

As Deutsche Telekom prepares for labor talks over a downsizing plan that it says it needs to survive rising competition, both sides are girding for battle. The company says it will resort to layoffs as a last resort while the union won't rule out a new round of strikes. **Page 1**

■ **Deutsche Post is poised** to sell close to 30% of its retail banking unit to Deutsche Bank for up to €3 billion. **Page 1**

■ **Lehman is shopping** itself to potential suitors, people familiar with the matter said, as the embattled firm's shares continue to plunge. **Page 2**

■ **U.S. stocks rose** despite big losses for some financial bellwethers. European shares fell for a third session amid continued worries about banks. **Page 18**

■ **Medvedev and Russia's** central bank rushed to stabilize jittery markets after two days of steep declines. **Page 17**

■ **The U.S. economic outlook** is gloomy through the first half of 2009, according to The Wall Street Journal's latest survey of private economists. **Page 3**

■ **ECB policy makers** now say the euro zone could slip into a recession this year, a shift in their previous stance. **Page 3**

■ **U.S. exports surged** in July and will help to bolster economic growth, the Commerce Department reported. **Page 10**

■ **Siemens plans to produce** more wind-turbine parts in the U.S. as part of a move to boost its share of the market. **Page 4**

■ **Nokia Siemens Networks** has tapped General Motors Corp.'s Luca Maestri as its new chief financial officer. **Page 6**

■ **JCDecaux and News Corp.** are holding talks about merging some of their outdoor-advertising operations. **Page 8**

■ **European bankers** want the EU to strengthen supervision across the continent to help restore confidence. **Page 19**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11433.71	+164.79	+1.46
Nasdaq	2258.22	+29.52	+1.32
DJ Stoxx 600	275.66	-1.69	-0.61
FTSE 100	5318.4	-47.8	-0.89
DAX	6178.90	-31.42	-0.51
CAC 40	4249.07	-34.94	-0.81
Euro	$1.3926	-0.0135	-0.96
Nymex crude	$100.87	-1.71	-1.67

Money & Investing > **Page 17**

World-Wide

Pakistani forces seized a militant stronghold along the Afghan border, killing dozens of insurgents and ending the government's Ramadan ceasefire. Bush in July approved U.S. raids in Pakistan without Islamabad's prior approval, a former intelligence official said. **Page 2**

■ **The U.S. and other nations** have sharply increased probes and prosecution of companies that use bribery to advance their foreign-business interests. **Page 1**

■ **Russian officials said** South Ossetia doesn't want to become part of Russia, after the breakaway Georgian province's leader made contradictory statements.

■ **India is talking** to U.S. firms about purchasing nuclear technology and equipment. New Delhi is also finalizing bilateral civilian nuclear pacts with countries including France and Russia.

■ **Two U.S. soldiers were killed** by militants in eastern Afghanistan, bringing to 113 the number of U.S. troops killed this year.

■ **A fire broke out** on a train shuttling trucks under the English Channel, injuring six people and suspending traffic in the undersea tunnel. **Page 9**

■ **The European Parliament** voted to cut in half, to 5%, a target for using crop-based biofuels for Europe's road-transport needs by 2020. **Page 9**

■ **Serbian leaders promised** to do everything possible to arrest fugitive Gen. Ratko Mladic, who is wanted on genocide charges by the U.N. war crimes court.

■ **Samak Sundaravej is poised** to return as Thailand's prime minister after the ruling party renominated him days after a court forced him from office.

■ **Pope Benedict XVI begins** a visit Friday to France, one of Europe's most secular states. **Page 9**

■ **Chinese health officials said** contaminated baby formula could be responsible for kidney-stone cases afflicting dozens of Chinese infants, rekindling concerns about product safety.

■ **Texas coastal residents** were ordered to evacuate as Hurricane Ike was expected to make landfall this weekend along the state's Gulf of Mexico coast.

EDITORIAL & OPINION

The sun also rises

A five-step program to lead Japan toward a real economic recovery. **Page 13**

Global effort to stop bribes gains traction

By Russell Gold And David Crawford

A global crackdown on companies that use bribery to advance their foreign business interests is rapidly gathering steam.

Governments in the U.S. and other nations have dramatically increased their investigation and prosecution of foreign corruption cases in recent years, thanks to a spate of new anticorruption laws that have fostered growing international cooperation.

The effort logged another high-profile catch earlier this month with the conviction of former **Halliburton** Co. executive Albert J. Stanley, who led a scheme to bribe Nigerian government officials to secure lucrative contracts related to the natural-gas business. Investigators in France, Switzerland, the U.K. and Nigeria are investigating the matter, according to Halliburton corporate filings.

The U.S. federal government had open investigations into 84 companies at the end of last year, up from three in 2002, according to **Shearman & Sterling** LLP, a New York law firm that tracks anticorruption cases. "In the 30-plus years I have followed these matters, there were long periods of little activity and few prosecutions. Recently there

Please turn to page 27

Deutsche Bank near deal to buy stake in Postbank

By Mike Esterl

FRANKFURT—**Deutsche Post** AG is poised to sell a stake of close to 30% in its retail banking unit to **Deutsche Bank** AG for as much as €3 billion ($4.2 billion), in what would represent the second major takeover deal in Germany's crowded financial-services sector in as many weeks.

Deutsche Post Chief Executive Frank Appel plans to recommend Friday to his company's supervisory board—the German equivalent of a U.S. board of directors—that it accept Deutsche Bank's offer for the unit, known as Deutsche Postbank AG, over a competing bid from Spain's **Banco Santander** SA, according to people familiar with the matter.

A person familiar with the negotiations said Deutsche Bank was offering more than €55 a share for the stake in Postbank, a leading domestic bank with a large network of retail branches. That topped Santander's tentative offer of €53 a share for all of Postbank, according to another person briefed on the matter. Postbank's share price fell 1.7% to €45.77 in Frankfurt on Thursday, giving the company a market capitalization of roughly €7.5 billion.

The sale would set the stage for a full takeover of Postbank by Deutsche Bank, Germany's largest bank by assets. Former German mail monopoly Deutsche Post holds just over 50% of Postbank. Deutsche Bank confirmed Wednesday that it was in advanced talks to buy a Postbank stake, but it didn't disclose the size.

DAILY SHARE PRICE

Deutsche Postbank

On the Frankfurt Stock Exchange
Thursday's close: €45.77, down 1.7%
Year-to-date change: down 25%

Source: Thomson Reuters Datastream

The proposed two-step transaction comes as Deutsche Bank is seeking to ensure it doesn't fall behind in its home market amid increasing consolidation in the German banking sector.

Deutsche Post, meanwhile, is eager to concentrate on its core mail, DHL express delivery and logistics businesses.

Under the planned deal, Deutsche Bank would have the option to

Please turn to page 27

THE WALL STREET JOURNAL.

LEADING THE NEWS

Pakistan strikes militants along the Afghan border

Pakistani national-security forces seized a militant stronghold along the Afghanistan border, in Islamabad's latest military campaign against Islamist insurgents, killing as many as 100 and ending a cease-fire announced by the government for the Muslim holy month of Ramadan.

The Pakistani military offensive came amid tension over cross-border air and ground raids by U.S. forces in Afghanistan on suspected al Qaeda and Taliban sanctuaries in Pakistan and as news emerged in Washington that President George W. Bush had authorized the U.S. raids.

By **Zahid Hussain** *in Islamabad, Pakistan, and* **Siobhan Gorman** *in Washington*

Ashfaq Kayani

A former intelligence official said Mr. Bush in July had signed an order allowing U.S. Special Forces to conduct ground operations in Pakistan without prior approval from the Pakistani government. The issue had been under debate within the administration since 2002, but until July, the White House had decided against ground raids because officials believed they could rely on then-President Pervez Musharraf to support U.S. interests.

"They really have no choice but to do what they are doing," the former official said. "I don't think anybody's particularly enthusiastic about this. It's something that is necessary, but it's not the solution."

Late Wednesday, in an unusually strong public statement, Pakistan's army chief, Gen. Ashfaq Kayani, warned that U.S. incursions into Pakistan wouldn't be tolerated and Pakistani forces would defend national sovereignty at all costs. He said the rules of engagement with the U.S.-led coalition forces in Afghanistan were well-defined and only Pakistani forces have the right to conduct operations against militants inside Pakistan.

"There is no question of any agreement or understanding with the coalition forces allowing them to strike inside Pakistan," he said.

Prime Minister Yousuf Raza Gilani on Thursday endorsed Gen. Kayani's statement, saying it reflected his government's resolve.

In Islamabad, a security official said as many as 100 al Qaeda-linked militants were killed in the Pakistani military offensive, Reuters reported.

Pakistani troops backed by a helicopter gunship captured Rashkai, a border town in the Bajur tribal region that had turned into a major base for al Qaeda and Taliban insurgents.

Earlier, Maj. Gen. Athar Abbas, chief military spokesman, said four soldiers also were killed.

More than 600 militants have been killed in Bajur since August, when troops launched the most intense military campaign against militants since Pakistan joined the U.S.-led fight against terrorism.

Lehman looks for a buyer

Bank of America is among interested but seeks assurances

Lehman Brothers Holdings Inc. is actively shopping itself to potential buyers, including **Bank of America** Corp., people familiar with the matter said Thursday.

The need for a sale intensified as Lehman's shares dropped 45% in Thursday trading, creating new doubts about its ability to trade with other Wall Street firms while keeping its best talent.

By **Matthew Karnitschnig, Carrick Mollenkamp, Susanne Craig** *and* **Annalena Lobb**

But potential buyers remain wary about plugging holes in Lehman's balance sheet, and are increasingly looking to the U.S. government to help backstop future losses, according to people familiar with the talks.

A number of these buyers would "come out of the woodwork" if the U.S. were to step in, said a person monitoring the process. It remains unclear whether the U.S. Treasury or Federal Reserve would take such steps, as was done when the government assisted J.P. Morgan Chase & Co. in its Bear Stearns takeover in March.

Lehman Brothers didn't immediately respond to a request for comment.

Bank of America, which is holding preliminary discussions about a transaction, appeared to be Lehman's best hope on Thursday afternoon. BofA may only do a Lehman deal if it is encouraged by the federal government, since it has its hands full digesting mortgage lender Countrywide Financial Corp.

Still, the situation was so fluid Thursday that people involved in the deal talks said it was too soon to say what shape a sale would take or if it would happen at all.

Without explicit government support, a range of other suitors have proved uninterested in absorbing Lehman and its $600 billion balance sheet. **Goldman Sachs**, for example, isn't bidding on the company, said a person familiar with the matter. Other much-discussed buyers, including France's **BNP Paribas** SA, the U.K's **HSBC Holdings** PLC, Germany's **Deutsche Bank** AG and Spain's **Banco Santander** SA, aren't expected to participate.

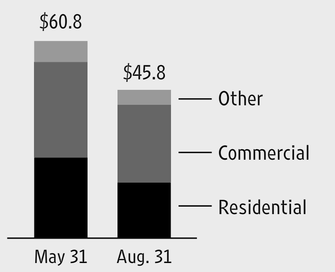
One outside potential remains **Barclays** PLC, the U.K.'s third-largest bank, which has been eager to expand its investment-banking franchise around the globe.

After rallying some in the afternoon, Lehman shares again retreated before the market close, swapping hands at just $4 each, down $3.25.

Speaker of the U.S. House Nancy Pelosi said Thursday that Lehman's impact on the credit markets would have to be evaluated before the federal government moved to pull together a rescue package for the investment bank.

Lehman's albatross

Holdings of mortgage-related assets, in billions



Source: the company

The California Democrat said the key question for any financial institution would be its impact on the credit market, the wider financial markets and on consumers more generally. Ms. Pelosi didn't answer directly whether the government should step in to bail out Lehman if the bank fails.

CORRECTIONS & AMPLIFICATIONS

Prices for the three-month copper contract on the London Metal Exchange were undervalued by a factor of 100 in a chart with Wednesday's Ahead of the Tape column. The scale of the chart should have said that the prices were in thousands of dollars per ton instead of the dollars per ton that was incorrectly noted.

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.

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INDEX TO PEOPLE

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

For more people in the news, visit CareerJournal.com/WhosNews

LEADING THE NEWS

U.S. economic outlook is gloomy

Latest survey finds difficult conditions well into next year

By Phil Izzo
And Kelly Evans

A struggling U.S. economy will loom large over the next president when he takes the oath of office in January.

The Wall Street Journal's latest monthly survey of private economists paints a gloomy picture of the economic outlook through the first half of 2009.

Economists say the tax rebates distributed in the second quarter provided fleeting help to consumers and the economy is on course to post four straight quarters of annualized economic growth below 2%, the longest stretch of such subpar growth since the recession of 2001.

They put 60% odds on an outright recession, expect the economy to shed 19,000 jobs a month for a year and say the jobless rate, which jumped in August to 6.1%, will keep rising to 6.4% by midyear, passing its 6.3% peak after the last recession.

The worst stretch of the next few months, they say, will be right around when Americans are choosing their next president in November. Annualized growth in the nation's gross domestic product in the fourth quarter is projected at a measly 0.7%. A few months ago, forecasters thought the economy would be growing at a much faster clip by then.

It won't be much better on inauguration day, they say. Growth in the first quarter is projected at a 1.3% annual rate.

"Rapidly rising unemployment; rebates behind us; falling house prices; falling stock prices; general loss of confidence and much tighter credit conditions. None of it looks good," says Paul Ashworth of Capital Economics.

It isn't all bad news. Even at 6.4%, the jobless rate would be far lower than in earlier downturns. Meantime, inflation is expected to moderate. Economists expect oil prices to be down around $102 a barrel by the end of this year, and below $100 a barrel by June 2009, which has the potential to take substantial pressure off stretched households.

Consumers could become the centerpiece of the economy's lethargy. They've been stung not only by rising food and energy prices, but also by a deteriorating job market, tighter credit and falling home prices.

Yvette Perera, 39 years old, of Vallejo, Calif., was laid off in January from her job handling help wanted ads for a small local paper, and has since been unable to find work. Her unemployment benefits are up Nov. 1. "I'm looking for anything," she said. "Anything." On supermarket runs, she's trying to limit herself to spending just $40.

For presidential candidates John McCain and Barack Obama, the economic outlook presents a challenge for campaigning and governing. Their campaigns have dwelt heavily on issues like foreign policy, experience and personality. Against the backdrop projected by forecasters, economic issues will become increasingly resonant as election day nears. These issues also look likely to dominate early governing decisions.

On average, the 51 respondents in the survey expect a 0.1% contraction in consumer spending during the third quarter. It would mark the first such retrenchment by consumers in 17 years. Consumers kept spending during the last recession, to the surprise of many economists. They expect 0.1% growth in consumer spending in the fourth quarter as the holiday shopping season kicks in.

Retailers posted weak August same-store sales amid a disappointing back-to-school season. On Friday, the Commerce Department is set to release official retail sales numbers for August. Economists surveyed by Dow Jones Newswires expect an anemic monthly advance.

Nearly a third of economists surveyed said the consumer retrenchment may not be reversed for years, a problem that could quickly rise to the top of the next president's agenda.

The Federal Reserve already cut interest rates sharply, meaning any future stimulus might need to be driven out of the White House. But choosing a fiscal policy course will be tricky. A rising budget deficit could constrain the next administration. Meantime, tax rebates proved to be only fleeting help.

Sharon Green, 49, who lives with her two kids in Detroit, Mich., said she isn't excited about the prospect of more rebates. "Yeah, the extra money would help," she said, "but the minute you get it it's gone. It's nothing you can save." She's been working at a local McDonald's for several years, since getting laid off as a stitcher operator in a nearby factory.

The majority of economists, 66%, said a second stimulus package, currently being debated in Congress and supported by Sen. Obama, isn't the right move. Most support extending or making permanent President George W. Bush's tax cuts, as does Sen. McCain.

Even among the economists who support a new round of stimulus, none said that it should primarily be based on rebates to individuals. Thirteen percent said it should include infrastructure spending, which some argue has more bang for the buck, while 2% said it should focus on extending unemployment insurance and food stamps. Nineteen percent said it should include some mix of rebates, infrastructure and benefits.

"You can't afford to bail out the financial system and the real economy at the same time," said Mr. Ashworth.

Some still see a turnaround next year. "The best news out there is that some of the bad news is abating," said Diane Swonk of Mesirow Financial. "By next year, housing starts and sales may start turning around. Plus, it should be a pretty good environment for profits. Wages stagnating but productivity is up."

Machinery orders decline in Japan, raising concerns

By Takashi Nakamichi

TOKYO—Japanese orders for machinery dropped for the second straight month in July, raising concerns that the nation's ailing economy may not get much help from business investment in the third quarter.

Core machinery orders, which exclude orders from electric-power companies and those for ships, fell a seasonally adjusted 3.9% in July from the previous month, data from the Cabinet Office showed. That followed a 2.6% decrease in June.

Though the fall in July was smaller than the 4.3% drop forecast by economists, the successive declines in this gauge of future business investment suggest companies are wary of boosting capacity as high material costs and slowing exports squeeze their bottom lines.

In July, manufacturers, led by general-machinery makers, booked fewer orders for items such as engines and machine tools, the data showed. Machinery orders from nonmanufacturers like farmers and telecommunications firms slipped as well.

"Demand overseas [for Japanese products] keeps falling, and considering the current economic situation, the trend [in machinery orders] is likely to continue," said Kyohei Morita, chief Japan economist at Barclays Capital.

—Takashi Mochizuki contributed to this article.

ECB policy makers say odds of recession remote

By Joellen Perry

European Central Bank policy makers admitted that the euro zone could slip into recession this year, shifting their rhetoric amid pessimistic forecasts for the world's second-largest combined economy after the U.S. But they maintain that recession remains a remote possibility.

"We can't rule out a technical recession," said ECB Governing Council member Nout Wellink at a financial-services conference in Nice, France. ECB Vice President Lucas Papademos, speaking to reporters on the sidelines of a separate conference in Hamburg, Germany, said two consecutive quarters of economic contraction "can't be excluded."

The euro slipped on the news. Late afternoon in New York, the euro traded at $1.3956, from $1.4022 late Wednesday as traders priced in the likelihood that slowing growth eventually will compel the central bank to lower its key rate from its seven-year high of 4.25%. Higher interest rates can attract investors to a currency.

The central bankers' comments came after European Commission forecasts Wednesday showed Germany and Spain tipping into recession this year as high commodity prices, financial-market turmoil and housing-market downturns in some euro-zone countries bring economic expansion across the bloc to a standstill in the third quarter. Euro-zone economic output fell 0.2% in the second quarter, the first quarterly contraction in the 15 countries that share the euro currency since the pan-European recession of the early 1990s.

The central bankers stressed Thursday that a technical recession remains an outside chance and a prolonged slump even more unlikely. Policy makers maintain that the euro-zone economy will stage a gradual recovery after bottoming out this year.

But concerns are mounting that the bloc could experience a full-blown credit crunch, in which banks unnerved by financial-sector turmoil pull back on lending to consumers and firms. That could scupper expectations that the downturn will be short-lived.

"The financial-market correction could be gradually changing its nature and scope, and evolve into a more traditional credit-cycle downturn," ECB President Jean-Claude Trichet said Wednesday.

Still, inflation threats likely will keep the ECB from lowering its key rate this year. Euro-zone inflation hit 3.8% in August, well above the bank's preferred range of just below 2%. Most economists expect slowing growth to push the ECB into a rate cut by the middle of 2009.

Policy makers fret that the euro zone's less-flexible labor and product markets mean slower growth won't bring inflation down quickly. At a Center for Financial Studies conference in Frankfurt this month, ECB Governing Council member Athanasios Orphanides said "slower growth for some time may be a discomfort that should be tolerated rather than resisted."

—Emma Charlton and Nina Koeppen contributed to this article.

CORPORATE NEWS

RETAIL

H&M chief says Japan could be 'huge market'

Associated Press

HENNES & Mauritz AB Chief Executive Rolf Eriksen said Japan could be a "huge market" for the Swedish clothing retailer, which is opening its first Japanese store Saturday, even as consumer spending slows in one of the world's biggest fashion markets.

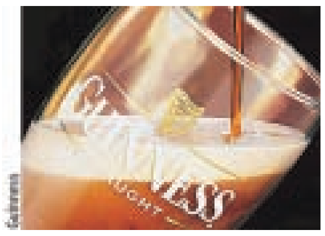
Mr. Eriksen said he was hopeful that H&M would be successful in Japan regardless of the economic climate. With the Japanese economy showing no sign of recovery, consumption is weak, particularly for fashion and other nonessential items.

H&M plans to open three stores in Tokyo, with the first one in the Ginza shopping district.

—Juro Osawa

BREWERS

Diageo plans new brewery with old Guinness roots



Guinness

IRISH BREWER Guinness is going back to its country roots. The company, a unit of **Diageo** PLC, said it will build its new flagship brewery west of Dublin in the town of Leixlip, where Arthur Guinness began brewing the famed dark-brown stout in 1755.

The move represents the next step in a €650 million ($911.4 million) plan by Diageo to prune costs and boost efficiencies in the face of increased competition from Eastern Europe and Asia. Diageo plans to cut more than half of Guinness's brewing staff in Ireland by 2013, shut two breweries in Dundalk and Kilkenny, and reduce Guinness production at its Dublin brewery.

—Associated Press

INTERNET

EU official urges Google to shorten data retention

Associated Press

THE EUROPEAN Union's top justice official welcomed a recent move by **Google** Inc. to cut the time it keeps users' search details, but said it should be trimmed even more.

Jacques Barrot, the EU's justice and home affairs commissioner, said Google's decision this week to shorten its retention of data logs to nine months from 18 months was "a good step in the right direction." He added, however, that the time period should be trimmed further to six months. Peter Fleischer, Google's global privacy adviser, said the company would work closely with EU data and privacy supervisors "to set the standard on respecting privacy."

—Associated Press

PepsiCo CEO adapts to hard times

Nooyi seeks growth despite rising costs, declining soda sales

By Betsy McKay

INDRA NOOYI, **PepsiCo** Inc.'s chairman and chief executive, is steering the snack and beverage giant through its biggest challenges in nearly a decade.

Tough economic times are pummeling beverage sales in the U.S., Pepsi's biggest market. Grain, vegetable-oil and other commodity prices have climbed. Rival **Coca-Cola** Co. is out to grab market share from Pepsi in juices and other noncarbonated drinks. Last week, Coke offered to buy a big Chinese juice company for about $2.4 billion.

Born in India, Ms. Nooyi, 52 years old, joined PepsiCo as head of corporate strategy 14 years ago. She was a major force behind Pepsi's decision to spin off its Pizza Hut, Taco Bell and KFC restaurants and buy Tropicana, Quaker Oats and other makers of healthy drinks and snacks. Broadening its portfolio has allowed Pepsi to take the lead in the U.S. in the beverages that are growing the fastest: juices, flavored and bottled waters, teas and other drinks.

In an interview, Ms. Nooyi talked about managing in a volatile economic climate while expanding around the globe. Excerpts:

Gianni Cipriano for The Wall Street Journal

Indra Nooyi took the helm of PepsiCo in 2006.

WSJ: Why are beverages being hit harder than snacks by the economic slowdown?

Ms. Nooyi: Beverages are a much more penetrated category. We also had a lot of wastage—people unscrewed their bottle and didn't finish it all. Now they're carrying the bottle longer and finishing the beverage.

A convenience-store operator told me we used to have a big cadre of construction workers who came in the morning and bought their Mountain Dew and their Doritos. That consumer isn't there now because the housing market is down. So what you get is the consumer who walks in and picks up a bag of Doritos but can do without the [drink]. We haven't seen this kind of slowdown in convenience-store traffic in 25 years.

WSJ: What can be done to keep beverage sales from slipping further in this economy, and to revive consumer interest in soda?

Ms. Nooyi: You really have to segment your portfolio very, very carefully. You want targeted innovation that grabs the consumer and gives people a reason to buy. If a natural zero-calorie or low-calorie sweetener is approved and it tastes good in carbonated soft drinks—two ifs—then there is a reason for people to come back.

People still love bubbles. I have a 15-year-old daughter, and she drinks Pepsi every day. We have to give people a reason to come back to cola. We've got to romance them.

WSJ: Is PepsiCo international enough?

Ms. Nooyi: Forty percent of our revenue comes from international. Most of our growth is coming from international. We can't help it if our North American business is also growing. We know that a lot of the growth potential is overseas, and we are going after it aggressively.

WSJ: Do you want to unseat Coke in international beverage sales?

Ms. Nooyi: What's the value of unseating Coke? Let me tell you our game. In the Middle East and parts of Asia, where we are strong, we want to remain very, very strong. Where the market growth is spectacular like China, India, Russia, we are going to keep investing so that when the music stops we have a great shot at being up there as the leader. And then in all the other markets, we want to play the noncarbonated game aggressively.

WSJ: Is the era of cheap commodity prices over?

Ms. Nooyi: I wouldn't say so. Wheat prices were at a record high six months ago, and now we are having a record wheat crop, so those things can turn on a dime. I think what needs longer-term fixing are energy costs.

WSJ: You have talked about tackling obesity. Some people would say it's insincere or hypocritical for the chairman of a company whose biggest products include Pepsi-Cola, Lay's and Doritos to do that.

Ms. Nooyi: Why should they think I am being insincere or hypocritical? There is a place for Pepsi, because it tastes great. Potato chips are part of the American diet.

I am extremely proud of our track record. Name me one other company that took out trans fats from all its products without increasing the price of its products—four or five years before anyone else. We're doing everything possible to shift our portfolio to "better for you" or "good for you" products.

WSJ: Gatorade lost some share last year, and you changed the brand's management team. How's it doing now?

Ms. Nooyi: Brands go through ups and downs. Gatorade is an extremely strong brand. I think every five or seven years, you've got to change out the approach to the brand, because you need a new boost of energy to think about the next iteration. Brands never die. You only stop reinventing them.

WSJ: How do you keep up with what's going on in the market and get new ideas for products?

Ms. Nooyi: I do market tours all the time. Every weekend I hop in the car and go somewhere. I listen to kids talk about what they're consuming, what they're doing, what they're not doing.

I read a range of things to keep in touch with cultural and lifestyle trends— the usual business press but also People and Vanity Fair and anything close to the cutting edge of the culture. Even the AARP magazine.

WSJ: Which PepsiCo products do you eat and drink?

Ms. Nooyi: Most days for breakfast I have a bowl of plain Quaker oatmeal and a glass of Tropicana juice with lots of pulp. At lunch, I have to have Lay's Kettle chips, slightly heated. You heat them for about 10 or 15 seconds. One of my favorite drinks is Mirinda Orange, which we make overseas. Whenever a shipment arrives, I'm the first person to grab it.

We have Lay's chips for dinner every night. Indian cuisine has a crisp with dinner—a papadum—but we just use Lay's Kettle chips or Miss Vickie's Simply Sea Salt or Jalapeño.

When my daughter drinks Pepsi, I always have half a glass. Ice-cold Pepsi is to die for.

Siemens to boost its market share in wind power

By Alexander Becker

HUSUM, Germany—**Siemens** AG plans to expand its international wind-power operations, including producing more wind-turbine parts in the U.S., as part of a move to boost its share of the market, a company official said.

The German industrial conglomerate plans to manufacture nacelles for wind turbines in the U.S., in addition to the rotor blades it already makes at a plant in Iowa, Andreas Nauen, chief executive of Siemens's wind-power unit, said in an interview. In a wind turbine, the nacelle houses the generating components.

Siemens is looking at three to five locations in the U.S. for a plant to manufacture nacelles for 2.3-megawatt turbines, Mr. Nauen said, speaking on the sidelines of a wind-energy industry fair here in Husum, Germany. Siemens currently manufactures the nacelles in Denmark, where its wind-power unit is based.

Mr. Nauen said the company, which already has a booming wind-power business, has set a target to lift its market share in the sector to at least 15% in 2011 from 8% to 9%.

The company's targeted increase of installed capacity to 4.5 gigawatts by 2011 is "on the right track," Mr. Nauen said. This year, Siemens expects installed capacity of 2 to 2.1 gigawatts. A gigawatt is equivalent to one billion watts, enough to power about 300,000 U.S. households.

The company plans to build a factory in China and also sees India as an expansion target, Mr. Nauen said. By boosting its manufacturing capacity, Siemens is getting in gear for the expected long-term growth of the world-wide wind-power market.

In the sector, Siemens competes with companies such as India's **Suzlon Energy** Ltd., Spain's **Gamesa** SA, Denmark's **Vestas Wind Systems** AS and the U.S.'s **General Electric** Co. This week, Siemens struck a deal with German utility **E.On** AG to build 500 wind turbines for projects in Europe and the U.S. The deal is valued at more than €1 billion ($1.4 billion), according to Siemens Energy's renewable-energy division chief executive, Rene Umlauft.

AFP

India's **RP Singh** (right) tries to run out England's **Kevin Pietersen** in the ICC World Twenty20 championship match in Durban, South Africa, in September 2007.

News Corp., Disney give cricket a global leg up

By Tariq Engineer

MUMBAI—Cricket is moving up the ranks of big money leagues of international sport.

ESPN Star Sports, a joint venture between **Walt Disney** Co.'s ESPN and **News Corp.**'s Star, paid $975 million for the exclusive, 10-year commercial rights for a new international cricket league based on a faster-moving, shorter version of the famously lengthy game. The purchase gives ESPN Star Sports the television, title-sponsorship, mobile-phone and Internet rights to the Champions League Twenty20 cricket tournament.

ESPN Star Sports beat out the Abu Dhabi Sports Club and the Dubai Investment Council for the rights to the eight-team tournament, which will be held for the first time in December. The location has yet to be decided. The Champions League is based on the European soccer competition, where the best city teams from across the continent play in a tournament.

In the Twenty20 format, games last about three hours, compared with five days for top-level traditional cricket. The format was a success when introduced in India earlier this year, complete with cheerleaders, Bollywood songs and the financial backing of some of India's wealthiest. The Indian Premier League, which consists of eight teams from different cities around the country, is the first city-based cricket league in India.

The Indian league was won by the Rajasthan Royals, who will represent India in the Champions League, along with the runners-up, the Chennai Super Kings. The other teams in the Champions League will be from Australia, South Africa, Pakistan and England. The tournament will offer $6 million in total prize money and games will be broadcast globally.

"This novel concept of the top Twenty20 teams from the premier cricketing nations playing off against each other will surely take the game to another new level altogether," said R.C. Venkateish, managing director of ESPN Software India Pvt Ltd.

ESPN is 88%-owned by Walt Disney Co. News Corp. owns Dow Jones, publisher of The Wall Street Journal.

U.S. activist fund makes bid for the rest of Japan's Noritz

By Hiroyuki Kachi

TOKYO—**Steel Partners Japan Strategic Fund** said it has made a tender offer to buy heating-equipment maker **Noritz** Corp. in what could set off a new battle between the U.S. activist fund and the board of a Japanese target.

The New York-based fund, which is among the most visible of a growing number of mainly foreign investors demanding that Japanese companies bolster shareholder value, has proposed to buy Noritz for 1,025 yen ($9.53) per share, giving the tender offer a value of as much as 39.3 billion yen ($365.3 million).

The price is about a 5% premium to Noritz's closing price Thursday of 972 yen. The U.S. fund, which now is Noritz's top shareholder with an 18.7% stake, is seeking to buy all remaining issued shares, excluding treasury stocks.

"Management has failed to meet its operating profit plans for the past six of seven years while destroying stakeholder value," Warren Lichtenstein, managing partner of Steel Partners Japan, said in a letter sent to Noritz.

He also said that "management and the board of directors have not given us any reason to believe that they are taking appropriate steps to ensure that such deterioration will not continue well into the future."

The fund asked Noritz this year to come up with more aggressive business-improvement plans and said it may decide to nominate new board members at the next shareholders' meeting if the Japanese company remains reluctant to listen to shareholders' voices.

Steel Partners said that if it is successful in increasing its ownership position in Noritz to 50.1% or greater, it intends to sell unprofitable businesses and implement programs to increase sales and margins.

A Noritz official said the company has received the letter from the fund, but he declined to comment further.

Based of Thursday's closing prices, Noritz's market capitalization was 49.38 billion yen.

Research funds reviewed

U.S. universities reconsider support from drug concerns

By Alicia Mundy

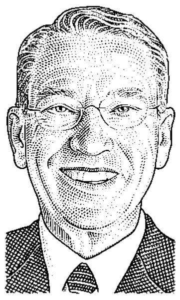
WASHINGTON—Some major universities are reviewing the way they handle funding from drug companies in the wake of criticism from Sen. Chuck Grassley, who is pressing the federal agency that controls government health-research money to get tougher on universities that don't disclose ties to the industry.

Late Tuesday, Mr. Grassley (R., Iowa) fired the latest salvo, stating in a letter that a researcher for the University of Texas who worked on a National Institutes of Health study involving the **GlaxoSmithKline** PLC antidepressant Paxil did not disclose more than $150,000 in consulting and speaking fees paid to her by the company. Mr. Grassley has raised similar criticism of other universities, including Stanford, Harvard and University of Cincinnati.

Another 20 universities, including Brown, which was involved with a controversial study on Paxil funded by Glaxo, have been contacted by the Senate Finance committee, on which Mr. Grassley is the ranking Republican, over questions of potential conflict of interest with drug makers.

The director of NIH, Elias Zerhouni, met Tuesday with Senate Finance staff. Mr. Grassley wants NIH to start yanking grants to universities that fail to report their researchers' outside income from drug firms, as required by law.

NIH gave more than $23 billion last year to educational institutions. Dr. Zerhouni has been publicly skeptical about NIH's ability to pull grants, but Mr. Grassley said, "Starting today, the NIH could send a signal that business as usual is over....The simple threat of losing prestigious and sizable NIH grants would force accurate financial disclosure."



Charles Grassley

Last month, Stanford announced a policy to restrict drug-company funding of continuing medical-education programs. It also removed a renowned researcher as lead investigator on an NIH project, following questions from Mr. Grassley. Harvard has said that it is reviewing its conflict-of-interest policies.

Mr. Grassley made statements about Karen Wagner based on a comparison of records from the University of Texas and from Glaxo. Between 2000 and 2008, Dr. Wagner was engaged in an NIH study on the use of Paxil to treat teenage depression and another study on teen anxiety.

The university's legal counsel said they will look for any discrepancies in Dr. Wagner's disclosure reports. Dr. Wagner did not respond to requests for comment.

The University of Texas has received more than $5 billion from NIH since 2000.

"Universities have been treading on dangerous ground with their increasingly complex financial ties to industry," said Jerome Kassirer, former editor of the New England Journal of Medicine. "They are worried that these things could ultimately affect their tax-free status," he said.

Many faculty members remain on company speakers' bureaus, he added.

Dr. Wagner was considered one of Glaxo's "opinion leaders," speaking at many medical meetings about Paxil, according to documents from civil suits. Paxil has been linked to teenage suicide and suicidal behavior. The company has said the drug is safe. Dr. Wagner was a co-author of the Brown study on Paxil that has come under attack for allegedly overstating the drug's safety.

In 2000, the first year of the NIH grant, Dr. Wagner, who is based at the University of Texas Medical Branch in Galveston, received $53,000 from Glaxo, which included a trip to Paris to speak at a company meeting, Glaxo confirmed.

From 2003 to 2004, while receiving additional funds from Glaxo, Dr. Wagner served on the university's committee policing conflict of interest.

Barry Burgdorf, the university's vice chancellor for legal affairs, said there didn't appear to be a major problem with the 15-branch university's disclosure system.

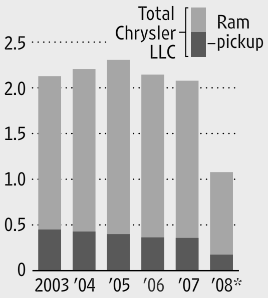
Chrysler bets on a Ram

Auto maker hopes to drive cash flow with pickup's launch

By Jeff Bennett
And Neal E. Boudette

Thinning the herd

New U.S. vehicle sales, in millions of units



*Year to date

Source: AutoData Corp.

Chrysler is making a big bet on its new **2009 Dodge Ram pickup**, which it introduced in January with a herd of 120 long-horn cattle driven by 10 cowboys.

DETROIT—A year ago, **Cerberus Capital Management** LP made a bet of about $7 billion that it could turn around ailing **Chrysler** LLC. Now, with the auto maker's sales in a deep slump, Cerberus's best chance for salvaging the bet is riding on a single vehicle: the new Dodge Ram pickup.

The fully redesigned truck, which started arriving in dealerships this month, is Chrysler's biggest selling vehicle and its most profitable model. If the new Ram is a hit, it could lift Chrysler's revenue and move the company much closer to ending its operational losses and generating positive cash flow.

People familiar with the matter said Cerberus has planned on incoming cash to start exceeding its monthly expenses some time in 2009—the Ram's first full year in the market.

After a speech here Wednesday, Chrysler Vice Chairman Jim Press acknowledged the new pickup is a key product and its most important launch this year. But he insisted that Chrysler's chance of generating positive cash flow next year isn't "dependent on one model."

Mr. Press declined to predict when Chrysler's cash flow would turn positive. Cerberus has been slashing the Auburn Hills, Mich., auto maker's costs, cutting production and selling assets in hopes of making Chrysler a smaller and profitable company.

The hedge fund and private-equity firm a year ago acquired an 80.1% stake in Chrysler from Germany's **Daimler** AG in exchange for a promise to invest $5 billion in the auto maker and more than $1 billion in its financing arm.

But it's facing an uphill climb in Chrysler. The auto maker lost about $1.6 billion in 2007, and this year the auto market has steadily worsened. U.S. auto sales are off about 10% so far this year and 2009 is expected to be flat or weaker as housing woes and a sluggish economy sap demand.

Normally the launch of a redesigned Ram would put a charge into Chrysler's sales, but the rise in fuel prices has only complicated matters. In the past few months Americans have steered away from big trucks in favor of small, fuel-efficient cars. Through August, sales of full-size pickups are down 25%. Ram sales are down 29%, to 175,246 from 246,878 in the first eight months of 2007.

That represents a huge hit to the bottom line. Detroit's Big Three generally make about $8,000 in operating profit on each large truck they sell.

Moreover, the Ram will face tough competition. **Ford Motor** Co. is launching this fall an updated version of its F-150, the top-selling truck in the market.

If the Ram isn't a huge hit, Chrysler has few other models immediately behind it in the pipeline to drive new sales. It has no major new-product launches in the works for 2009. Those coming in 2010 mainly include larger vehicles that many customers are now shunning: the Jeep Grand Cherokee and Dodge Durango, both sport-utility vehicles, and the Chrysler 300, a large, family sedan.

Chrysler is also supposed to launch a small car made by **Nissan Motor** Co., and may offer hybrids or electric vehicles developed by auto makers in 2010. But it's unclear whether these vehicles can generate significant volume or profit for Chrysler. Such rebadged models generally sell in limited numbers and have thin margins, said Michael Robinet, an automotive analyst at **CSM Worldwide**, which tracks and forecasts auto production.

"A lot of vehicles Chrysler has coming are of the large variety, which aren't selling right now," Mr. Robinet said. "I think it's fair to say Chrysler is going to be very challenged in the short term."

CSM forecasts Chrysler will produce only 1.55 million vehicles in 2009, about 500,000 fewer than this year and half as many as in 2005. Even with the new truck in the market, CSM predicts Chrysler's Ram output will fall in 2009 to 245,000 trucks, down from 280,000 this year.

Earlier this year Mr. Press and Chrysler Chief Executive Officer Robert Nardelli said Chrysler aims to sell roughly two million vehicles a year once its turnaround is complete.

Chrysler dealers believe they have a winner in the new Ram. The truck features a more lavish and comfortable interior and a new type of coil suspension that is supposed to give the vehicle a car-like ride.

Nokia Siemens taps finance chief

By Adam Ewing

Nokia Siemens Networks tapped Luca Maestri as its new chief financial officer, in a move that the telecommunications-infrastructure company said shows its integration is on track.

Mr. Maestri comes to Nokia Siemens—the joint venture between Finland's **Nokia** Corp. and Germany's **Siemens** AG—from **General Motors** Corp., where he most recently was finance chief at the car maker's European division. The 44-year-old will join the company Oct. 1 and will formally assume his role on Nov. 1.

Eric Simonsen, the outgoing finance chief, will retire in December, following a two-month transition and handover period, the company said.

"This is the appropriate time for me to leave," Mr. Simonsen said in an interview. "I specialize in merger integrations; I'm there to drive change, and once things start to get better and improve, it's time for me to leave. It's time to put away the saw and get out the sandpaper."

Mr. Simonsen, who had been with Nokia Siemens since its creation in May 2007, has faced challenges with the merger amid weakening macroeconomic conditions and competitive pressures in the global network-infrastructure market.

The appointment of Mr. Maestri is "encouraging" and shows the company is ready to move forward with more of an "offensive" stance, said Enskilda Securities analyst Mats Nyström. Mr. Maestri couldn't be reached to comment.

The telecom-equipment market has struggled in the past few quarters because of slumping spending and the weakening economy. Both Nokia Siemens and Swedish rival Telefon AB L.M. Ericsson have said they expect a broadly flat infrastructure market for the full-year 2008.

Mr. Simonsen didn't comment on how the company views the broader infrastructure market right now. In July, Nokia Siemens reported second-quarter sales of €4.01 billion ($5.62 billion) and narrowed its operating loss to €47 million. However, referring to Nokia's second-quarter report, the outgoing finance chief said the joint venture is on track to meet its target of €2 billion in cost synergies by the end of the year.

Meanwhile French-American equipment vendor Alcatel-Lucent SA has faced significant challenges in integrating its operations. The Paris-based company recently hired former BT Group PLC head Ben Verwaayen as chief executive and Philippe Camus as nonexecutive chairman, after previous senior management struggled to make the merger work.

In addition to appointing a new finance chief, Nokia Siemens Thursday said Michael Matthews, chief marketing officer at **Amdocs** Ltd., will join as head of strategy and business development. Pekka Soini, Nokia Siemens's head of strategy and business development, will assume a new role heading the Corporate Development Office.

UnitedHealth's ex-CEO settles case over his pay

By Vanessa Fuhrmans

Former **UnitedHealth Group** Inc. Chief Executive William McGuire agreed to pay $30 million and forfeit 3.7 million stock options to settle shareholder claims related to options backdating, adding to what was already one of the largest executive-pay givebacks in history.

The agreement is Dr. McGuire's third major settlement of an options-backdating claim since revelations of the practice led to his ouster nearly two years ago. Dr. McGuire denied the allegations in the class-action lawsuit. UnitedHealth resolved the same case separately in July, agreeing to pay more than $895 million in the largest settlement of a backdating case to date.

William McGuire

The Minnetonka, Minn., health-insurance titan has been one of the largest corporations ensnared in the backdating scandal, in which dozens of companies were found to have manipulated the dates that options were awarded in order to give executives a chance to reap more compensation. Dr. McGuire was among the most successful and highest-paid executives in the U.S. before the scandal erupted, and he held options valued at about $1.78 billion.

That wealth has shrunk to nearly one-sixth of that amount in the wake of Dr. McGuire's givebacks and the company's declining share price. Dr. McGuire, who reaped about $530 million in pay and options gains while running UnitedHealth from 1991-2006, still retains 20 million stock options that could be exercised for a gain of $307 million at the current share price.

UnitedHealth shares have fallen 50% since the start of the year. They were up 44 cents at $29.75 in New York Stock Exchange composite trading Thursday afternoon.

To resolve other civil and government claims, Dr. McGuire already had agreed to forfeit 9.2 million stock options and nearly $100 million in retirement pay, in addition to a $7 million penalty to the Securities and Exchange Commission. That comes on top of unrealized gains he surrendered at the time of his ouster—estimated then at $200 million—by agreeing to reprice previously granted options.

He still faces a criminal inquiry into UnitedHealth's options scandal by the U.S. attorney for the Southern District of New York. That office wouldn't comment on or confirm the status of the probe.

"I am pleased to be able to help bring the stock-option dating issues closer to complete resolution," Dr. McGuire said. "As CEO, I consistently took responsibility to help address important issues facing UnitedHealth Group, and I have continued to do my part to resolve stock option dating issues since leaving the company."

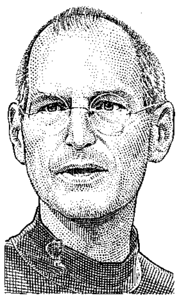
—Mark Maremont and Charles Forelle contributed to this article.

Jobs, Apple executives settle holders' lawsuit over options

By Nick Wingfield
And Justin Scheck

Apple Inc. Chief Executive Steve Jobs and several other current and former Apple executives and directors have agreed to a tentative settlement in a shareholder lawsuit that alleged improper stock-option practices at the company.

Under the settlement, insurance companies that provide liability coverage for company officers and directors will pay $14 million to settle claims about their alleged participation in a system to pick favorable option grant dates at Apple, according to papers filed in federal court in San Jose, Calif., Sept. 4. As part of the settlement, Apple also agreed to make several changes to its corporate-governance practices and other company processes.



Steve Jobs

Because the lawsuit was a derivative action, Apple itself will receive the $14 million. In such a lawsuit, a shareholder typically sues executives or board members on behalf of a company. The company in most cases receives any settlement money, with a portion of that usually being paid to plaintiffs lawyers.

As part of the settlement, Apple agreed to pay a total of $8.85 million to federal and state attorneys representing the plaintiffs. A hearing has been scheduled for Oct. 31 to finalize the agreement.

The defendants, in a settlement agreement filed with the court, deny violating the law or any commitment to Apple. An Apple spokesman declined to comment. An attorney for the plaintiffs didn't return phone calls seeking comment.

The settlement would bring to an end an array of federal and state lawsuits filed in the wake of Apple's disclosure in 2006 that thousands of option grants between 1997 and 2002, including those to Mr. Jobs, were improperly dated. An option gives its holder the right to buy a stock at a fixed price, usually for as many as 10 years after the date of the grant. By backdating the exercise price to a time when the stock was lower, the employee gets an instant boost to the possible profits from the award.

As a result of an Apple investigation into its own options-granting practices, the company restated its financial results between 1998 and 2006 to recognize a new after-tax, noncash expense of $84 million.

The Securities and Exchange Commission filed charges against two former Apple executives, former Chief Financial Officer Fred Anderson and former general counsel Nancy Heinen, alleging they were involved in options backdating. Mr. Anderson settled the case with the SEC in April 2007 by paying $3.5 million. Ms. Heinen settled in August 2008 by paying $2.2 million.

—Ben Charny contributed to this article.

THE MART

BIDS & PROPOSALS

CITY OF CAPE CORAL
LEGAL NOTICE
REQUEST FOR PROPOSAL

The City of Cape Coral, Florida, utilizing a qualifications-based solicitation is seeking proposals from interested and qualified firms for private development of SUN SPLASH/LAKE KENNEDY HOTEL AND ICE RINK, RFP-CM103008-63, under a long term ground lease on property owned by the City. Developers selected in response to this RFP will be expected to plan, design, construct, finance, own and manage the buildings in accord with all covenants and development guidelines. Firms are invited to submit proposal(s) for the Hotel, Ice Rink, or both. A copy of the scope of services may be obtained from the City of Cape Coral Procurement Division, 1015 Cultural Park Blvd., Second Floor, Cape Coral, Florida 33990; by telephone, (239) 574-0831; by mail request, P.O. Box 150027, Cape Coral, Florida 33915-0027 or online at www.demandstar.com.

An original and ten (10) copies of the proposal along with one readable/reproducible disc (CD) completely duplicating the hard copy must be returned in a sealed envelope to the attention of the Procurement Division, no later than 3:30 p.m., Thursday, October 30, 2008, either in person or by mail to the address listed above.

A non-mandatory Pre-proposal Conference will be held on Thursday, September 18, 2008 at 1:00 PM, at the following location:

Cape Coral City Hall
Conference Room 220A
1015 Cultural Park Boulevard
Cape Coral, FL 33990

This conference may also be attended remotely by teleconference and online. To participate remotely, send email to: ecodev@capecoral.net; subject: "SunSplash RFP Conference".

Proposals shall not be presented at any other location. Proposals presented after the time and date indicated above shall be refused. The time indicated on the date stamp machine located in the Procurement Division is considered the official time.

SEALED ENVELOPES MUST BE MARKED:
SUN SPLASH/LAKE KENNEDY HOTEL AND ICE RINK
RFP- CM103008-63

Any questions concerning this request shall be addressed to the City of Cape Coral Procurement Division at (239) 574-0831.

By Order of the City Manager
Bonnie J. Potter, City Clerk

City of Cape Coral Procurement Division,
PO Box 150027, Cape Coral, FL 33915-0027
(239) 574-0831

CITY OF CAPE CORAL
LEGAL NOTICE
REQUEST FOR PROPOSALS

The City of Cape Coral, Florida utilizing a qualifications-based solicitation is seeking proposals from all interested and qualified parties for private development of the Cape Coral Academic Village and Research Park, RFP-CM121608-61, on approximately 180 acres of city-owned land under a long-term ground lease. Developers selected in response to this RFP will be expected to plan, design, construct, finance, own and manage the buildings in accord with all covenants and development guidelines. A copy of the scope of services may be obtained from the City of Cape Coral Procurement Division, 1015 Cultural Park Blvd., Second Floor, Cape Coral, Florida 33990; by telephone, (239) 574-0831; by mail request, P.O. Box 150027, Cape Coral, Florida 33915-0027 or online at ww.demandstar.com

An original and ten (10) copies of the proposal along with one readable/reproducible disc (CD) completely duplicating the hard copy must be returned in a sealed envelope to the attention of the Procurement Division, no later than 3:30 p.m., Tuesday, December 23, 2008, either in person or by mail to the address listed above.

A non-mandatory Pre-proposal Conference will be held on Thurs., October 16, 2008, at 10:00 a.m., at the following location:

Cape Coral City Hall
Conference Room 220A
1015 Cultural Park Boulevard
Cape Coral, FL 33990

This conference may also be attended remotely by teleconference and online. To participate remotely, send email to: ecodev@capecoral.net; subject: "Academic Village RFP Conference".

Proposals shall not be presented at any other location. Proposals presented after the time and date indicated above shall be refused. The time indicated on the date stamp machine located in the Procurement Division is considered the official time.

SEALED ENVELOPES MUST BE MARKED:
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RFP- CM121608-61

Any questions concerning this request shall be addressed to the City of Cape Coral Procurement Division at (239) 574-0831.

By Order of the City Manager
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CORPORATE NEWS

Outdoor-ad deal weighed

News Corp. business in Russia may link with JCDecaux

BY JETHRO MULLEN AND WILL BLAND

AFP

Under the proposed deal between JCDecaux and News Corp., **News Outdoor**, News Corp.'s Russian unit, would be combined with JCDecaux assets.

PARIS—**JCDecaux** SA and **News Corp.** said Thursday in separate statements they are in exclusive talks about merging some of their outdoor-advertising operations in a deal that would make JCDecaux the world's largest outdoor-ad company by revenue.

The French company said it is talking to News Corp. about a cash-and-shares deal under which the U.S. company's Russia-based outdoor-advertising unit, News Outdoor, would be combined with JCDecaux assets. The deal would see JCDecaux—the world's second-biggest outdoor-advertising company—leapfrog U.S.-based **Clear Channel Outdoor Holdings** Inc.

Separately, News Outdoor said that as a result of the proposed deal, JCDecaux would gain a controlling stake in the Russian company, while News Corp. would become a shareholder in JCDecaux. A spokeswoman for News Corp. declined to comment beyond the statement.

Financial terms of the proposed deal weren't disclosed. News Outdoor, which posted revenue of $420 million for 2007, has operations in Russia, Eastern Europe, Turkey, Israel, India and Southeast Asia.

News Corp., which owns The Wall Street Journal publisher Dow Jones & Co., said last year it was exploring "strategic options" for the outdoor-advertising unit.

The planned deal, reported Thursday in Russian daily Vedomosti, carries a number of risks, including limited cost benefits and the use of shares to partly finance the deal, analysts said.

"Although Eastern European markets are strategically interesting and fast-growing, we think it's unlikely that News Corp.'s margins are higher than Decaux's," Paris-based Landsbanki Kepler analyst Conor O'Shea said in a note to investors. News Outdoor's assets "will be billboard and transit, not street furniture, which is by far Decaux's highest-margin business," he added.

A News Outdoor spokeswoman said the company doesn't make public its profit margins, only revenue.

JCDecaux fell 3.2% to €15.21 ($21.33) in Paris. The company has a market capitalization of about €3.36 billion.

—Ruth Bender contributed to this article.

Morrison leads retail-share drop

BY LILLY VITOROVICH

LONDON—Fresh evidence that British shoppers are cutting back their spending and becoming more cost-savvy sent the U.K. retail sector into the red Thursday amid rising concern the country is on the brink of its first recession since the early 1990s.

Grocery chain **Wm. Morrison Supermarkets** PLC said the local business environment is the toughest it has seen for many years as it posted a drop of 3.1% in fiscal-first-half net profit, hit by higher taxes and costs. Other retailers such as **Home Retail Group** PLC and **John Lewis** PLC also gave gloomy updates.

The FTSE 350 General Retail Index was down 3.5% Thursday, with Morrison shares posting the steepest decline among FTSE 100 stocks. Rival **J Sainsbury** PLC was right behind, with **Kingfisher** PLC in the fourth spot.

Morrison shares closed 6.1% lower at 254 pence ($4.46), while Sainsbury stock fell 5.9% to 345 pence and Kingfisher shares were down 5.4% at 130 pence. The FTSE 100 ended the session down 0.9%.

Consumers have slashed spending on clothing, electrical goods and their homes as the housing market continues to deteriorate.

Morrison managed to post solid sales growth as it lured shoppers to its budget-focused grocery stores amid the economic uncertainty, but the company said it expects the second half to be "highly competitive as disposable incomes come under further pressure."

The U.K.'s fourth biggest supermarket chain by sales after Tesco PLC, Wal-Mart Stores Inc.'s Asda Group Ltd. and Sainsbury said it continues to benefit from its turnaround strategy, under the stewardship of Chief Executive Marc Bolland. The company has revamped its stores and improved its fresh-food range, which has attracted more customers.

Unlike its major rivals, Morrison isn't a big player in the nonfood market—a plus at the moment, as consumers either delay nonessential purchases or search for bargains.

Still, grocers, which are usually seen as fairly resilient during difficult economic times, are being hit by rising inflation and fierce competition, with the exception of a few discounters.

The company said net profit declined to £218 million ($382.5 million) over the 26 weeks ended Aug. 3 from £225 million a year earlier.

Underlying profit before property gains and taxes—the figure U.K. analysts and investors track to gauge the company's performance—rose 19% to £295 million from £249 million. Revenue rose 14% to £7.1 billion from £6.3 billion. Sales from stores open at least a year, excluding fuel, rose 7.6%, well above the industry average. However, some analysts were concerned by Morrison's flat operating margin of 4.4%, hurt by the dilutive impact of fuel sales.

Infosys sharpens its focus on India

BY RUMMAN AHMED AND ROMIT GUHA

BANGALORE, India—**Infosys Technologies** Ltd., one of India's biggest software exporters, said it will bid for three large information-technology projects from state-run companies—a move that illustrates the company's growing focus on the local market.

Infosys—a late entrant to the local IT services market —is aiming to bridge the gap between itself and local leaders such as **Tata Consultancy Services** Ltd. and U.S.-based **International Business Machines** Corp., analysts said.

"In the coming days, a number of IT-service outsourcing deals are slated to come up, including projects for BSNL's billing system, a project by the Ministry of Commerce, and another for Indian Railways.

"We can't afford to ignore these," Binod H.R., senior vice president of Infosys's India business unit, said on the sidelines of a news conference.

Bharat Sanchar Nigam Ltd., or BSNL, is India's biggest phone company. It is owned by the government.

"The IT-services market in India is stable and lots of investments are being rolled out which are multiyear and of a very large size in nature," he added.

Infosys started focusing on India as a market about a year ago. But IBM, TCS and **Wipro** Ltd. have been present for "at least five years," said a Mumbai-based analyst.

Infosys gets about 1.3% of its revenue from India, compared with about 63% from North America.

GLOBAL BUSINESS BRIEFS

BG Group PLC

Shares get boost amid news of Brazil reserve estimates

A day after **BG Group** PLC and **Galp Energia SGPS** SA revealed their reserve estimates on a recent oil discovery in Brazil's Santos Basin, analysts said more findings are likely, but warned of a potential change in the fiscal terms for companies operating offshore in the country. The two companies, together with Brazil's state-owned **Petroleo Brasileiro** SA, said late Wednesday that their discovery in the ultradeep BM-S-11 block of the basin in August is likely to contain three billion to four billion barrels of oil equivalent. The news sent BG up as much as 4.5% before closing at £11 ($19.30), up 4.3%, on the London Stock Exchange. Galp soared as much as 12%, though it closed at €12.10 ($16.97), up 6.5%, on NYSE Euronext Lisbon.

Philips Electronics NV

Philips Electronics NV announced the launch of a new business category targeting the sexual well-being of adult couples. The Relationship Care product line, which will bridge the company's health-care and consumer-products businesses, will go after what Philips refers to as the previously unaddressed market of consumers between 35 and 55 who would use sex devices if they were sold discreetly in high-street stores. The Amsterdam-based company's debut product, a range of massagers, goes on sale in the U.K. for about £90 (about $158) each. Philips estimates the value of the market for Relationship Care in 2008 at about €70 million ($98.1 million) in the U.K. and €280 million for Western Europe.

New York Times Co.

Mexican billionaire Carlos Slim and his family have accumulated a 6.4% stake in **New York Times** Co., making them one of the largest shareholders in the newspaper publisher outside of the controlling Ochs-Sulzberger family, New York Times Co. disclosed in a regulatory filing. Mr. Slim, the world's second-richest man according to Forbes, owned 9.1 million Class A common shares as of Sept. 4. The investment by Mr. Slim comes as the company faces financial pressure. The migration of readers and advertisers from print to the Web has led to steep advertising declines that have accelerated amid the U.S. economic slump. Print-ad revenue for New York Times Co.'s News Media Group declined 14% in the first half. New York Times Co. declined to comment.

Rio Tinto

Rio Tinto said it has raised its holding in Namibia-focused uranium miner **Extract Resources** Ltd., which is trumpeting promising developments at its Rossing South venture. Rio Tinto said in July it wants to double uranium production by 2013 amid surging demand for alternative energy sources, as it defends a takeover proposal from rival diversified mining giant **BHP Billiton**. Extract is in the midst of a potential merger with copper prospector **Kalahari Minerals** PLC, which is listed on London's Alternative Investment Market. Kalahari has the necessary board approvals to buy the 61% of Extract it doesn't already own and list the company on AIM and the Australian Stock Exchange. Rio has bought 10.9% of Extract, while it also owns 14.9% of Kalahari.

Renault SA

Workers at some of **Renault** SA's French plants stopped work on Thursday in protest over the car maker's plans to cut more than 4,000 jobs. A Renault spokeswoman said the stoppages were likely to be for between two and three hours at the affected facilities. About 10% of the employees at Renault's car-assembly plant at Sandouville in western France put down their tools Thursday morning, following calls for stoppages by the labor union Confédération Générale du Travail. Earlier this week, Renault set out its plans to cut 1,000 jobs at the Sandouville plant, which makes the midsized Laguna sedan and the Espace multipurpose vehicle. The company also plans to trim some 3,000 nonproduction jobs through voluntary departures. Stoppages with smaller participation rates were also occurring at the company's plants at Cleon and Flins, the spokeswoman said. Renault was privatized 12 years ago, but the French state retains a 15% stake.

Kumho Asiana Group

South Korean airline conglomerate **Kumho Asiana Group** said it plans to sell its stake in Kumho Life Insurance, either in part or in its entirety. The stake sale could be before an initial public offering, Kumho Asiana Group said. A stake sale in Kumho Life would address the need for funds and would abide by holding company regulations under South Korean law, the statement said. Under the country's fair-trade law, the holding company and its affiliates, such as Kumho Industrial Co. and Asiana Airlines Inc., can't own stakes in an affiliated financial company by next year, according to the statement. Kumho Asiana Group and its affiliates own around a 70% stake in Kumho Life Insurance.

Sun Hung Kai Properties

Sun Hung Kai Properties Ltd. reported a 6% increase in annual underlying profit as lower property sales in Hong Kong offset increases in rental income. Sun Hung Kai, Hong Kong's biggest developer by market capitalization, expects the city's economy to continue growing at a moderate pace despite the anticipated global slowdown. The blue-chip developer's underlying profit—which excludes revaluation gains—rose to 12.19 billion Hong Kong dollars (US$1.56 billion) in the year ended June 30 from HK$11.5 billion previously. Annual net profit was HK$27.6 billion, up 30% from HK$21.23 billion in the previous fiscal year, on bigger gains from the revaluation of its investment properties and sales of shares held for investment. Revenue fell 21% to HK$24.47 billion.

Adecco SA

Billionaire Klaus Jacobs, the former chairman of **Adecco** SA and a major shareholder in the world's biggest staffing company by sales, has died after a battle with cancer, his family's private investment vehicle, **Jacobs Holding** AG, said Thursday. He was 71 years old. Mr. Jacobs, who made his fortune in chocolate and coffee, merged France's Ecco and Switzerland's Adia to form Adecco in 1996, and his family still owns 22.62% of the company. Mr. Jacobs's death may ultimately lead to the family reducing its holding in Adecco, said Landsbanki Kepler analyst Fabian Baumann. The Jacobs family is also majority owner of chocolate maker **Barry Callebaut** AG.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

EUROPEAN UNION

Lawmakers vote to cut biofuels-use target in half


Shutterstock

EUROPEAN Union lawmakers voted to cut in half, to 5%, an ambitious target for using crop-based biofuels for European road transport needs by 2020.

The vote by the European Parliament's industry committee deals a blow to climate-change goals agreed on by EU leaders last year to try to cut carbon-dioxide emissions. Environmental and aid groups had criticized the EU's 10% biofuels-use target, claiming it caused deforestation and harmed efforts to fight global poverty and effectively tackle carbon emissions. The biofuels target is part of an ambitious climate-change package the 27 EU leaders hope to enact by year end. *—Associated Press*

JAPAN

Air-force mission in Iraq may be halted by year end


Reuters

JAPAN SAID it may withdraw its military airlift mission in Iraq by year end in light of security improvements there and a growing focus on Afghanistan.

The move would end Japan's military involvement in Iraq, a noncombat mission that has tested the limits of its pacifist constitution and divided a war-wary public.

Officials said the withdrawal plan was still being negotiated in conjunction with Iraq, the U.S. and the United Nations. Officials cited the improved security situation and the year-end expiration of the Security Council resolution that sets the legal basis for the U.S. troop presence in Iraq. *—Associated Press*

SPAIN

Annual inflation retreats from July's 15-year high


Associated Press

SPANISH annual inflation in August eased back from a 15-year high in July as international oil prices fell, but consumers faced stubbornly high service costs that threaten to prolong Spain's worst economic slowdown in 15 years, fresh data showed.

Spain's National Statistics Institute said August annual inflation stood at 4.9%, down from 5.3% in July. August consumer prices fell 0.2% from July, after a 0.5% fall in July from June.

But Spanish services prices rose 0.6% in August, surprising analysts who expected firms to cut prices due to rapidly shrinking demand and record low consumer confidence. *—Roundup*

Pope to face tough crowd in France

Benedict will yoke reason and religion before secular nation

BY STACY MEICHTRY
AND DAVID GAUTHIER-VILLARS
Paris

SINCE HIS ELECTION three years ago, Pope Benedict XVI has devoted considerable time and intellectual effort arguing that religious faith and reason can coexist in modern society.

This week he will take that argument to France, one of Europe's most deeply secular states, which long ago segregated religion from public life.

The strict division between church and state in France began in the French Revolution with a bloody purge of Roman Catholic clergy from the political establishment and reached its pinnacle in 1905 with the expropriation of church property by the state.

To this day, the Vatican accuses France of cutting the pulpit out of public discourse. Vatican officials denounced France's 2004 decision to ban religious symbols, such as Christian crucifixes and Muslim head scarves, from schools and other public spaces. Unlike in Italy and Spain, the Catholic Church, its charities and schools aren't eligible for public funding in France, nor do they receive generous tax breaks, as in the U.S.


Associated Press

Pope Benedict XVI, seen here at the Vatican with French President Nicolas Sarkozy in December, begins a weeklong visit to France Friday.

French secularism "assumes that religion has no real social dimension, that it must remain private and doesn't have the right to publicly express itself," Bishop Fortunato Baldelli, the Vatican's ambassador for France, says.

During his visit, which begins Friday, Pope Benedict will try to bridge that 200-year-old chasm, seeking common ground between the corridors of the Vatican and the cafes of Paris. The pontiff, a former professor and theologian, is scheduled to go before members of France's highest academic institutions on Friday evening, when he will argue that history has wrongly labeled the Roman Catholic Church as a foe of scientific and rational inquiry, according to Vatican officials.

The speech will thus pick up on a recurrent theme of Benedict's papacy: that rational thought, whether scientific or theological, stems from belief in absolute truth. The pope has long argued that the rise of institutionalized secularism in Europe has left the continent in the grip of a "dictatorship of relativism." Pope Benedict's coming of age in Nazi Germany forged his belief that dangerous ideologies spread if left unchecked by moral absolutes. Europe, the pontiff says, is denying not only its Christian past but also the basic principle of right and wrong.

It is an approach that has missed the mark in the past. Deadly riots broke out across the Muslim world in 2006 after the pontiff delivered a scholarly address in Germany implying that Islam was less rational than Christianity—and thus more prone to violence.

The Vatican accuses France of cutting the pulpit out of public discourse.

The staunchly secular French intelligentsia will likely prove a tough crowd. Even among the Catholic faithful in the streets, the pontiff faces the risk of a muted reaction. Because many French see religion as a private matter, Church officials question whether the pontiff will draw the kinds of crowds seen during other papal visits, including his recent one to the U.S.

In a 2007 Pew Global Attitudes survey, only 17% of French Catholics said faith is required for morality; just 13% pray at least once a day; and just 12% consider religion very important to their lives. In the U.S., those numbers come in at 53%, 50% and 48%, while in Germany they are 53%, 38%, and 36%.

In May, the Archdiocese of Paris held focus group research with nonpracticing Catholics, quizzing them for a "fresh perspective" on what makes the pontiff appealing, according to Marie Baudoin, the Archdiocese spokeswoman. Results showed more interest in the pope-mobile, the pontiff's bubble-backed bulletproof ride, than in the pontiff himself.

Catholic officials took the results to heart, redesigning posters promoting the pontiff's visit to list the precise dates and times when Pope Benedict can be seen cruising in the popemobile. Billboards were changed to show Notre Dame Cathedral in the dark, rather than during the day, in the hope of attracting younger crowds to a planned candlelight vigil with the pontiff.

Still, there are some signs that France's political winds are shifting in the pontiff's favor. Initially the trip was expected to take Pope Benedict only to the shrine of Lourdes, a major pilgrimage site for Catholics world-wide. The travel itinerary was expanded after French President Nicolas Sarkozy traveled to the Vatican in late December and personally invited the pontiff to Paris.

During that visit, Mr. Sarkozy delivered a speech in a Roman basilica advocating a tighter relationship between God and state. French secularism, he said, should not lead France to turn its back on its Christian roots. "It is in the interest of the Republic that there are a lot of men and women who believe," said Mr. Sarkozy.

To Vatican officials and Church leaders in France, Mr. Sarkozy's words marked a turning of the tide. "Just because the state is secular doesn't mean it can't recognize religion has a positive role to play and say thank you," says Cardinal Philippe Barbarin, archbishop of Lyon.

—Max Colchester contributed to this article.

Corporate News

On the bubble

PepsiCo's chief leads snack and beverage giant through big tests > **Page 4**

Small fire erupts on Chunnel train; six people injured

A WSJ NEWS ROUNDUP

PARIS—A fire broke out Thursday on a train shuttling trucks under the English Channel between England and France, injuring six people and suspending traffic in the undersea tunnel, officials said.

Firefighters quickly extinguished the blaze after it broke out about 11 kilometers from the French side, said a spokesman for **Groupe Eurotunnel** SA, the company that operates the tunnel.

The shuttle train was carrying 32 people when the fire broke out in the afternoon, the spokesman said. Most were truck drivers accompanying their vehicles, and all were evacuated safely, he said.

The fire erupted on a single truck carried by the train, and traffic in the 50-kilometer tunnel will remain suspended until Friday, France's rail operator SNCF said. The French Interior Ministry said the fire started on a vehicle carrying phenol, a toxic, flammable product used in various industries.

Eurostar said its services had been canceled for the rest of Thursday. The regional administration office in Calais, which is overseeing the response to the fire, said six people were injured. The company made its first full-year net profit in 2007, after nearly drowning in debt. In July, it posted a first-half net profit due to higher traffic, as bad weather hurt the ferries that are its main competition.

French Interior Minister Michele Alliot-Marie was travelling to the scene, her office said.

Fires have broken out in the past on the undersea tunnel, which opened for commercial traffic in 1994, but they are rare. In August 2006, the tunnel was closed for several hours after a fire broke out on a truck loaded on a freight train. No one was hurt.

A larger fire broke out aboard a train carrying heavy-goods vehicles through the tunnel on Nov. 18, 1996. No one was killed, but several people were injured and a large stretch of the tunnel was damaged. The fire led to new safety precautions for trains using the tunnel.

ECONOMY & POLITICS

Rising exports help U.S.

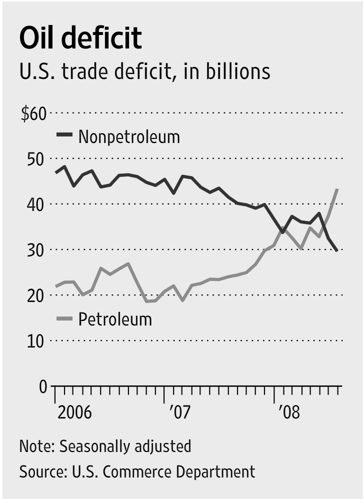
July uptick in trade bolsters GDP growth as economy struggles

BY KELLY EVANS

U.S. exports surged in July and will continue to add a much-needed boost to the nation's economic growth, even though record-high oil prices pushed the July trade deficit to its highest point in a year.

The Commerce Department reported Thursday the July trade deficit jumped to a seasonally adjusted $62.2 billion from $58.8 billion in June, hitting the highest level since March 2007. The increase was largely due to July's spike in oil prices, which pushed the value of imported crude oil up by $6.2 billion, to $39.87 billion, from June. The trade deficit had declined in May and June.

Oil prices have since fallen by about a third, suggesting the trade deficit will lessen over the course of the year. Separate data on import prices, also released Thursday, show the price of imported petroleum is already down significantly, falling 12.8% in August from the July highs.



U.S. exports, meanwhile, grew by a strong $5.4 billion in July, according to the trade report, prompting economists to boost their estimates for third-quarter economic growth. "This report indicates that the export sector is—at least for now—still an important support for the U.S. economy," said J.P. Morgan economist Abiel Reinhart.

An improving trade balance provided 3.1% of the 3.3% annualized growth in second-quarter gross domestic product, a crucial offset for the slowing U.S. economy. Increased trade could add a full percentage point to third-quarter growth, perhaps keeping it in positive territory despite an expected slump in consumer spending. But a slowing global economy and strengthening U.S. dollar could begin to slow export growth by late this year.

Separately, import prices overall dropped by 3.7% in August, and prices dropped on a range of goods beyond energy, suggesting imports may play an important role in easing prices overall. The recent strengthening of the weak U.S. dollar, which has fueled inflation by making imported goods more expensive, should help restrain import price inflation in the months ahead.

Even so, the U.S. economy overall continues to struggle. New unemployment claims last week fell by a seasonally adjusted 6,000 to 445,000, while the four-week average inched up to 440,000, the Labor Department reported. Total unemployment claims for the week ending Aug. 30 rose to 3.5 million, the highest level since 2003. The weakness suggests the unemployment rate, currently 6.1%, could rise further, dimming the outlook for the U.S. economy this year.

Singapore motion targets Journal

HONG KONG—Singapore's attorney general applied to the country's court for contempt proceedings against the company that publishes The Wall Street Journal's Asian edition and two senior editors.

The application relates to two editorials and a letter to the editor that ran in The Wall Street Journal Asia in June and July that the attorney general says "impugned the impartiality, integrity and independence of the Singapore Judiciary."

The first of the editorials, titled "Democracy in Singapore," concerned comments made in a Singapore court as damages were being assessed against Chee Soon Juan, head of the Singapore Democratic Party, and his sister and colleague, Chee Siok Chin. In 2006, the two lost a defamation suit brought by Singapore's Minister Mentor Lee Kuan Yew and his son, Prime Minister Lee Hsien Loong, over an article the Chees published in their party newsletter that was interpreted by the court to imply corruption on the part of the government.

The application to the court also refers to a letter to the editor written by Mr. Chee and a Journal editorial that cites a report by the International Bar Association's Human Rights Institute on "human rights, democracy and the rule of law" in Singapore.

"We are aware of the statement issued by the Singapore Attorney General's office regarding the application for contempt proceedings against The Wall Street Journal Asia," a Dow Jones spokesman said. "While we are reserving comment on the application until we receive official notification, we do not believe the articles were contemptuous of the Singapore courts."

The Wall Street Journal Asia is owned by Dow Jones & Co., a subsidiary of **News Corp.** Another Dow Jones publication, The Far Eastern Economic Review, which is banned in Singapore, is defending defamation charges in Singapore brought by the elder Mr. Lee and his son, the prime minister, in relation to an article concerning Mr. Chee.

Singapore's political leaders have previously won damages against several foreign news publications for defamation.

If the application is successful, a hearing date will be set and the respondents will have the opportunity to make their arguments in open court, the attorney general's office said on its Web site.

U.S. oil-agency review finds sex, drugs

BY STEPHEN POWER

WASHINGTON—Employees of the U.S. agency that last year collected more than $11 billion in royalties from oil and gas companies broke government rules and created a "culture of ethical failure" by allegedly accepting gifts from and having sex with industry representatives, the Interior Department's watchdog said.

A report by the Interior Department's inspector general, Earl Devaney, described a party atmosphere at the Denver office of the Minerals Management Service, a bureau of the department. Some employees of the office, which houses the department's royalty-in-kind program, "frequently consumed alcohol at industry functions, had used cocaine and marijuana, and had sexual relations with oil and gas company representatives," the report said, adding that "sexual relationships with prohibited sources cannot, by definition, be arms-length."

The report also said that between 2002 and 2006, 19 employees in the agency's royalty-in-kind program, roughly one-third of the program's total staff, had "socialized with and had received a wide array of gifts from oil and gas companies with whom the employees were conducting official business."

Mr. Devaney's blistering assessment spotlights the agency as Congress and the U.S. presidential candidates weigh proposals to expand offshore drilling. "We discovered a culture of substance abuse and promiscuity," his report said Wednesday.

The MMS oversees the nation's natural-gas, oil and other mineral resources on the outer continental shelf, and its duties include drawing up leases for drilling in offshore waters. In some years, it is the second-largest source of revenue for the U.S. Treasury, behind only the Internal Revenue Service.

Under the royalty-in-kind program, the government receives oil or natural gas instead of cash for payments of royalties from companies that lease federal property for oil and gas development. The government then sells the product into the marketplace and returns the proceeds to the Treasury. Interior Department officials say the program results in higher revenue collections and lower administrative costs.

The report said most industry representatives who were interviewed by the inspector general's office admitted buying meals, drinks and entertainment for government employees but denied they were made in exchange for preferential treatment.

Wednesday, MMS director Randall Luthi said he didn't see any evidence that American taxpayers had been hurt financially by the alleged misconduct.

Corbis

The Treasury's designation of **Islamic Republic of Iran Shipping Lines** as a 'proliferator' blocks its ability to do business in the U.S.

U.S. accuses Iran shipper of aiding nuclear efforts

BY LOUISE RADNOFSKY AND CHIP CUMMINS

The U.S. Treasury Department accused Iran's national maritime carrier of helping the country's nuclear and missile programs, a formal move designed to pressure Iran amid stalled talks over its nuclear work.

The Treasury, in designating the carrier as a "proliferator," said the **Islamic Republic of Iran Shipping Lines** and 18 of its affiliated entities were secretly "providing logistical services" to Iran's military, falsifying shipping documents and using deceptive terms to describe shipments in order to hide their activities from foreign maritime officials.

The designation, which typically is designed to stop companies on the list from doing business in the U.S., further blocks the carrier's ability to move money through U.S. banks as well as blocking it from carrying food and medical supplies not included in Washington's longstanding trade sanctions against Iran.

Mostly the move appears to be designed to encourage other countries to further limit their dealings with Iran, which is dependent on imported refined-petroleum products such as gasoline.

Islamic Republic of Iran Shipping Lines was targeted not for its size but because it was "the shipper of choice for Iran's missile entity," said Adam Szubin, director of the Treasury Department's Office of Foreign Assets Control.

But, he added, the designation had been adopted "not just to try to disrupt and pressure their proliferation network, but to raise the cost for the Iranian regime of their continued defiance of international resolutions" on the country's nuclear program.

On Thursday, Iran rejected U.S. accusations that Islamic Republic of Iran Shipping Lines was involved in Tehran's alleged nuclear-weapons program, the official news agency IRNA reported.

"This U.S. claim is like other allegations that independent countries are being accused of, without providing any evidence," the company said.

Iran is one of the biggest importers of gasoline after the U.S. because it lacks domestic refining capabilities. Iran buys about 40% of its gasoline from European, Indian and Venezuelan companies. Last year it had to ration sales amid financial and supply pressures, triggering unrest.

The U.S. accuses Iran's military of advancing aggressive nuclear and missile programs. Washington suspects Iran is attempting to develop weapons through its uranium-enrichment program, while Tehran says it has peaceful intentions and is trying to generate nuclear energy for civilian use. Stuart Levey, Treasury undersecretary for terrorism and financial intelligence, said Islamic Republic of Iran Shipping Lines had engaged in "a broader pattern of deception and fabrication" on behalf of these programs.

Earlier this year, the United Nations Security Council agreed to scrutinize the carrier for its alleged support of Tehran's nuclear industry. During the summer, the U.S. stepped up its threats to target Iran's imports amid slow progress in the nuclear talks, which have stalled despite high-level overtures from the State Department.

This is the first time Treasury has designated a shipping company as a proliferator, the department said.

The company says it has a fleet of 91 ships, most of them bulk carriers designed to transport dry cargo such as grain, coal and iron ore. Oil shipments from Iran, one of the world's biggest exporters, aren't likely to be affected. The company says it has just two tankers, and they are used to transport vegetable oil and similar products.

The move could complicate Islamic Republic of Iran Shipping Lines's dealings with other countries. Its ships call frequently at nearby Dubai, part of the United Arab Emirates, according to the Iranian carrier's Web site. The company also says it makes regular trips to big ports in Hong Kong, Singapore, the U.K., Germany and France.

Phone calls to the company's headquarters in Tehran and calls and emails to its British affiliate, made after working hours Wednesday following the U.S. Treasury designation, weren't answered. The Iranian mission at the U.N. in New York didn't return calls.

In addition to causing difficulties for Iran's ability to import vital products, the new sanctions could further complicate the already-difficult task of executing import and export transactions for Iranian government-owned companies and private enterprises.

Similar unilateral sanctions by Washington on several Iranian banks were initially dismissed by Iranian officials when they were announced last year. But they have since caused considerable headaches for businesses, including making it time-consuming to raise funds overseas, arrange project financing and make or receive payments from international counterparts.