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Antwerp's fashion rebels get serious about business

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French activists take aim at outdoor advertising

CORPORATE NEWS | PAGE 4

U.S. lawmakers reach deal on financial bailout

Congress to break $700 billion package into installments

BY DAMIAN PALETTA, MICHAEL R. CRITTENDEN AND PATRICK YOEST

WASHINGTON—Top House and Senate Democratic and Republican lawmakers reached a tentative agreement on a $700 billion plan to bail out U.S. financial markets, with some predicting the measure would pass both chambers of Congress.

After a three-hour meeting, lawmakers agreed to legislative principles that would approve Treasury's request for the funds but would break it into installments, according to people familiar with the matter. Treasury would have access to $250 billion immediately, with an additional $100 billion to follow if needed. Congress would be able to block the last installment through a vote if it was unhappy with the program.

The agreement could require all companies participating in the program to agree to limits on executive pay—such as restrictions on "golden parachutes." It is also likely to give the government equity warrants in all participating companies.

Still unresolved is whether to include changes to bankruptcy law that would give judges the right to change the terms of mortgages. Democratic Sen. Dick Durbin of Illinois made a plea for it to be included, even though many lawmakers and the White House are strongly opposed.

Lawmakers and their staffs were hammering out precise language to take to a meeting with Treasury Secretary Henry Paulson late Thursday afternoon. Elements of the congressional plan will likely be opposed by Mr. Paulson. Treasury doesn't want pay to be broadly applied to all com-

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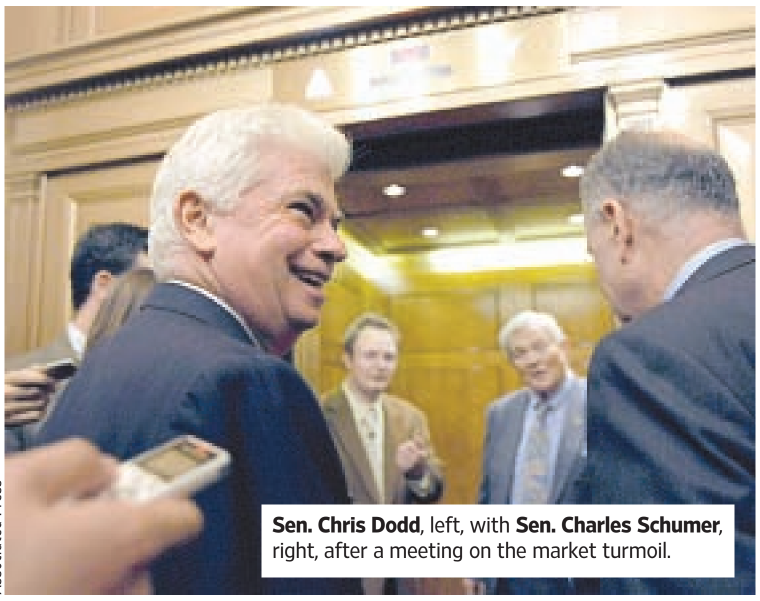
Looking to the future



Sen. Chris Dodd, left, with **Sen. Charles Schumer**, right, after a meeting on the market turmoil.

Associated Press

What's News—

Business & Finance

U.S. lawmakers agreed on a tentative deal to offer the Treasury $700 billion to buy troubled assets from financial institutions. The congressional proposal calls for the funds to be released in installments, starting with $250 billion. Page 1

■ **Europe's auto makers** had a setback as an EU panel backed a tougher view on greenhouse-gas emissions. Page 1

■ **Hedge funds are tallying** their exposure to Lehman and are letting investors know how much they could lose. Page 2

■ **The U.S. released** a triple dose of bad economic data, as demand for durable goods and new homes plunged, while jobless claims surged. Page 3

■ **Italy renewed** Alitalia's operating license after the country's largest union said it supports investors' rescue plan. Page 8

■ **EADS delayed** the first flight of the Airbus A400M military airlifter indefinitely. Page 5

■ **Arcandor's shares plunged** amid uncertainty about a new refinancing deal. Page 4

■ **GE lowered** its earnings forecast, trimmed borrowing plans, and froze its dividend. Page 5

■ **Norway's Norsk Hydro will** team with mining company Vale to build a $2.2 billion alumina refinery in Brazil. Page 5

■ **Investors are storming** into the safest investment around—short-term Treasury bills—and it is hurting supply. Page 17

■ **Bradford & Bingley** looms as the next U.K. troubled bank, as regulators have failed in their search for a buyer. Page 17

■ **U.S. shares soared** as the bailout plan for the financial sector appeared to be near approval. European shares also advanced, with insurers leading the way. Page 18

■ **Lloyd's posted a 48% drop** in first-half pretax profit and warned that full-year earnings would also decline. Page 21

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11022.06	+196.89	+1.82
Nasdaq	2186.57	+30.89	+1.43
DJ Stoxx 600	271.01	+5.35	+2.01
FTSE 100	5197.02	101.45	+1.99
DAX	6173.03	+120.16	+1.99
CAC 40	4226.81	+112.27	+2.73
Euro	$1.4667	unch.	...
Nymex crude	$108.02	+2.29	+2.17

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World-Wide

Sen. Obama reiterated his call for the debate between him and Sen. McCain to proceed as planned Friday. "The American people deserve to hear directly from myself and Sen. McCain about how we intend to lead our country." Sen. McCain had said he would suspend campaigning to help tackle the bailout proposal and sought to postpone the debate. Page 1

■ **Recent remarks** by European leaders amount to a nascent campaign inside the Group of Seven nations to pressure the U.S. into global banking reforms. Page 2

■ **Sarkozy promised** to reshape France's economy. He said he would ban golden parachutes to make capitalism more moral and called for a new international monetary system.

■ **Putin called** for an open border with South Ossetia, Interfax news agency reported, quoting him as saying: "Today it will be sufficient if we assist in ... economic reconstruction and actually remove the border between Russia and that republic."

■ **Warning shots were fired** at NATO helicopters at the Pakistan-Afghan border, Pakistan's army said, which also prompted an exchange of gunfire between U.S. and Pakistani ground troops, a U.S. military official said.

■ **Karzai told the U.N.** the international community should strengthen Afghanistan's army and police to better fight terror.

■ **The Security Council agreed** to a high-level, open debate Friday over Israeli settlement-building in disputed territory.

■ **The EU banned** imports of baby food containing Chinese milk and more Asian countries withdrew suspect products.

■ **China launched** its third manned mission, which is to include the country's first spacewalk. Shenzhou 7 blasted off with President Hu watching.

■ **South Africa's Parliament** elected former freedom fighter Kgalema Motlanthe as president after Mbeki resigned. Page 9

■ **A poor election showing** Sunday in the German state of Bavaria for Merkel's sister party could signal trouble in next year's national election. Page 10

EDITORIAL & OPINION

Treasury trove

Why "Paulson's folly" might pay off big-time for American taxpayers. Page 13

EU panel picks tougher stance on car pollution

In a setback for Europe's auto makers, an important committee of the European Union Parliament on Thursday backed a tougher approach to cap greenhouse gas emissions from new cars.

The decision was a surprise reversal of the industry's efforts to water down how and when coming EU

By **Leila Abboud** *in Paris and* **Edward Taylor** *in Frankfurt*

emission caps go into effect. The full panel's vote came two days after news broke that a compromise more favorable to industry had been reached.

Earlier in the week, key leaders of the European Parliament's main conservative and socialist parties worked out a compromise that would have delayed implementation of the caps and lowered the financial penalties for non-compliance. Together the parties control a majority of Parliament's Environment Committee, and the leaders expected rank-and-file members of the committee to approve the deal

Please turn to back page

Campaign brinksmanship moves into higher gear

BY LAURA MECKLER, ELIZABETH HOLMES AND CHRISTOPHER COOPER

Sen. Barack Obama on Thursday reiterated that his debate with Republican rival Sen. John McCain should proceed as planned Friday.

Speaking by satellite at an event staged by Bill Clinton's philanthropic Clinton Global Initiative, the Democratic presidential candidate said, "Our election is in 40 days, our economy is in crisis and our nation is fighting two wars abroad. The American people deserve to hear directly from myself and Sen. McCain about how we intend to lead our country."

Barack Obama

Sen. McCain said on Wednesday that he would suspend campaigning to help tackle a $700 billion bailout proposal and called on Sen. Obama to postpone their Friday debate. By the end of Wednesday, the two men had agreed to issue a joint statement calling for bipartisan cooperation for swift action, and both agreed to come to the White House Thursday for a summit meeting with President George W. Bush and congressional leaders to try to achieve that goal. In recent days, the candidates have converged in their positions on the bailout, pushing for similar provisions, such as limits on executive pay at firms that take the help.

The latest twists in the neck-and-neck campaign landed in the middle of a week when troubles on Wall Street and Washington's reaction came to dominate the contest, leaving both Sens. McCain and Obama scrambling to figure out how best to respond.

Sen. McCain said at the Clinton event that "the whole nation was in danger" and that he would carry to Washington five improvements to the Treasury Department's rescue plan: greater accountability from a bipartisan board with oversight; a path for taxpayer recovery of funds; complete transparency in the review of the legislation, with all details made available online; no earmarks to be included in the bill; and curbs on Wall Street executives' ability to

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THE WALL STREET JOURNAL.

LEADING THE NEWS

Crisis deals U.S. a blow

German finance czar says nation will fade as economic leader

BY ANDREA THOMAS

BERLIN—The Wall Street financial crisis will reconfigure the world economy and the U.S. will fade as the world's dominant economic force, German Finance Minister Peer Steinbrück said in German parliament Thursday.

"The U.S. will lose its status as the superpower of the global financial system, not abruptly but it will erode," Mr. Steinbrück said. "The global financial system will become more multipolar."

His remarks were the latest European critique of the crumbling Wall Street financial model and the U.S. government, which is trying to rush through a $700 billion bailout plan for the U.S. banking sector. French President Nicolas Sarkozy and German Chancellor Angela Merkel have called for a more international approach to financial market regulation. Taken together, the remarks amount to a fledgling campaign inside the Group of Seven rich countries to pressure the U.S. into global banking reforms, setting the stage for next month's meetings of the G-7 and International Monetary Fund in Washington.

Mr. Steinbrück met in Berlin later Thursday with French Finance Minister Christine Lagarde. They agreed to set up a working group on short-selling securities, a practice that has been temporarily curtailed in the U.S. and the U.K.

Mr. Steinbrück said the G-7—currently consisting of the U.S., Japan, Canada, Germany, France, Italy and the U.K.—will in the future have to invite other players when talking about important financial and economic problems. China isn't currently a member of the G-7.

Mr. Steinbrück said that the U.S. didn't sufficiently regulate investment banks and criticized Anglo-American free-market policy as an "insane drive for higher and higher profits," adding that yields of 25% can't be generated in the long term.

"Investment bankers and politicians in New York, Washington or London didn't want to do without," Mr. Steinbrück said. "Wall Street will never be what it was."

Mr. Steinbrück later tempered his remarks about the future role of the U.S. The dollar won't lose its status as the world's benchmark currency, he said. But over the next 10 years, the U.S. currency will be supplemented by the yen, the euro and the Chinese yuan as the key currencies.

Associated Press

German Finance Minister Peer Steinbrück, speaking in parliament Thursday, said the Wall Street financial crisis will erode the U.S.'s status as a financial power.

Hedge funds tally up their Lehman exposure

BY CASSELL BRYAN-LOW

Scores of hedge funds are trying to decipher how exposed they are to **Lehman Brothers Holdings** Inc. and are letting investors know how much they potentially stand to lose, which for some funds represents hundreds of millions of dollars.

Some of the hedge-fund world's best-known names, including **D.E. Shaw** & Co, **Och-Ziff Capital Management** and **GLG Partners** LP have at least some exposure to Lehman.

Problems facing hedge funds include retrieving assets held with Lehman's prime-brokerage units, which provide trading and lending services, as well as unsettled trades and unwinding credit-default swaps.

The situation is rapidly changing as some parts of Lehman ease back into gear. Some trades are getting settled. Managers express more confidence about retrieving assets held with Lehman's U.S. prime broker than assets held in Lehman's London unit, which some think could take many months to get back. Lehman's U.S. operations reached an agreement to be sold to **Barclays** PLC before its London operations agreed to be sold to Japan's **Nomura Holdings** Inc.

London-based **CQS** LLP, for instance, has told investors that it believes its exposure to Lehman in its flagship fund, which has just over $4 billion in assets, is 0.5% or less.

Determining exposure is even more challenging for investors such as pension funds, institutions and fund-of-funds companies that hold baskets of dozens or more of individual hedge funds. **Man Group** PLC, one of the largest hedge-fund groups with about $79.5 billion in assets, has investments in hundreds of third-party individual hedge funds. Any of these could be exposed to Lehman. Man, in a statement Wednesday, said "it does not expect that there will be any material impact for the funds or the Group" from counterparty exposure to Lehman.

Before Lehman filed for bankruptcy, many hedge funds pulled at least some assets out of its prime brokerage because of concern about the bank's financial troubles.

But even as late as Sept. 12, days before Lehman filed for bankruptcy-court protection, many hedge funds didn't think the bank would actually fail. As well, some clients stuck with Lehman to demonstrate their support. Peter Cohen, founder of **Ramius Capital**, told CNBC on Sept. 11 that the New York hedge-fund firm was keeping Lehman as one of its prime brokers. Managers of the firm's main fund, with about $4 billion in assets, have told clients that it had about 15% of its prime-brokerage assets tied up in Lehman entities, or about $220 million.

Now, some hedge funds are pursuing legal action to reclaim assets. In the U.K., London-based **RAB Capital** PLC has sued the administrators of Lehman Brothers International (Europe) in the U.K. High Court in an effort to recoup $50 million, which was the bulk of the assets belonging to one of its smaller funds. Overall, the roughly $4.7 billion hedge-fund firm believes about 1% of its assets are tied up with Lehman, according to a person familiar with the matter.

Lehman's London insolvency administrator, **PricewaterhouseCoopers** LLP, said in a statement Sept. 21 that it is working to return money and assets to clients of Lehman's European business but that it was a time-consuming process. In an added sting for customers, it said Lehman had the right to use many of the assets held with the London prime-brokerage unit "and as a result the client may cease to have any proprietary interest in them."

—Jenny Strasburg contributed to this article.

CORRECTIONS & AMPLIFICATIONS

The CBS Television Network is a unit of **CBS** Corp. A Corporate News page article Thursday about Olympic television rights incorrectly said the network's parent is **Viacom** Inc. Viacom and CBS were split off from each other on Dec. 31, 2005.

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

Interest in White House transition process

Administration talks with both sides to get new officials in place

By Stephen Power

WASHINGTON—The Bush administration's proposed bailout plan for financial firms is ratcheting up interest in how quickly the next U.S. administration will be able to move new leaders into the federal agencies dealing with the crisis.

The question is particularly urgent in the case of the Treasury Department. The rescue plan proposed by the administration would give the department responsibility for buying from financial firms as much as $700 billion of the souring mortgages and mortgage securities that are at the heart of the financial crisis. Although the Treasury Department would in turn hire asset managers to buy and dispose of assets, political responsibility for overseeing those contractors would lie with a new Treasury secretary, assuming the plan is approved by Congress.

Earlier this week, the deputy director of the White House Office of Management and Budget, Clay Johnson, who is leading the Bush administration's efforts to prepare the next administration to take office, testified before a House panel that the administration has designated transition coordinators at all federal agencies and that administration officials have met with representatives of both major-party candidates to encourage them to begin planning for an effective transition.

"If we've learned anything from the past two weeks, it's that the financial crisis transforms itself at warp speed," Donald F. Kettl, a professor of political science at the University of Pennsylvania who also testified at the hearing, said in an interview. "We will need top officials, in place and with decision-making authority, ready to respond instantly."

Neither U.S. presidential candidate is saying much about who they would pick to lead Treasury or fill critical jobs at the department. In an interview with CNBC on Sunday, Democratic candidate Sen. Barack Obama said he would want the current Treasury secretary, Henry Paulson, and other officials to be "deeply involved in the transition process." He sidestepped a question about whether he would ask Mr. Paulson to stay past inauguration day.

A spokesman for Republican nominee Sen. John McCain said "we're not going to comment on potential appointments, other than to say Sen. McCain recognizes the importance of the issue." Asked whether Mr. Paulson would consider staying in his post past Jan. 20 if asked, a spokeswoman for the Treasury secretary, Brookly McLaughlin, referred back to Mr. Paulson's statement in August that he looks forward to "doing other things...next year."

Associated Press

Treasury Secretary Henry Paulson **testifying before the Senate Banking Committee** on Tuesday in Washington.

Ms. McLaughlin added that Mr. Paulson has encouraged his senior aides to work with the transition to ensure a smooth handoff.

The agency's transition team will be managed by Jim Wilkinson, Mr. Paulson's chief of staff; Peter McCarthy, the assistant Treasury secretary for management; and Ken Carfine, a senior official in the department's office of domestic finance and a 35-year Treasury Department veteran.

Governance experts say planning an effective transition in advance of Election Day is more important than ever, both because of the number of jobs that require Senate confirmation—more than 1,100—and the amount of time it takes to get nominees confirmed.

Norman Ornstein, a congressional expert at the American Enterprise Institute, a conservative Washington think tank, says the Senate takes between nine and 10 months on average to confirm appointees to top positions at government agencies, compared with about two months during the Kennedy administration in the early 1960s.

"I don't care who the president is... that's insane," Mr. Ornstein says. But drawing up transition plans carries political risks for candidates. After word leaked in July that Sen. Obama had begun transition planning, Republicans attacked him as presumptuous.

If recent history is any guide, whoever succeeds Mr. Paulson may have to rely heavily on the agency's career staff, at least initially. In 2001—when Mr. Bush began his first term—the Senate took nearly five months to confirm his nominees for deputy Treasury secretary and undersecretary for domestic finance, and nearly three months to confirm his nominee for Treasury's general-counsel post. A major reason for those delays was the decision by then-Sen. Jesse Helms (R., N.C.) to block a vote on their candidacies, to protest Customs Service textile-trade rules that he said would hurt his state.

"If past is prologue, the next president is going to have their secretary of the Treasury and the rest of the cabinet in place on inauguration day, but otherwise the cabinet secretaries will be home alone—they won't have their critical leadership teams in place and won't be as effective as they need to be," said Max Stier of the Center for Public Service, a Washington nonprofit.

Even if the Senate takes its time confirming nominees, the new president's appointees will be able to work at their agencies in an advisory mode.

U.S. housing, orders data indicate broad weakness

By Kelly Evans

Even before the latest blows to the U.S. financial system, sales of new homes and orders for big-ticket items were slowing sharply, underscoring the precarious nature of the nation's economy.

The troubling data provide "fresh evidence the economy is in recession," said Bernard Baumohl, managing director of the Princeton, N.J.-based Economic Outlook Group.

Sales of new homes dropped by a seasonally adjusted 11.5% in August from the month before, the Commerce Department said Thursday, and the backlog of unsold homes rose to a bloated 10.9-months' supply at the current sales pace.

New-home sales are often volatile month to month and have been hit hard by overbuilding in past years; that has led to a glut of unsold homes. Sales of existing homes, by comparison, which make up 85% of the overall market, slowed last month to a lesser degree.

The data show that the housing market was weakening even before the latest flare-up in credit markets—which will likely depress activity further as potential buyers face more difficulty getting loans.

"Given the freezing up of the credit market, we do anticipate that the September and October data will be frightening," said Joseph Brusuelas, chief economist at Merk Investments in Palo Alto, Calif.

Meanwhile, a sharp decline in orders for big-ticket items last month shows a slowdown in business and consumer spending—two key drivers of economic growth—is already under way.

New orders for durable goods—items like cars, furniture and appliances intended to last three years or more—fell 4.5% in August to $208.5 billion after posting gains in the three prior months.

The drop in orders suggests buying activity from retailers and consumers is already slowing. And the manufacturing sector's ability to rely on strong foreign demand and export growth to offset the slowing U.S. economy may be short-lived as the U.K., the euro zone and Japan all join the U.S. in flirting with recession.

Meanwhile, labor-market conditions continue to deteriorate. New unemployment claims rose to a seasonally adjusted level of 493,000 last week, the Labor Department said, from a revised 461,000 the week before.

The rise was due to new claims in regions impacted by Hurricanes Gustav and Ike, the government said, but the underlying pace of unemployment claims remains at levels seen during past recessions. The four-week average rose by 16,000 to 462,500. The total number of new and continuing claims for the week ended Sept. 13 rose to 3.5 million, around one million more than was seen at this time last year.

Job losses are expected to intensify over the next several months as the shakeout from layoffs in finance and related industries spreads and businesses remain under pressure.

CORPORATE NEWS

TIRES

Goodyear credit-line draw will total $600 million


Associated Press

GOODYEAR **Tire & Rubber** Co. will draw $600 million from its credit lines because of an inability to access some U.S. cash investments, more than half of which are held in a troubled money-market fund.

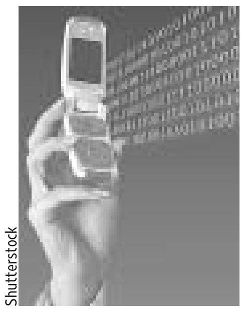
The company also said finalization of a trust to handle current and future retirees' health benefits is at hand, allowing Goodyear to remove $1.2 billion in liabilities from its balance sheet.

Goodyear said it will use the $600 million to support seasonal needs and enhance cash liquidity. The amount covers $360 million locked in the Reserve Primary Fund.

—John Kell

TELECOMMUNICATIONS

More Europeans abandon landlines for cellphones


Shutterstock

A GROWING number of Europeans don't bother to buy landline phone service for their homes, relying instead on their mobile phones, the European Commission said.

About a quarter of European Union households have only a mobile phone, the EU's executive arm said. One reason is that monthly line rental for fixed phones costs more on average than a prepaid mobile-phone package, it said.

Cellphones, which first outnumbered human beings in Europe in 2006, did that by an even greater margin in 2007: nearly 112 phones for every 100 people, the commission said.

—Associated Press

COMPUTERS

Microsoft to trim price of Xbox 360 next month


Associated Press

MICROSOFT Corp. will cut the price of its low-end Xbox 360 model in four markets in Asia on Oct. 1 to boost sales for the videogame console ahead of the holiday season.

The move is the latest in a series of price cuts announced by the U.S. technology giant to broaden its market base and keep the pressure up on Japanese rivals Nintendo Co., maker of the Wii console, and Sony Corp., maker of PlayStation 3. The size of the price cut for the entry-level Xbox 360 Arcade model, which doesn't come with a hard drive, varies among the four markets: Hong Kong, Singapore, South Korea and Taiwan.

—Se Young Lee

France's billboards get a coating of protest

Outdoor-ad firms fight a culture war; 'heroes one day'?

BY MAX COLCHESTER
Paris


Sipa/Newscom

Members of the anti-ad group **Les Deboulonneurs** deface ads and hope to encourage the French government to ban large billboards.

ON FRIDAY, Alex Baret plans to board a train to central Paris, pull out a can of spray paint and deface a billboard, as he has done every last Friday of the month for more than two years. The slogan he prefers to leave scrawled on his targets: *Harcèlement Publicitaire*, or Harassment by Advertising.

The 34-year-old musician, who lives in the city's suburbs, hopes such acts of vandalism will encourage the French government to ban large billboards, which he says "force messages onto unsuspecting passersby and ruin the landscape." Just a handful of protesters join Mr. Baret in his monthly graffiti blitzes, but scores of sympathizers typically gather to watch. And he has rallied several French philosophers and intellectuals to his cause.

ADVERTISING

His campaign is part of France's love-hate relationship with advertising. Though much of the French public doesn't like outdoor ads—58%, according to a 2007 poll—France is also home to some of the biggest advertising firms in the world, including **Publicis** and **JCDecaux**.

Hostility toward advertising is deeply rooted in France's history, says Publicis Chief Executive Maurice Levy. "We have a culture" that doesn't "like commerce....This goes back to the Middle Ages," he says. Ads are a "scapegoat" for people looking to reject certain forms of capitalism, he adds.

Because of their prominence, billboards are obvious targets for French anticapitalist sentiment, says Philippe Legendre, the acting director of the Institute of Research and Advertising Studies in France.

But distaste for outdoor ads isn't uniquely French; small groups of protesters are active in other countries, too. In Belgium, Ad Hiders obscures billboards by covering them with plastic sheets. In New York, the Anti-Advertising Agency, which has about 20 members, frequently paints over outdoor poster ads with black paint, focusing on ads hung illegally around city construction sites. It also works to replace outdoor ads with art.

The protests come at a time when outdoor advertising has already lost some of its luster with marketers. Though €1.1 billion ($1.6 billion), or 10% of France's annual ad revenues, come from outdoor ads, their number has declined by 50% over the past 20 years. The business also is suffering from France's decision last year to allow retailers to advertise on national television.

Protesters have damaged the image of outdoor advertising, says Etienne Reignoux, head of marketing at Clear Channel France, a unit of U.S. outdoor-advertising firm **Clear Channel Outdoor Holdings.** "I can't argue with them, except that if [billboards] allow companies to finance services, such as bus stops, this is giving something back," he said.

The protests, he adds, are too small to hurt outdoor-ad companies' bottom lines.

Mr. Baret says the seeds for his protest were sewn in the spring of 1997, when he was riding the Paris subway and he looked up at an ad. "I suddenly thought: 'I am in a prison,' " he says. "I saw the slogan, the lies, and it disgusted me."

Eight years later, Mr. Baret, who plays the double bass, helped form Les Deboulonneurs—"the debunkers"—a group with 100 to 300 active members that lobbies to limit individual ads to roughly 70 centimeters high by 50 centimeters wide. French billboards tend to be smaller and less well-lit than their U.S. counterparts. But each municipality can decide limits on ad size.

Bernard Stiegler, director of the department of cultural development at Paris's Centre Pompidou, recently offered to defend Mr. Baret as a witness in a case the state brought against him for destruction of private property. Mr. Stiegler says Mr. Baret's group is "responsible" and is holding advertisers to account for their excesses. "They are protecting the ad industry from itself," he says. "They will be heroes one day."

In 2003, hundreds of demonstrators fanned out in towns across France and defaced thousands of ads. Companies including Publicis unit Métrobus filed lawsuits against 62 people. Mr. Baret was one of those charged, and was ordered to pay €2,500 in compensation. But he says Les Deboulonneurs "don't care" if they get arrested, and even warns the police of his actions beforehand. Some protest groups, however, stick to legal activities.

The industry is remaining stoic. "There is no point rolling around on the floor crying," says Stephané Dottelonde, president of the French Union for Outdoor Advertising. "You have to respect that these groups exist."

—Suzanne Vranica in New York contributed to this article.

Arcandor shares hit all-time low

BY KIRSTEN BIENK
AND HILDE ARENDS

HAMBURG—Shares in German retail and tourism company **Arcandor** AG on Thursday plunged to an all-time low amid uncertainty about a new refinancing deal and worries it might be forced to sell assets at knockdown prices.

Arcandor shares closed down 30% at €2.50 ($3.66). The stock has fallen about 36% in the past four weeks.

The company's announcements in the past few days have confused investors. On Wednesday morning, Arcandor said it reached a refinancing agreement with its banking consortium and added it wouldn't sell a 52% stake in tourism unit **Thomas Cook Group** PLC.

Wednesday evening, the company's executive board issued a statement saying "that in connection with the currently agreed financing structure, it is still reviewing its holding structure, including the possibility of raising funds by reducing the level of ownership in Karstadt Warenhaus GmbH and Thomas Cook." The Karstadt department-store unit is fully owned by Arcandor. Thomas Cook closed down 4% in London.

Analyst Hans-Peter Kuhlmann of Landesbank Baden-Württemberg said the company's holdings might be sold below their long-term value because of the current financial market turmoil. He said the company's announcement late Wednesday shows its executive board may have more concessions during the negotiations than previously disclosed, and that the retailer's financial situation looks worse than admitted so far. Mr. Kuhlmann said he would welcome a reduction of the company's stake in Karstadt as it would reduce the company's risk potential. But finding a buyer won't be easy, he added.

Thilo Kleibauer of M.M. Warburg said the company's inconsistent messages on the issue bring into question the reliability of the company's announcements on its strategy so far.

German financial watchdog Bafin said Thursday that it is looking into Arcandor share-price movements as part of a routine procedure. A spokeswoman said Bafin is looking into trading activities and the company's disclosure.

An Arcandor spokesman declined to comment.

DAILY SHARE PRICE
Arcandor
On the Frankfurt Stock Exchange
Thursday's close: **€2.50, down 30%**
52-week change: down 89%

Source: Thomson Reuters Datastream

A400M flight is shelved

EADS says problems with engines require an indefinite delay

A WSJ News Roundup

European Aeronautic Defence & Space Co. said the first flight of the Airbus A400M military airlifter, which had been planned before the end of the year, has been delayed indefinitely. The company said the delay was due to the "unavailability of the propulsion system."

Makers of the turboprop engine that will power Airbus's A400M said the problems with the propulsion system are with the control software and not the engine itself.

In a statement, French engine maker **Safran** SA said EuroProp International, or EPI, the four-company consortium that is building the engines, has delivered eight engines for the first two test aircraft to Airbus Military, the Airbus division developing the airlifter.

Safran's partners in EPI are **Rolls Royce** PLC of the U.K., Safran's Snecma Moteurs, **MTU Aero Engines Holding** AG of Germany and **Industria de Turbo Propulsores** SA of Spain. In a statement that Safran said was designed to clarify the situation, the EPI partners said "the control software for the engines, also covering control of the propeller and the nacelle, which are the responsibility of Airbus Military, are currently in the final phase of compliance with civil aviation standards."

Associated Press

The flight of the **Airbus A400M military airlifter** has been delayed indefinitely because the engine's propulsion system isn't available.

"However, prior to the first flight of the A400M, this software will integrate adjustments following the completion of engine test flights on a C-130. These tests, which are under the responsibility of Airbus Military, have not yet started."

EPI delivered the test engine in late 2007 and received flight-readiness approval for the engine and associated software on the C-130 aircraft in April, the statement said.

Separately, Japan's **All Nippon Airways** Co. said it agreed with **Boeing** Co. that the first 787 jetliner will be delivered next August, more than a year behind schedule. ANA, scheduled to be the first customer for the 787, had initially expected the first delivery in May of this year. The 787 program has been hampered by supply-chain glitches.

GE cuts forecast, freezes dividend

By Paul Glader And Bob Sechler

General Electric Co. lowered its earnings forecast for the second time in six months, trimmed its borrowing plans, froze its dividend and suspended its stock-buyback program as the financial crisis hit its bottom line.

The Fairfield, Conn., conglomerate said it expects third-quarter earnings of 43 cents to 48 cents a share, down from its July forecast of 50 cents to 54 cents a share. GE lowered its forecast for the full year, to $1.95 to $2.10 per share, from an already reduced $2.20 to $2.30 a share. That translates into as much as $2 billion less profit for the year. It marked the first time since 2002 that the company lowered financial projections ahead of its quarterly earnings release.

GE said the earnings shortfall was almost exclusively at the financial unit. It said it expects third-quarter earnings from its industrial operations to rise 10% to 15%.

"We've never seen really a time of volatility like we have seen in the last month or so," said Chief Executive Jeffrey Immelt. The company also issued a projection that difficult conditions in the financial-services markets "are not likely to improve in the near future."

In response, GE said it was taking a series of steps to rein in and ultimately shrink its big finance unit, GE Capital, which last year accounted for roughly 45% of profits. GE said it would curb borrowing at the unit for the rest of the year and aim for the unit to provide 40% of earnings by the end of next year.

GE shares rose $1.51, or 6.1%, to $26.10 on the New York Stock Exchange Thursday, suggesting investors had expected bad news and feared even worse. The company's shares also benefited from the broader rally spurred by expectations that the U.S. Congress will approve a financial-bailout measure.

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GE is considered a bellwether for the broader economy. Although the profit warning was generally considered as bad news, some investors apparently found relief in the minimal impact in the industrial businesses.

"Many folks are saying we are going into a slower environment, not only in this country but worldwide," said Peter Klein, a portfolio manager at Fifth Third Asset Management Inc. "GE does have a lot of exposure internationally. I think you have to be very conservative in your outlook for 2009."

The downturn in GE's financial business appears to have several causes: consumers who are slower to pay their bills, businesses that may have trouble repaying loans, and declines in the commercial-real-estate market.

Chief Financial Officer Keith Sherin said GE may have trouble completing some real-estate sales in the third quarter. The company plans to reduce its commercial-real-estate holdings to "below $80 billion in 2009," from about $90 billion today.

"It's performing well," he said. "But the size is something investors have expressed concerns about."

Consumer delinquencies, which primarily affect GE's credit-card business, are "running into levels of some of the worst economic periods that we have seen," Mr. Sherin said. He said GE won't be able to sell its $30 billion U.S. private-label credit-card business in the near future, as it had planned.

To preserve capital at its financial business, GE said it would reduce the share of profits that the unit hands over to the parent company. GE also said it was suspending its $15 billion stock-buyback program and would freeze its dividend at 31 cents a quarter through the end of 2009. If the payment isn't increased next year, that would end a 32-year streak of annual increases.

Mr. Immelt said GE was taking steps that "investors expect from a triple-A rated company." GE is one of only six industrial companies whose bonds are rated triple-A by major ratings firms.

GE also said it would curb long-term and short-term borrowing at the finance unit, suspending plans to sell $10 billion in long-term debt in the fourth quarter and reducing sales of short-term commercial paper to less than 15% of the unit's debt.

"We're taking the steps we need to maintain a safe profile," Mr. Sherin said.

Northwest's unions face tough reception at Delta

By Susan Carey

As shareholders of **Delta Air Lines** Inc. and **Northwest Airlines** Corp. on Thursday separately approved a merger that would create the world's biggest airline, some worried union leaders at Northwest were gearing up for a battle over the labor groups' very survival at the "new Delta."

Culture clash is an issue after any merger, but Atlanta-based Delta and Northwest of Eagan, Minn., have a particularly wide gap to bridge if antitrust regulators allow the combination to proceed. Delta is the only major U.S. carrier that is predominantly nonunion, while the vast majority of Northwest's workers have been union members for generations.

Falling oil prices, prospects that the industry may return to profitability in 2009 and the financial strengths of the new airline will only make the unions' sales pitch more difficult. Nonunion workers tend to be more receptive to collective bargaining when times are tough.

Delta's only big unionized group is its pilots. Other employees have chosen to remain unrepresented despite various union organizing drives over the years. "The employees at Delta have always had a choice," says Mike Campbell, Delta's executive vice president of human resources and labor.

Northwest has a history of rancorous labor relations and has withstood two major strikes in the past decade. Its pilots and Delta's, both members of the same union, already have approved a common labor contract and agreed to put seniority integration disputes to a mediator if they can't reach agreement on their own. Seniority determines who gets the best jobs and schedules and the highest pay.

But now, at least two other Northwest unions are concerned that their members could lose their contractual protections—and their clout in negotiating seniority integration—if they don't succeed after the merger in getting their more-numerous Delta counterparts to vote for unionization.

Failure would also be a lost opportunity to grow. Unions have been losing members and dues income to layoffs, bankruptcies and liquidations.

If Northwest workers don't succeed, their unions will be decertified as bargaining agents for the Northwest groups even though the employees have labor contracts that don't open for renewal for two years. Federal rules that govern labor relations in the airline industry "do not contemplate having a minority group represented in perpetuity by a union," says Delta's Mr. Campbell.

In any case, he adds, seniority integration will be "fair and equitable," as the law requires, with employees on both sides—unionized or not—able to form committees to negotiate for their respective interests.

The International Association of Machinists union has been trying to organize an estimated 22,000 Delta ground workers since 2006. Federal rules require a showing of interest of at least 35% of the combined work group to trigger an election. While Delta has more workers than Northwest, Northwest's union group easily meets that threshold.

The more difficult challenge, under the same federal rules, is that 50% plus one of the eligible voters must cast ballots. Failing to vote in essence is a no vote. The union has a campaign under way at Northwest to warn its members that they all need to vote when the time comes, and persuade their Delta colleagues to do the same.

The Association of Flight Attendants, which represents 7,600 Northwest attendants, will have to take on 13,400 nonunion Delta attendants in a third representation election, if the smaller group can illustrate a showing of interest from 35% of the combined work group.

Norsk Hydro, Brazil's Vale to build alumina refinery

By Elizabeth Cowley

OSLO—**Norsk Hydro** ASA is teaming up with Cia. **Vale do Rio Doce** to build a $2.2 billion alumina refinery in northern Brazil.

The long-awaited deal comes amid rising world-wide demand for lightweight recyclable metals such as aluminum, especially from China. Alumina is a white powder made from bauxite that is critical to aluminum production.

The refinery, located near Belem in Brazil's Para state, will initially produce 1.86 million metric tons of alumina a year, with space to expand to as much as 7.4 million tons a year. It is scheduled to start up in 2011.

Norsk Hydro, based in Norway, will hold a 20% stake in the plant during the first phase of construction and has the option to buy the same share of future expansions. The deal builds on a memorandum of understanding signed between the companies in July 2007.

Norsk Hydro estimates that global aluminum demand will rise 5% to 6% a year for the next 10 years, with China accounting for two-thirds of the demand.

"To secure raw material for our aluminum production is a key element in Hydro's growth strategy," Chief Executive Eivind Reiten said. "A stake in a major alumina refinery in this resource-rich area is a strategically important step."

DnB NOR analyst Gudmund Isfeldt said the deal answers some of the market's questions relating to Norsk Hydro's upstream activities. It gives a "better picture of the company," he added.

Brazil-based Vale will deliver bauxite for the project from its mines in Paragominas, in Para state, through capacity in the existing bauxite slurry pipeline, which partially supplies Alunorte, about five kilometers from the planned refinery. Alunorte, the world's largest alumina refinery, producing 6.3 million tons of alumina a year, is 57%-owned by Vale and 34%-owned by Norsk Hydro.

Construction of the refinery is expected to start in October, subject to the approval of the companies' boards.

FOCUS ON AUTOMOBILES

Honda eyes Indian sales

Auto maker focuses on emerging markets amid slowdown fears

By John Murphy

NEW DELHI—**Honda Motor** Co. President Takeo Fukui on Thursday unveiled a new version of the City, Honda's best-selling compact sedan in India, aiming to boost sales in this key emerging market as concern grows of a global slowdown in the auto industry.

Reuters

Honda CEO **Takeo Fukui**, left, with Honda's latest City model Thursday in New Delhi. The City is Honda's best-selling compact sedan in India.

With sales in the U.S., the world's largest market, falling to their lowest levels in years, auto makers have looked to hot markets like India and China to help pick up the slack.

But now these other auto markets are also showing signs of weakness. In India, auto sales fell in August from a year earlier, marking the second monthly fall in a row. August sales in China also fell from a year earlier, marking the first decline in auto sales there in two years.

"Even in India, they are not immune to the cyclical nature of the economy," says Tatsuo Yoshida, an analyst for UBS Securities in Tokyo. "Investors have been very nervous about near-term prospects of the Indian automobile market."

The Honda president said he thinks India's slowdown is temporary. "It's sure to bounce back in the next few months," Mr. Fukui said.

Meant to draw buyers back into dealer showrooms during the coming festival months in India, Honda's new City model is part of a wave of vehicle launches by car makers into the country's increasingly crowded auto market.

In 2007, the current City model was Honda's biggest seller, accounting for 37,000 of its total sales of 60,000 vehicles. In the first eight months of this year, sales of the current City were up 12% from a year earlier. The Japanese auto maker is expecting the new model to help lift Honda's India sales above those of last year. Honda's goal for 2008 is to sell 80,000 vehicles in India, though it may not reach that because of the slowdown.

Mr. Fukui, who describes the City as "roomy," said it is Honda's "most significant model" in the Indian market. Though it would be considered a compact, entry-level vehicle in developed markets, the City is viewed as a premium vehicle by business executives here. The new model will cost about 800,000 rupees, or close to $17,500, making it Honda's least expensive vehicle in the Indian market but still beyond the reach of most car buyers.

Although Honda dominates the motorcycle market in India, the Japanese company doesn't offer any models in India's small-auto segment, which makes up the vast majority of car sales.

The new City was also launched this month in Thailand, one of 39 countries where the model has been sold since the first-generation City was launched in 1996.

U.S. Congress lays out loan package to Detroit

By Matthew Dolan

The U.S. Congress appears set to pass a $25 billion loan package to help companies meet new U.S. fuel-efficiency standards, but Detroit's Big Three auto makers will still face significant hurdles before they can put the funding to use.

On Wednesday, the House of Representatives voted 370 to 58 to approve a broad spending bill that includes $7.5 billion to start the loan program. The Senate is expected to pass the budget bill this week, and President George W. Bush is expected to sign it.

Once the legislation passes, the Department of Energy would have two months to promulgate its own regulations, governing how and when auto makers and suppliers can apply for the loans and what criteria the government will use to approve those loans.

The basic rules as currently written, however, appear to restrict considerably the kinds of projects the auto makers could use the money for. The guidelines were set down in last year's energy bill that authorized the $25 billion in loans, and that bill states the money can only be used to overhaul plants that are at least 20 years old and will be upgraded to make vehicles that offer about a 25% improvement in fuel economy over similar models in their class.

Auto makers want the rules loosened to allow more leeway on how they can use the money. "We have to have the rules written in a broad enough fashion so that we can get to energy independence," **Chrysler** LLC Chief Executive Robert Nardelli told reporters at a new conference Tuesday. Loosening the rules would allow auto makers to "invest more and invest more sooner" he said. Mr. Nardelli suggested that Chrysler may have to cut jobs if it doesn't get access to loans from the government. "We'll have to make some tough decisions," he said.

Auto-industry experts expect the money could be used for a broad array of efforts to build more-fuel-efficient vehicles—from smaller car designs from Europe to be built in the U.S. to the research and development for new hybrid-electric models.

David Cole, president of the Center of Automotive Research in Ann Arbor, Mich., said the legislation was designed to benefit U.S.-based auto makers over their rivals.

"At this point, anything the Detroit three can get in terms of loan guarantees is going to be a critical factor in what keeps them alive," Mr. Cole said.

The march toward a loan package received enough support that top House and Senate lawmakers Wednesday also broached the subject of increasing the package by another $25 billion over the next three years. "We just wanted you to know there's more that needs to be done," said House Energy and Commerce Committee Chairman John Dingell, a Michigan Democrat, adding that lawmakers would begin working on the second $25 billion "at the earliest possible moment."

The money would be in addition to $25 billion in loans approved by House of Representatives Wednesday afternoon. That measure is expected to pass the Senate and receive President George W. Bush's signature into law.

Ford Motor Co. spokesman Mike Moran said it was still too early to talk about the next loan package but added that "we're encouraged by what we're hearing and hopefully its passage today will assist us in bringing more fuel-efficient vehicles to market."

Greg Martin, a **General Motors** Corp. spokesman in Washington, said the auto maker expects it will likely have access to the funds sometime in the first half of 2009.

—Fawn Johnson contributed to this article.

Japanese auto output falls amid slowing world demand

By Yoshio Takahashi

TOKYO—**Toyota Motor** Corp. posted the biggest drop in its domestic production in more than a decade in August amid increasingly gloomy prospects for global economies, as its domestic sales remained sluggish and exports slumped.

Toyota, Japan's biggest car maker by sales volume, said it produced 261,256 vehicles in August in Japan, down 16% from a year earlier, the sharpest fall since May 1998 when it logged a 20% drop.

Its domestic sales stumbled 19% in August as the overall Japanese auto market remains stagnant, while its exports fell 7.5% to 182,598 vehicles as exports to North America, Europe and Oceania declined.

The steep fall in domestic output is the latest setback for the car maker, underscoring that even Toyota, which grabbed the top spot in global sales in the first half of this year, is being forced to struggle with the current tough business climate.

The Japanese auto giant recently slashed its global sales projections for this year and 2009 as costly gasoline prices and credit risk stemming from the subprime crisis reduced consumer appetite for purchasing vehicles.

The lower output in Japan also coincides with the suspension of part of its production in the U.S. to adjust its pace to the dropping sales of large vehicles amid high prices at the pump. Toyota started temporarily halting production of the Tundra pickup truck and Sequoia sport-utility vehicle beginning in August.

Toyota expects its output volume at home to remain slack throughout the year. It projects its domestic output will decline 3% to 4.1 million vehicles in 2008, despite a rise of 2% in the first eight months of this year.

Its rivals also logged lower domestic production in August. **Honda Motor** Co., Japan's second-biggest car maker, said its domestic output dropped 11% from a year earlier as exports to the U.S. skidded 47.3%. Domestic production at **Nissan Motor** Co., Japan's third-biggest car maker, fell 4.3% on year as its domestic sales slumped 15%.

Lawsuit says Medtronic gave doctors perks

U.S. senator probes whether relationship led to product use

BY DAVID ARMSTRONG

A lawsuit brought by a former **Medtronic** Inc. lawyer alleges the big medical-device maker gave surgeons a variety of incentives to use its products, including regular entertainment at a Memphis strip club, trips to Alaska and patent royalties on inventions they played no part in.

The previously undisclosed allegations involve Medtronic's spinal-devices unit, which has $3 billion in annual revenue. The unit's business relationships with doctors who use its spinal-repair implants are being investigated by Sen. Charles Grassley and have been the focus of lawsuits by other former employees.

Sen. Grassley has been looking into whether inducements for doctors, like those alleged in the lawyer's suit, have led to what surgeons say is widespread off-label use of Medtronic spine products.

The Food and Drug Administration has approved Medtronic's spinal devices to treat certain conditions, and doctors are free to use FDA-approved products as they see fit. But the FDA has warned that surgeons' use of a Medtronic bone graft in ways the agency hasn't approved has led to potentially life-threatening side effects in dozens of patients.

The former Medtronic lawyer's allegations are contained in a 2002 suit filed in U.S. District Court in Memphis against Minneapolis-based Medtronic and 10 doctors. The lawsuit and other filings in the case remain sealed, except for a heavily redacted copy of the complaint, which contains none of the doctors' names nor specifics of the allegations.

Medtronic has refused repeated requests from the Senate Finance Committee's staff for an unredacted version. Sen. Grassley, an Iowa Republican, is the panel's ranking minority member.

Even the identity of the plaintiff has been withheld. But, according to an unredacted copy of the lawsuit reviewed by The Wall Street Journal, she is Ami P. Kelley, a former senior legal counsel for the spine unit.

Medtronic declined to comment on the lawsuit's allegations. It said it has changed many business practices since the suit was filed, and is "committed to reform and transparency in the industry."

Ms. Kelley's lawsuit says kickbacks were "pervasive" and "the culture and way of doing business" at Medtronic. Sales staff, she said, "routinely took physicians" visiting the spine unit's Memphis headquarters to the Platinum Plus strip club, and picked up the tab for the dancers' services during "VIP visits." In 2007, Platinum Plus's owner pleaded guilty to charges related to dancers engaging in acts of prostitution, and the club has closed.

Ms. Kelley's lawsuit sought to recoup damages for the federal government, which prohibits companies from giving doctors inducements to use products covered by Medicare or Medicaid.

Her lawsuit and a separate one that also accused the spine unit of paying illegal kickbacks to doctors were the basis for a $40 million settlement deal between Medtronic and the government in 2006, according to the settlement document.

As part of its deal with the company, the government successfully moved to have the federal court dismiss the two lawsuits. But the other plaintiff, Jacqueline Kay Poteet, who formerly managed travel services for the Medtronic unit, has appealed the dismissal of her suit, arguing the settlement was too small. Under federal law, whistleblowers who recover money for the government can receive a share of that money.

Ms. Poteet's appeal puts the settlement deal at risk. Either Medtronic or the government could pull out of the settlement if the appeals court reverses the dismissal order.

It isn't clear what would happen to the Kelley lawsuit if the settlement agreement were voided. Neither the government, Ms. Kelley's attorneys nor Medtronic would comment on the matter.

Nor is it clear why the lawsuit remains under seal. Typically, such suits are unsealed when the government either declines to get involved in the matter or agrees to a settlement of the case.

Ms. Kelley, who now works at another company, alleges she was dismissed by Medtronic after challenging improper payments. She didn't return phone calls.

The Kelley lawsuit names several top spinal surgeons among the 10 doctor defendants and lists several others as receiving inducements. No finding of wrongdoing has been made against any of the doctors, and Medtronic denies that it engaged in any improper behavior.

The suit says surgeon Jeffrey Wang, now director of the University of California at Los Angeles's Comprehensive Spine Center, "liked to be taken" to Platinum Plus and emailed Medtronic sales official Brad Hancock saying he was "looking forward to going" to the club with him.

A UCLA spokeswoman said Dr. Wang, who isn't named as a defendant in the suit, "denies ever being entertained by Medtronic at the Platinum club" and doesn't recall sending any such email. If he did send it, she said, "it would have been done so in jest."

Attempts to contact Mr. Hancock, who is no longer at Medtronic, were unsuccessful.

Ms. Kelley's suit said Medtronic had consulting agreements with more than 100 surgeons that were "nothing more than a vehicle to pay the surgeons" to use Medtronic devices, instead of rivals' products. She alleged that the company paid patent royalties to doctors who didn't contribute novel ideas to products, created Web sites for them to market their practices, hired business consultants that helped doctors boost profits. She also said Medtronic offered twice-a-year seminars in Orlando and Las Vegas where doctors and hospital administrators received free management advice, and supplied physicians with office staff.

CORPORATE NEWS

Holiday forecast is bleak

Neiman Marcus says rich are cutting back; retailer's loss widens

BY RACHEL DODES

Upscale retailer **Neiman Marcus** Inc. offered a bleak outlook for the holidays and said its quarterly loss more than doubled from a year earlier, signaling a further downturn in the U.S. luxury-goods market.

Neiman, which posted a $35.7 million loss for its fiscal quarter ended Aug. 2, warned that the American luxury market is likely to be hit hard by the recent financial crisis as wealthy and upper-middle-class consumers change their attitudes toward spending.

James Skinner, Neiman's chief financial officer, said that news of the financial turmoil is ubiquitous and that is negatively affecting the mood of consumers, who otherwise can still afford expensive clothes, shoes and jewelry. "The best customers never lose the ability to spend," Mr. Skinner added. But "there's an emotional impact" because of the coverage.

Carol Brodie, a branding adviser from Fairfield, Conn., said she splurges every fall on high-end coats and shoes. But this year, though she is doing well financially, she didn't shop. "I don't feel comfortable going all out," she said.

In a conference call, Neiman Marcus Group Chief Executive Burt Tansky said that "we anticipate that the months ahead will be difficult," including the crucial holiday season. He noted that many of the company's customers are heavily invested in the stock market.

Najlah Feanny for The Wall Street Journal

A **Neiman Marcus** at New Jersey's Garden State Plaza Mall on Wednesday

Neiman's results came after analysts last week began reducing their full-year earnings forecasts for **Saks** Inc., which generates more than 20% of its annual sales at its flagship store in New York. Shares of Saks hit a 52-week low Wednesday. "Obviously, it's a very difficult time in the U.S.," said Saks CEO Steve Sadove Wednesday at a fashion-industry event in Milan.

As recently as the summer, some key categories of the U.S. luxury market were showing surprising resilience, including high-end jewelry, Swiss watches and products from such European brands as Hermès and Louis Vuitton.

But many luxury retailers saw sales start to weaken as the summer wore on. **Nordstrom** Inc., for example, cut its outlook for the second half in mid-August. Saks reported a 5.9% decline in August same-store sales and a $32 million loss for its fiscal quarter ended Aug. 2. **Tiffany** & Co., which sells everything from $200 silver pendants to $1 million-plus diamond rings, said same-store sales in the U.S. declined 4% in the quarter ended July 31.

Then came last week's meltdown on Wall Street, which industry executives say could dry up any lingering demand in the U.S.

At fashion shows in Milan this week, many European luxury-goods executives didn't hide their concern that affluent consumers will quit buying designer clothes, handbags and shoes. Francois Henri Pinault, chief executive of **PPR** SA, which owns Gucci, Bottega Veneta and Balenciaga, said he doesn't expect the U.S. market to recover until mid-2009.

—Christina Binkley and Christina Passariello contributed to this article.

Alitalia rescue wins union support

BY STACY MEICHTRY AND LUCA DI LEO

MILAN—Italy's civil-aviation authority has extended the operating license of **Alitalia** SpA after the country's largest union threw its support behind investors trying to rescue the struggling state-controlled airline.

The CGIL union joined three other large unions Thursday in backing a plan by **Cia. Aerea Italiana**, or CAI, to buy the profitable parts of Alitalia and merge them with smaller rival **Air One** SpA. CAI is a new company created by a group of Italian investors.

The decision by CGIL, Italy's largest union, is the latest chapter in a see-saw struggle over the fate of Alitalia. Numerous government-imposed deadlines have come and gone while Alitalia continues to burn through its depleted cash reserves.

A week ago CGIL, which represents Alitalia ground crews, rejected the rescue plan, prompting CAI to withdraw its offer to privatize the airline. Without a rescue plan in place, Italy's civil-aviation authority ENAC threatened to ground the carrier in accordance with European Union rules.

CGIL's reversal buys more time for all sides. With the union's renewed backing, CAI has reinstated its offer until Oct. 15, meaning ENAC won't ground the airline immediately.

A key stumbling block remains Alitalia's militant pilots union, which opposed CAI's demands to place all staff under a single contract that could cut pilot pay and benefits. Pilots, who have routinely shut down the airline by staging independent strikes, would also have a harder time striking under a contract that links them to Alitalia's other employees.

Italian government officials Thursday expressed confidence that the pilots would also come on board. Industry Minister Claudio Scajola said he expected to finalize an agreement between all unions and CAI within 20 days. It was unclear if Alitalia has the funds to last that long. The company had €30 million to €50 million ($44 million to $73 million) in cash as of mid-September and burns through €2 million every day it operates.

CAI's investors include Italian entrepreneur Roberto Colaninno, the Benetton family and **Intesa Sanpaolo** SpA, one of Italy's largest banks. The company plans to spend €1 billion to buy Alitalia's viable assets, including airport slots and newer planes.

Oracle making a move into hardware

BY BEN WORTHEN

Oracle Corp., one of the best-known names in computer software, is entering the hardware business.

The Redwood Shores, Calif., company disclosed plans to sell a computer bundled with Oracle software, a combination designed to help businesses sort through data faster. The system, which Oracle describes as an appliance, will be made for the company by **Hewlett-Packard** Co. and come with Oracle's database software installed.

Databases are a kind of filing cabinet for corporate information, and serve as a foundation for building more specialized business software. The new Oracle device is particularly tailored for a chore known as data mining, in which companies sift through a compilation of their information to find patterns that can help them make decisions. The larger the repository—known as a data warehouse—the longer it takes to answer queries posed by users.

Oracle, which has never sold hardware before, faces competition from appliance-like systems from **Teradata** Corp., **Netezza** Corp. and **Greenplum** Inc., among others.

But competitors, including Greenplum President Scott Yara, say Oracle will have to prove itself in the new field.

GLOBAL BUSINESS BRIEFS

Nike Inc.

Quarterly profit falls 10% despite overseas strength

Nike Inc.'s first-quarter profit fell 10% despite strong overseas growth, as the company struggled against higher costs and the lack of a year-ago tax benefit. The world's largest sportswear company by sales said net in the period ended Aug. 31 fell to $510.5 million, or $1.03 a share, from $569.7 million, or $1.12, a year earlier, damped by the costs of promotions timed to the Olympics and the lack of a tax benefit of $105.4 million from the year-ago quarter. Sales rose 17% to $5.43 billion from $4.66 billion last year, boosted largely by growth in its core brand. Sales for the company's trademark swoosh brand increased 18% to $4.8 billion. Sales at Nike's subsidiaries, which include Converse, Cole Haan and Hurley, rose 7%to $655.3 million from $612.8 million last year. Sales in the Asian-Pacific region climbed 36% to $860.6 million.

Swedbank AB

Swedbank AB said its deposit inflows and outflows are normal and more customers are opening accounts than closing them. The announcement by the Swedish bank came after business daily Dagens Industri reported that an increasing number of customers had withdrawn money in the past few days. Swedbank's share-price volatility and higher borrowing costs relative to Nordic peers have raised doubts about its liquidity position, prompting speculation it might need fresh capital. Its $1.35 billion exposure to the U.S. commercial-property market through a subsidiary of **Lehman Brothers Holdings** Inc. also came as a surprise for the market last week. The Swedish central bank and the Financial Supervisory Authority have maintained that the financial stability and strength of Sweden's top banks are satisfactory.

Air France-KLM SA

Franco-Dutch airline **Air France-KLM** SA confirmed Thursday that its board agreed to Jean-Cyril Spinetta's request to step down as chief executive of the company as well as its Air France unit. Mr. Spinetta, who has headed both companies for the past 11 years and turns 65 years old next month, is to be succeeded in the posts by Pierre-Henri Gourgeon, who is now deputy CEO of Air France-KLM and chief operating officer of Air France. Mr. Spinetta will remain chairman of both Air France and Air France-KLM.

Telecom Italia SpA

Several sovereign-wealth funds, from the Middle East and Russia, have expressed interest in investing in **Telecom Italia** SpA, people familiar with the situation said Thursday. Any potential investment could give a much-needed boost to the former state monopoly, which has €37 billion, or $54.09 billion, in debt and faces falling margins at home and abroad owing to stiffening competition and regulatory pressures. The people also confirmed an expression of interest in Telecom Italia came from Libyan sovereign fund Libyan Investment Fund, or LIA, adding the phone group will be willing to consider LIA's interest "at the right price." Telecom Italia said Thursday it has informed its board it received recent expressions of interest to invest in the group's capital, but added no concrete proposal has been made.

Finmeccanica SpA

Italian aerospace and defense group **Finmeccanica** SpA said shareholders of U.S. defense company **DRS Technologies** approved Finmeccanica's offer to buy it. The move was widely expected. Earlier this month, Finmeccanica approved a capital increase of up to €1.4 billion ($2.05 billion) to finance part of its acquisition of DRS Technologies for $81 a share. Finmeccanica has said that the acquisition will provide cost benefits not only from sharing research and development costs but also from streamlining operations and central costs. The company has also said that Finmeccanica's U.S. presence is important, for even a "small increase in the pie of U.S. defense spending" will translate into revenue and profitability increases for the company.

Cathay Pacific Airways Ltd.

Hong Kong's Civil Aviation Department approved applications by **Cathay Pacific Airways** Ltd. and five other airlines to reduce their fuel surcharges 10% to 15% beginning Oct. 1 as crude-oil prices have declined. Airlines that fly to the city will continue to be allowed to collect fuel surcharges until the end of November. The CAD, which reviews fuel surcharge applications for airlines flying into Hong Kong every two months, said that apart from Cathay Pacific, it also approved the requests to extend the charges from **All Nippon Airways** Co. and **Jetstar Asia Airways**. Cathay Pacific will cut long-haul surcharges 10% to HK$832 a sector. Other airlines will likely make similar applications before the end of the month.

McCormick & Co.

McCormick & Co. posted a 21% increase in fiscal-third-quarter net income as the company increased prices and benefited from recent acquisitions. President and Chief Executive Alan Wilson said the higher prices helped mute the impact of reduced sales to restaurants in the U.S. and Europe. For the quarter ended Aug. 31, the spice maker reported net income of $68.6 million, or 52 cents a share, up from $56.8 million, or 43 cents a share, a year earlier. Revenue improved 9.1% to $781.6 million. Sales in McCormick's consumer business rose 14%, partially because of acquisitions, while industrial sales increased 3%. The company raised its fiscal-2008 per-share earnings guidance by a penny to a range of $2.04 to $2.08.

Shimao Property Holdings Ltd.

Chinese real-estate developer **Shimao Property Holdings** Ltd. said Thursday that its first-half net profit fell 56% on lower property sales. Chairman Hui Wing-mau, who is one of China's richest men, said the company has cut its contracted property-sales target this year 20%, as he expects China's real-estate market to remain weak in the second half. Shanghai-based Shimao said net fell to 919.1 million yuan ($134.7 million) from 2.08 billion yuan a year earlier. Revenue fell 24% to 1.84 billion yuan. Revenue from property sales fell 42% to 1.4 billion yuan. "The global economy this year is being dragged by the financial-market crisis," Mr. Hui said. "It is expected that many uncertainties remain for the second half [of the] year."

—Compiled from staff and wire service reports.

EURO ZONE

Money-supply growth eases as lending slows

IndexOpen

THE PACE of money-supply growth in the euro zone decelerated again in August, amid slowing lending growth to the private sector.

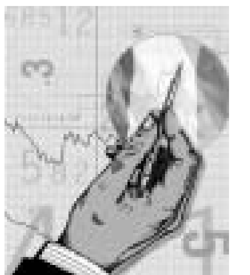
Analysts are watching data for evidence that bank lending is beginning to dry up amid tighter financing conditions stemming from market turbulence and higher risk premiums.

August broad M3 money supply grew 8.8% from a year earlier, below July's 9.1% rise, the European Central Bank said Thursday. The August growth rate was the lowest since October 2006; however, corporate lending, while declining, remained robust.

—Monica Houston-Waesch

IRELAND

Economy enters recession as GDP contracts 0.5%



IRELAND is now in a recession, the country's Central Statistics Office said, after recording that the economy shrank for a second consecutive quarter in the three months through June.

Gross domestic product shrank by 0.5% from the previous quarter. Ireland's economy has been ravaged by a crash in house prices, which has contributed to a fall in consumer spending and a massive drop in investment.

Ireland is the first of the 15 countries that use the euro to fall into a recession. The euro zone as a whole saw economic contraction of 0.2% in the second quarter, but is expected to escape technical recession by growing 1.3% in the third quarter. *—Associated Press*

AUSTRIA

Youth vote on Sunday will be younger than ever

Associated Press

AUSTRIA on Sunday is to become the first member of the European Union to give 16-year-olds a voice in national elections.

Following the collapse in July of the governing coalition between the center-left Social Democrats and the center-right People's Party, polls are showing a tight race. All parties are pitching to the younger first-time voters.

Still, "the 2008 parliamentary elections are predominantly going to be decided by people over the age of 50," said Ferdinand Karlhofer, head of the University of Innsbruck's political science department.

—Associated Press

Vote to test Belarus's democratic progress

Leader courts West to ease dependence on Russian allies

BY ANDREW OSBORN

Belarus—the country known as "Europe's last dictatorship"—has promised to hold free parliamentary elections Sunday, setting up a key test of whether a charm offensive that's earned the country a modest thaw with the U.S. and Europe is more than just public relations.

That means a delicate dance for President Alexander Lukashenko, who built his iron-fisted rule on close relations with Russia, his eastern neighbor. After last month's war in Georgia opened a yawning gap between Moscow and the West, it has become harder to balance both sides' interests.

The Kremlin has leaned hard on Mr. Lukashenko to follow its lead and grant diplomatic recognition to separatists in Georgia. Mr. Lukashenko has so far dodged that decision, possibly because he is worried about jeopardizing his progress with West, which has denounced Moscow's support for the separatists.

"It's a very difficult situation," said Alexander Milinkevich, an opposition politician who challenged Mr. Lukashenko for the presidency in 2006. Recognition of the separatist regions of South Ossetia and Abkhazia would signify Belarus was a "Russian satellite state," he said, and derail Mr. Lukashenko's chances of rapprochement with the West.

A former prison guard and collective-farm boss, Mr. Lukashenko has ruled Belarus like a fiefdom, controlling the press, repressing the opposition and running a Soviet-style command economy. A referendum he called changed the constitution, allowing him to serve more than two terms in office.

After years of deepening isolation, Mr. Lukashenko this spring began to reach out to the European Union and the U.S. To curry favor, he has released political prisoners, hired a Western public relations agency and allowed the opposition a little more leeway. In return, the U.S. has eased some sanctions, while the EU has held out the prospect of warmer ties and potential funding.

"We want you to accept us, to endorse and recognize our election," Mr. Lukashenko said in an interview posted on the government Web site this week. "We do not want to talk to you across the Iron Curtain."

Mr. Lukashenko has said he hopes that some of the around seventy opposition politicians contesting Sunday's election win seats.

The opposition had no seats in the old parliament. Opponents complain they have almost no representation in electoral commissions where they say government officials plotted vote-rigging in the past.

But whatever carrots Washington and the EU might offer to lure Belarus toward democracy pale at the leverage Moscow wields. Belarus's largely Soviet-style economy depends heavily on cheap energy from Russia. Minsk pays just $127 per 1,000 cubic meters for Russian natural gas, the lowest price Moscow charges any of its export clients. Talks on next year's price are just beginning and Moscow already has indicated it wants an increase. Ukraine, where the pro-Western government has irked Moscow, is facing a price of $400.

Novosti/AFP

Alexander Lukashenko, left, met Dmitry Medvedev in August, but hasn't granted **the Kremlin's wish** of Belarusian diplomatic recognition for Georgian separatists.

Russia has offered Belarus a $2 billion loan to help pay the higher costs, but Minsk officials fear that would make their dependence on Moscow complete.

"If we don't make changes to the economy we'll be absolutely dependent on Russia in two or three years," said Mr. Milinkevich. Mr. Lukashenko was courting the West to attract investment and help modernize Belarus's economy in order to preserve its independence, he said.

The Georgian war and Kremlin talk of areas of "privileged interests" in the former Soviet Union have unsettled Belarus, despite its traditional role as a staunch Russian ally, analysts say.

"Russia tried to send a very clear sphere-of-influence message to all post-Soviet states, including its so-called friends," said Andrew Wilson, a senior policy fellow at the London-based European Council on Foreign Relations.

Ripples from the war have caused problems elsewhere in the former Soviet Union. In Ukraine the coalition government collapsed, in part due to difficulties in defining a common response to the war.

Belarus has flirted with the idea of unifying with Russia since the Soviet collapse in 1991, taking tentative steps to form a union government with a shared parliament and currency. But those plans have become bogged down in bickering and mutual distrust and Mr. Lukashenko has said the project is now effectively frozen.

His own political fate is closely linked to the project. Analysts say he can remain in power while Belarus remains independent but otherwise risks ending what has been a 14-year stint as president.

South Africa's Motlanthe to be next president

BY ROBB M. STEWART

JOHANNESBURG—South Africa's parliament elected former trade unionist and freedom fighter Kgalema Motlanthe as the country's president, a move that may heal wounds inside the ruling party after Thabo Mbeki's forced resignation.

Mr. Motlanthe will be tasked with cobbling together a caretaker government that will serve until presidential elections early next year. Deputy leader of the ruling African National Congress party, he takes the helm amid a deep rift between supporters of Mr. Mbeki and those of his rival, ANC leader Jacob Zuma.

Mr. Zuma, who isn't eligible to serve as interim president, is expected to easily win national elections set for when Mr. Mbeki's second term in office was due to end.

After he was sworn in, Mr. Motlanthe moved swiftly to reassure investors that his interim government didn't plan big economic policy changes, and to signal key points of departure from Mr. Mbeki.

Kgalema Motlanthe

"We will remain true to the policies that have kept South Africa steady and that have ensured sustained growth," Mr. Motlanthe said in his acceptance speech to parliament.

Mr. Motlanthe reappointed Finance Minister Trevor Manuel, who was credited with helping steer South Africa through a period of significant economic growth.

At the same time, he replaced controversial Health Minister Manto Tshabalala-Msimang, dubbed "Dr. Beetroot" for her support of vegetables in fighting AIDS.

The South African rand strengthened on the election news. Johannesburg's broad All Share index ended up 0.1% at 24936.4 points, having opened the day modestly weaker. Investors appeared to favor the potential stabilizing effect of Mr. Motlanthe's election.

Investors had become skittish earlier in the week when several members of Mr. Mbeki's cabinet said they would resign, but key ministers later said they would be willing to serve in a new government.

While an ally of Mr. Zuma, Mr. Motlanthe is widely viewed as a unifying personality who enjoys cross-party appeal. He is an ANC stalwart who fought against South Africa's apartheid regime and served in prison with Nelson Mandela.

Mr. Motlanthe has defended Mr. Zuma against allegations of corruption, but he has also garnered respect among Mbeki supporters and moderates in the party for chastising firebrand Zuma loyalists.

"In some respects the ANC couldn't have made a better choice" than Mr. Motlanthe, said Sheila Meintjes, political studies professor at Johannesburg's University of the Witwatersrand. "He has shown he thinks very carefully about the national interest."

German voters fracture

Bavarians likely to switch to smaller parties of the left

By Marcus Walker

Conservative allies of German Chancellor Angela Merkel faces the prospect of embarrassing losses in a state election Sunday, as polls show voters defecting to small parties amid dissatisfaction with the political establishment.

A poor showing in the state of Bavaria for the Christian Social Union, sister party of Ms. Merkel's Christian Democrats, could be a sign of trouble ahead for the chancellor in next year's national election. The right-wing CSU, long dominant in Bavaria, is in danger of winning fewer than half of the 180 seats in the state legislature for the first time since 1958.

The CSU is likely to lead the next state government but could have to find a coalition partner if Sunday's result reflects opinion polls putting it at around 48% or 49% of the vote, in front of the Social Democratic Party, with around 20%.

In Munich, the Bavarian capital, that would be viewed as a disaster for a party that won 61% of the vote in the last state election in 2003. Capturing less than 50% would also call into question whether the CSU can maintain its current share of seats in the Bundestag, the German federal parliament, in the September 2009 election.

Ms. Merkel's center-right Christian Democrats are in an awkward coalition with their biggest rivals, the center-left Social Democrats. Ms. Merkel's chances of breaking free of that coalition depend partly on the CSU's continued ability to dominate elections in Bavaria, one of Germany's biggest states.

"Bavaria was decisive in the last federal election," says Manfred Güllner, head of opinion-polling institute Forsa. "Without the Bavarian Catholics, the protestant pastor's daughter Merkel would never have become chancellor."

But now, Bavarian voters are drifting off to smaller factions, including the Greens, the free-market Liberals and post-communist group Die Linke, or "The Left." The Social Democrats haven't benefited from the discontent with the CSU.

"It's a trend that's also visible nationally: Big parties are losing support, small parties are gaining support," says Michael Weigl, a political scientist at the University of Munich. "Voters who backed the same party for 30 years no longer vote out of loyalty."

Years of government cutbacks to welfare and other spending have alienated many voters from Germany's political establishment. The CSU is trying to claw back votes by campaigning for the reinstatement of commuter subsidies—but voters haven't forgotten that the party helped Ms. Merkel's government cut them in the first place.

As a vote-harvesting machine, the CSU has been one of the most successful conservative parties in the Western world in the postwar era. Larger-than-life leaders such as former state premier Franz-Josef Strauss and a platform that married business interests with rural populism helped it dominate its region.

The party's slogan in an earlier campaign, "laptops and lederhosen," captured Bavaria's mixture of high-tech affluence and Alpine tradition. CSU leaders even claimed that voting for the party was a true Bavarian's duty.

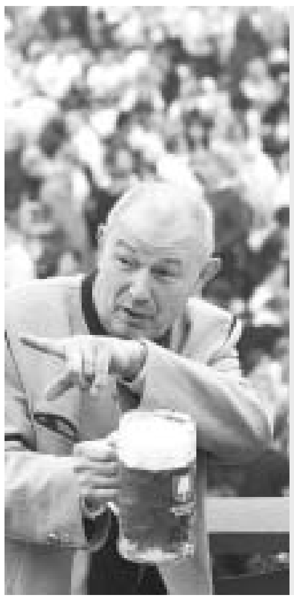
But the party has run out of barnstorming leaders who can rouse a beerhall audience to a patriotic frenzy. The current duo of state prime minister Günther Beckstein and party chairman Erwin Huber are seen as "pale and lacking charisma," says Mr. Weigl.

Mr. Beckstein, a protestant, is also at a disadvantage in the Catholic-dominated state. Trying to sound like a true Bavarian last week, he made a widely ridiculed gaffe: He attacked proposals from Berlin for stricter drunken-driving rules, telling a campaign rally a man could drink two liters of beer at the Oktoberfest and still drive home.

After condemnation from health experts and police, Mr. Beckstein qualified his claim, saying driving was still possible if the two liters were consumed over six or seven hours.

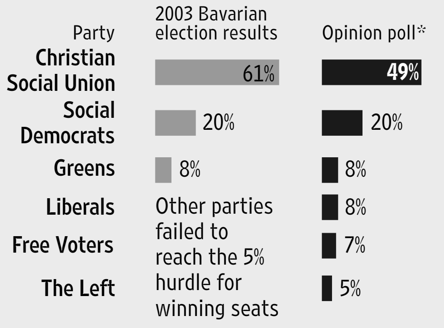
"That sort of thing completely undermines our efforts," Bavarian police-union head Harald Schneider told reporters in Munich. Mr. Schneider added that 99% of people were "more sensible than our prime minister" and took public transport to the Oktoberfest.

—Almut Schoenfeld contributed to this article.



Many a slip

Bavaria's ruling CSU is losing support, despite leader Günther Beckstein's (left) show of support for local beer culture



*Poll of 1010 voters published Sept.23; average margin of error +-2.5%. Figures don't add to 100% because they don't include parties with less than 5%.

Sources: Bavarian government; TNS Emnid

Presidential debate stays in flux

By Nick Timiraos

The financial crisis could broaden the focus of Friday's U.S. presidential debate—if it goes forward—beyond foreign policy to issues of U.S. financial security. Both campaigns are readying for possible questions about the country's debt, the role of sovereign-wealth funds and trade policy.

The proposed foreign-policy focus of the debate, to be held in Oxford, Miss., appears to give an advantage to Republican nominee John McCain, who has long touted his commander-in-chief credentials, even as it offers an opportunity for Democratic rival Barack Obama to assert his qualifications. Both candidates made the Iraq war a central issue during the presidential primaries earlier this year.

With Washington and much of the rest of America fixated on the country's financial problems, the two campaigns have in recent weeks focused almost exclusively on the economy. For many voters, the economy has emerged as a top issue.

Some people have already called for economic-crisis-related questions to be included in the debate. "They should be able to talk about this some of the debate, because it is a security issue," former President Bill Clinton said in an ABC News interview Thursday.

Much of the debate is likely to involve substantial discussions on well-worn foreign-policy issues, including how the U.S. could exit from Iraq, stabilize Afghanistan, achieve Middle East peace and confront a resurgent Russia. But questions of national security as they relate to the economy could present a wild card, giving the candidates a chance to address issues that have received less attention, including the growing role of sovereign-wealth funds and overseas ownership of U.S. assets.

The campaigns have agreed to three debates, though Sen. McCain on Wednesday proposed postponing the first one until there's an agreement in Washington over a financial bailout plan. The second debate is set to be conducted town-hall-style, with the candidates taking questions from audience members; the third will focus on domestic and economic policy.

For Friday's debate, moderator Jim Lehrer of the Public Broadcasting Service will decide which questions to ask.

The sharpest differences in the economic views of the candidates could be over trade. In the hard-fought Democratic primaries, Sen. Obama campaigned on a promise to renegotiate the North American Free Trade Agreement to include stronger labor and environmental safeguards. In ads and on the stump, he has hammered away at Sen. McCain for supporting trade deals and tax breaks, which Sen. Obama says have exported jobs from the U.S.

Sen. McCain, a committed free trader, regularly extols the political dividends of opening new markets to U.S. goods. He has criticized Sen. Obama's position on Nafta as one of "betrayal" that could upset foreign capitals.

British conventions skip the 'razzmatazz,' mostly

By Alistair MacDonald

MANCHESTER, England—During the day, it's earnest debate. At night, serious drinking.

Traditionally, political conventions in Britain aren't made for television. They're heavy on political arguments and alcohol, and they lack glossy backdrops and stadium atmospherics. While recent party conferences have begun to incorporate some digital-age innovations, they're far from the U.S.'s highly choreographed conventions.

Prime Minister Gordon Brown wrapped up the Labour Party's annual conference Wednesday, after winning good reviews for a speech rich in crowd-pleasing policy with an atypical personal touch. The opposition Conservative Party's conference starts Sunday, and next Wednesday it's the turn of its leader David Cameron, whose well-received speech last year marked the beginning of a tough year for Mr. Brown.

"In the U.S., it is about event and performance and razzmatazz," says Simon Burns, a member of Parliament for the Conservative Party. Unlike most members of his party, Mr. Burns supports the Democratic Party in the U.S. He attended this year's Democratic convention in Denver and says he has hung on his bedroom wall posters of Sen. Hillary Clinton that he was given to wave during her speech.

There wasn't a sign in the audience or a British flag in the room when Mr. Brown gave what was considered the biggest speech of his political career Tuesday, an attempt to battle back from his historically low ratings.

Mr. Brown spoke at 2:15 p.m.; U.S. conventions are choreographed for prime-time TV. British politicians engage in constant, combative debate in Parliament and across the media—the kind of debate seen only during election periods in the U.S. Most British politicians have little celebrity appeal; former Prime Minister Tony Blair was often criticized for trying to win it by consorting with rock stars and being interviewed on popular TV shows. In his conference speech Tuesday, Mr. Brown was clear: "I didn't come into politics to be a celebrity."

Delegates at the Labour conference in Manchester, a former industrial city in northern England, attended seminars on subjects including "rethinking public services for a low-carbon economy" and "building schools for the future." They listened to a steady stream of government ministers talking policy.

There are many other differences between the annual party conferences in the U.K. and the U.S. political conventions, held every four years, mainly to anoint the Presidential candidate. At heart, though, both are meant to show the party off to the country.

Labour boasts that it hosts the largest conference in Western Europe; around 15,000 people attend. The Conservatives expect 10,000. About 85,000 turned up to hear Barack Obama's speech at the Democratic convention, and the Republicans, who scaled down their event earlier this month because of Hurricane Gustav, had around 45,000.

The Democrats brought in Stevie Wonder and Sheryl Crow. Labour had a live link to Australian Prime Minister Kevin Rudd, who discussed shared values. U.S. elections and Wall Street turmoil have deprived this year's Conservative conference of its usual big-name U.S. speaker; recent years' events have included New York Mayor Michael Bloomberg and Arizona Sen. John McCain.

To some attendees, more recent U.K. innovations reflected the influence of glossy American conventions. A large screen onstage showed a video of Mr. Brown's accomplishments while popular music played, and he added some informal and personal details to his speech. Mr. Brown broke precedent when his wife Sarah introduced her husband—Michelle Obama-style—before his big speech.

"They followed the U.S. tradition," says John Prescott, who served in Mr. Blair's cabinet and attended the conference this week. "Things are changing. I belong to the old system and this is the new one."

U.K. political confabs have generally been a sharp contrast to flashy U.S. affairs.

Many Labour politicians are wary of the U.S. style, holding up former party leader Neil Kinnock as a cautionary tale. In the 1992 election, when it looked as if Labour was headed to victory over Conservative John Major's government, Mr. Kinnock arrived at a rally by helicopter, to music and spotlights, and bellowed, "We're all right." The rally was seen as too triumphant and hurt Mr. Kinnock's popularity. Days later, Labour lost the election.

To some longtime Labour Party members, today's conferences seem too tame. Scuffles were common in the early 1980s as the far-left and moderate wings of the party clashed..

Labour Member of Parliament Ronnie Campbell, who said he's a veteran of about 18 conferences, didn't attend this year. "It's become a show," he said on the phone from his hometown of Blyth in northern England. "It used to be a good debate. We used to get together at 6 o'clock over a pint, but them days are gone."

While Mr. Campbell's idea of debates may have ended, the pints haven't. The guide for the Conservative Party conference in Birmingham, England, next week offers discount tickets to bars, casinos and the Rocket Club, a strip club. (Conservative conventions have a reputation for being wilder than Labour's.)

In Manchester, as the seminars closed, the bars opened. Politicians hit crowded bars. In a tent outside the conference hall, Mr. Brown talked to crowds. "We don't need to go to a club when there is free beer here," said listener David Denholm, a party member.