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Fannie, Freddie are hugest test for U.S. Treasury chief

NEWS IN DEPTH | PAGES 14-15

An Icelander aims to put more whale meat on menus

ON OTHER FRONTS | PAGE 32

What's News—

Business & Finance

The board of Alcatel-Lucent selected Frenchman Philippe Camus, a former aerospace executive, as chairman of the Franco-U.S. telecom maker, a move aimed at improving the company's financial and management stability. Page 1

■ **Europe's economic gloom** was highlighted by surveys showing shrinking business activity in the euro-currency zone and the U.K. Page 2

■ **The U.K. will unveil** plans to to help first-time home buyers and those facing repossession amid the downturn. Page 19

■ **Commerzbank's CEO plans** to focus on the highly fragmented German market after the company's acquisition of Dresdner Bank. Page 2

■ **European shares fell** after investors gave a thumbs-down to Commerzbank's deal for Dresdner Bank. Page 18

■ **Oil and gas prices dropped** in electronic trading despite uncertainty over the effects of Gustav on U.S. Gulf Coast refineries and platforms. Page 20

■ **Iron-ore miners** are becoming steelmakers, and steelmakers miners, as the scramble for raw materials changes the shape of the industry. Page 5

■ **An investment firm** based in the U.A.E. bought control of Manchester City from former Thai leader Thaksin. Page 5

■ **Boeing and union machinists** continued their impasse over a proposed labor contract. Page 4

■ **Vivendi posted a 12% rise** in second-quarter net on a gain, and says its mobile unit is on track to reap savings. Page 6

■ **GDF Suez's net rose** 14% in the first half as the French utility benefited from stronger sales and high prices. Page 5

■ **Change Capital Partners** sold German fashion label Jil Sander to Japan's Onward Holdings for $245 million. Page 6

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11543.55	Closed	
Nasdaq	2367.52	Closed	
DJ Stoxx 600	287.18	-1.00	-0.35
FTSE 100	5602.8	-33.8	-0.60
DAX	6421.80	-0.50	-0.01
CAC 40	4472.13	-10.47	-0.23
Euro	$1.4590	-0.0126	-0.86
Nymex crude	$115.46	Closed	

Money & Investing > Page 17

World-Wide

EU leaders pledged to help Georgia recover from Russia's military intervention, but fears over Europe's dependence on Russian energy and of splitting the EU prevented moves to pressure Moscow. A final summit statement did little to penalize Moscow beyond suspending meetings on an economic pact. Pages 1, 31

■ **Hurricane Gustav made** landfall 110 kilometers southwest of New Orleans, with winds up to 175 kilometers per hour. Page 1

■ **Gustav disrupted** operations of energy-producing infrastructure, but the network is more rugged than it was when Katrina hit three years ago. Page 3

■ **McCain canceled** the Republican convention's first day, with plans to turn the gathering into a fund-raiser as officials braced for Gustav's fallout. Page 10

■ **Japanese Prime Minister** Fukuda resigned after less than a year in office, as the economy flirts with recession. Page 8

■ **Gaddafi said** Libya would grant Italy privileges in energy and other business to reward it for compensating Tripoli $5 billion for its colonial rule in Libya.

■ **The U.S. military handed** over control of Anbar province to Iraqi forces, less than two years after it almost lost the region to a Sunni insurgency.

■ **Brazil's opposition demanded** an inquiry into a media report that the nation's intelligence agency spied on the Supreme Court chief and congressmen.

■ **Thai state workers planned** to cut off water, power and phone services at government offices and disrupt flights in support of antigovernment protests.

■ **India stepped up** efforts to rescue hundreds of thousands of people marooned by floods and facing severe food shortages in Bihar state in the northeast.

■ **Ingrid Betancourt told** Pope Benedict XVI her faith gave her comfort in six years of captivity by Colombian leftist guerrillas.

■ **A bomb exploded** on a bus at a terminal in the southern Philippines, killing at least six people and wounding 26, police said.

EDITORIAL & OPINION

Honecker's comeback

Germany's Social Democrats might bring the Communists back into power. Page 12

EU pledges Georgia aid but doesn't push Russia

Cautious approach rules at summit; fears over energy ties

By **Marc Champion** and **John W. Miller** in Brussels, and **David Gauthier-Villars** in Paris

The European Union pledged Monday to help Georgia recover from Russia's continuing military intervention, but fears over Europe's dependence on Russia for energy and of splitting the EU prevented moves to pressure Moscow.

As hundreds of thousands of Georgians protested in the streets of Tbilisi against the presence of Russian troops, the EU's emergency summit in Brussels produced further condemnation of Russia's military intervention in Georgia and of its decision to recognize South Ossetia and Abkhazia, two separatist territories in Georgia, as independent. "The question is, what does Russia want?" said French President Nicolas Sarkozy at a post-summit press conference. He said it was now up to Moscow to decide whether to isolate itself politically by keeping its troops in Georgia or else withdraw and begin talks on status.

Please turn to page 31

AFP

A railroad crossing is inundated by floodwater caused by Hurricane Gustav that surged over the side of a levee on the Industrial Canal in New Orleans.

Now a Category 2, Gustav lashes Louisiana's coast

By **Jeff Opdyke** in Baton Rouge, **Leslie Eaton** and **Alex Roth** in New Orleans, and **Ben Casselman** in Lake Charles, La.

Hurricane Gustav made landfall as a Category 2 hurricane about 110 kilometers southwest of New Orleans, coming ashore after days of massive evacuations.

The storm was downgraded from a Category 3 as it began lashing the Louisiana Coast early Monday, bringing heavy rain and maximum sustained winds of 110 miles an hour before coming ashore around 11 a.m. EDT.

The National Hurricane Center said Gustav will track along the southeastern Louisiana coast Monday afternoon, then move into the western part of the state on Monday night and eastern Texas on Tuesday, according to its 1 p.m. EDT update. A storm surge of about three meters to four meters above normal tidal levels is anticipated east of where Gustav's center crosses the Louisiana coast.

Levees in and around New Orleans were expected to hold this time, but the storm's surge could overtop levees and at least partially flood the city, said Federal Emergency Management Agency Deputy Director Harvey E. Johnson. Television networks showed images of water overtopping the levees.

The storm was seen as less ferocious than 2005's deadly Hurricane Katrina. Crude-oil and natural-gas futures fell, as damage to energy infrastructure was seen as less than feared.

Gustav appears to have spared

Please turn to page 3

Alcatel to tap new chairman, chief executive

By David Gauthier-Villars And Joann S. Lublin

PARIS—The board of **Alcatel-Lucent** has chosen Frenchman Philippe Camus, a former aerospace executive, as the new chairman of the France-U.S. telecom maker, a move aimed at restoring financial and management stability at the struggling firm, people familiar with the situation said.

Ben Verwaayen, the former **BT Group** PLC boss, also has been tapped as the company's chief executive, one person familiar with the matter added. Both posts could be announced as early as Tuesday morning, the source said. A spokeswoman for Alcatel-Lucent had no comment.

Alcatel-Lucent went on a global hunt for new leaders after the company board decided in late July that current Chairman Serge Tchuruk and Chief Executive Patricia Russo should both leave the company. The decision was made after nearly two years of cultural tensions at the company, which has posted six consecutive quarterly losses.

In addition to cultural rifts, Alcatel-Lucent's new management team will face tough business decisions. The company, which makes tele-

Please turn to back page

LEADING THE NEWS

Commerzbank's diet plan

After Dresdner buy, Blessing shifts focus to trimming costs

FRANKFURT—Martin Blessing has clinched one of the largest and most complex takeovers in German banking history after less than four months at the helm of **Commerzbank** AG.

Now, the 45-year-old chief executive and marathon runner plans to slim down again and focus on the fragmented German market—a strategy some investors are already doubting he can bring to fruition.

By **Mike Esterl** *in Frankfurt and* **Carrick Mollenkamp** *in London*

Career highlights of Martin Blessing, age 45

- **1983 – 1984:** Apprenticeship at Dresdner Bank AG
- **1984 – 1987:** Studied business administration at the University of Frankfurt and the University of St. Gallen
- **1988:** M.B.A., University of Chicago
- **1989 – 1996:** Joined management consultants, McKinsey & Co., as Frankfurt and New York Consultant, he later became a partner in 1994
- **1997 – 2000:** Joined Dresdner Bank AG, as Frankfurt joint manager, private customers
- **2000 – 2001:** Munich chairman of the board for Advance Bank AG
- **Nov. 1, 2001:** Joined Commerzbank AG as member of the board of managing directors
- **May 16, 2008:** Commerzbank, chairman of the board of managing directors

Source: Commerzbank

Commerzbank, Germany's No. 2 bank by assets, agreed Sunday to acquire Dresdner Bank AG, the No. 3 bank, from insurer **Allianz** SE in a €9.8 billion stock-and-cash deal. The move nearly doubles the size of Commerzbank, creating a formidable rival for **Deutsche Bank** AG in Europe's largest economy. The deal is scheduled to be completed in two stages next year, with Allianz ultimately retaining a stake of nearly 30% in the new bank.

Mr. Blessing said Monday he isn't looking to make another deal for a while. Instead, he said, he intends to eschew the glamour of high finance to focus on the more "stable" businesses of serving German depositors and lending to the so-called Mittelstand—small and mid-size German companies. He plans to shed nearly one-seventh of the combined bank's staff and shutter a bit more than one-fifth of its branches to drive down costs. He also will significantly scale back Dresdner's struggling investment-banking unit. In all, he said he plans to achieve €5 billion in cost savings and other enhancements by 2011.

As part of his efforts to gain ground in Germany's highly fragmented market, Mr. Blessing is expected to go after Deutsche Bank's affluent urban retail customers. The Commerzbank CEO will try to combine Dresdner's strength in that retail base while building on his bank's reputation as a trendier bank for young professionals.

The strategy could pay off: As in France. but unlike in the U.K., German retail customers tend to be buyers of complex securities such as equity derivatives—products that can be much more profitable than plain-vanilla bank accounts.

"No one will be as close to their customers as us," said Mr. Blessing at a news conference Monday. The combined bank will have €1.1 trillion in assets, still a distant No. 2 to Deutsche Bank, which boasts €2 trillion euros. But unlike Deutsche Bank, which generates most of its revenue outside Germany, the bulked-up Commerzbank will make most of its money on home soil and boast more domestic branches.

Mr. Blessing faces an uphill battle to win over investors. Commerzbank's share price plunged on Frankfurt's stock exchange Monday, closing 10% lower at €18.04 as analysts expressed concerns that Mr. Blessing had overpaid for Dresdner, and that integrating the two banks would be a daunting task. Some fear further losses tied to the volatile investment-banking and proprietary trading operations at Dresdner.

Still, some believe Mr. Blessing possesses the unique combination of background, skills and connections needed to successfully bring the two banks together. Few bankers know Dresdner better than Mr. Blessing, who began his career as an apprentice at Dresdner in the 1980s.

"If you scratch under my yellowish skin, you'll see lots of green," the balding and bespectacled executive told reporters Monday, referring to the banks' brands—yellow for Commerzbank and green for Dresdner.

Before joining Commerzbank's management board in 2001 and being elevated to CEO this past May, Mr. Blessing spent nearly a decade at the management consultancy McKinsey. "He is a very analytically focused guy who pays lots of attention to detail," said one banker who has worked closely with Mr. Blessing.

At the same time, Commerzbank hasn't escaped the clutches of the credit crunch. Its second-quarter results were hurt by an impairment of €250 million for a commercial real-estate loan.

Europe's economic gloom highlighted by new data

By Emma Charlton And Paul Hannon

LONDON—Surveys showing shrinking business activity in the euro-currency zone and the U.K. highlighted the spreading gloom in Europe's economy.

The purchasing managers index, or PMI, for euro-zone manufacturing came in at a still-depressed 47.6 in August, compared with 47.4 in July. A level below 50 in the survey of around 3,000 manufacturing companies indicates contracting business activity.

In Germany, the euro zone's biggest economy, the PMI fell to 49.7 in August from 50.9 in July, data from research group Markit Economics showed Monday, marking the first contraction in the German survey since fall 2005.

"The data indicate that the downturn in the manufacturing sector is becoming increasingly broad-based, with the German data now also in contraction territory," said Lavinia Santovetti, an economist at Lehman Brothers in London.

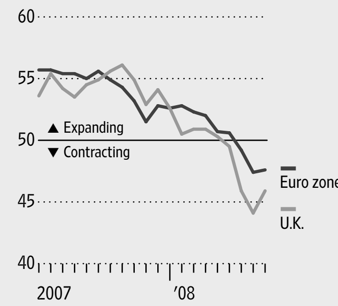
Retail sales, already weak, added to the recent spate of bad news from Germany, falling by 1.5% in July, according to the German government.

Germany and the euro zone suffered an overall economic contraction in the second quarter, and many economists fear the current quarter won't be much better.

In the U.K., which doesn't use the euro, the manufacturing sector contracted for the fourth-straight month in August although less sharply than previously. The U.K. PMI came in at 45.9 in August compared with 44.1 in July. New orders shrank and backlogs of work declined at the fastest rate in the survey's history.

Economies stutter

Purchasing-managers data show weakness in the euro-zone and British economies



Source: Markit Economics

"Worsening domestic demand prospects and increasing weakness in the major export markets mean that a manufacturing recovery isn't on the cards for the foreseeable future," said Marco Valli, an economist at UniCredit SpA.

Euro-zone manufacturers have come under pressure over the past year due to the strong euro, weakening global demand and high oil prices.

"With order backlogs at their lowest level since the index began in November 2002 and record levels of stocks of finished goods, it will likely take months before industrialists can feel more confident about the future," said Guillaume Menuet, an economist at Merrill Lynch.

The fall in German retail sales comes amid growing pressure on consumer spending in the euro zone, as accelerating inflation and tightening credit conditions eat into slow spending levels.

Economists said that weak retail sales don't bode well for third-quarter growth, but that slowing inflation might give sales a much-needed boost later. "Inflation [has] probably peaked in Germany, the oil price has declined substantially and wage growth remains robust," said Daniele Antonucci, an economist at Merrill Lynch. "These factors will need time to have an impact on household purchasing power but, if sustained, will likely support consumer sentiment and spending, perhaps towards the end of the year."

CORRECTIONS & AMPLIFICATIONS

Col. Claus von Stauffenberg, portrayed by Tom Cruise in the coming film "Valkyrie," was a member of the German army but wasn't a member of the Nazi Party. A photo caption that accompanied a Corporate News page article Thursday about MGM Studios and United Artists incorrectly described Col. von Stauffenberg as a Nazi.

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

HURRICANE GUSTAV

Gulf Coast facilities better prepared for hit

Hurricane's eye came within few kilometers of large installations

By Russell Gold
And Ana Campoy

Hurricane Gustav's assault on the U.S. Gulf Coast disrupted operations of the world's largest concentration of energy-producing infrastructure, but the storm encountered a vast network that is both more rugged and better prepared to resume operations than it was three years ago.

The storm powered through the gulf, the eye coming within a few kilometers of such large offshore installations as **Royal Dutch Shell**'s $1.5 billion Ursa platform, but it weakened as it approached the coastline. This weakening is expected to limit damage to the cluster of refineries in southern Louisiana that produce a large slice of the U.S.'s gasoline.

Before landfall, Gustav passed directly over the Louisiana Offshore Oil Port, a facility that unloads tankers carrying 10% of U.S. oil imports from around the world. The potential that the LOOP could remain closed for days raised the likelihood the federal government would tap the Strategic Petroleum Reserve to make up for lost crude imports.

Conditions were too rough on Monday for the industry to send out teams to assess offshore damage. and there was no word by the afternoon if any refineries had suffered damage. Still, energy traders seemed to believe the energy complex hadn't faced a worst-case scenario, and they sent crude-oil futures down nearly $4 a barrel in electronic trading.

Associated Press

Cars line up for gas in Oregon on Friday, when fears were growing that Hurricane Gustav would send pump prices higher. Crude-oil futures have since fallen.

Worries about long-term damage to refineries from flooding also subsided as the storm moved inland Monday morning. "Our indications are that the storm surge will not be as high as initially feared, so damage from water might be less than we had expected," says Bill Day, a Valero Energy Corp. spokesman. Ken Reeves, a forecaster with AccuWeather.com, agreed: "I don't think flooding is going to be the big problem for refineries."

The massive concentration of energy infrastructure along the Gulf Coast is both a blessing and a curse. Because it is all packed into one stretch of coastline and linked together by pipelines and power grids, a single large hurricane can inflict widespread damage to many different facilities. But that concentration also creates flexibility. It creates more options to reroute vital energy supplies to avoid damaged infrastructure. The industry is adaptable, even if it can't turn on a dime.

One of the lessons the industry took from the one-two punch of hurricanes Katrina and Rita in 2005 is that all the links in the supply chain have to work to produce fuel. A billion-dollar offshore platform that survived the storm unscathed is no good if its pipeline to shore is inoperable. The pipeline is no good if the pipeline terminal or gas-processing plant along the Louisiana coast has been flooded. And the refineries can't turn the crude into gasoline if the power grid is down.

Since then, the industry has been inching away from this interdependence, making each piece more capable of functioning on its own. More refineries can restart using their own power, even if surrounding neighborhoods are dark. Far from shore, the oil industry is evolving toward using platforms that can load crude oil onto tankers directly, sidestepping the need for vulnerable pipelines.

"The pieces can operate a little more independently now. This will be the first big test of that," said David Dismukes, associate director of the Louisiana State University Center for Energy Studies.

While the industry can't undo decades of development that has stitched hundreds of facilities together, it has tried to harden each piece of equipment. Offshore equipment was upgraded to endure higher waves. Pipelines were reburied deeper in the muck to withstand underwater mudslides. Vital onshore pipeline pumping terminals and gas-processing facilities were elevated to keep equipment dry.

"I don't see a great reduction in the interdependency, but what we do see is a greater emphasis on the survivability of the individual assets," said Kevin Kolevar, assistant secretary of energy for electric delivery and energy reliability. The government and industry, he said, are "much better prepared to endure the consequences of the storm and to recover and restore operations once the storm has passed."

What's more, the industry learned a valuable lesson in how to adapt quickly in 2005. After Hurricane Rita, when 25% of the entire U.S. refining capacity was out of service, oil-company workers invented ways to work around problems. **BP** PLC, for instance, re-engineered an export pipeline at a marine dock in Texas City to import gasoline, feeding needed supplies destined for the Southeast at a time when Louisiana refineries were hobbled. "We have a lot of experience to making adjustments to our supply and logistics network," said BP spokesman Scott Dean.

Governments responded quickly also. The U.S. tapped its Strategic Petroleum Reserves after Katrina, and European nations took similar steps, to keep crude markets supplied. Oil-industry observers expect similar steps if crude-oil supply is significantly disrupted in the wake of Gustav.

The markets also have experience rerouting supplies if needed. After Katrina, fuel stations as far away as North Carolina, hundreds of kilometers away, reported gasoline shortages. But tankers full of gasoline from Europe quickly crowded Northeast ports, making up for lost production in the Gulf Coast. Pump prices jumped for several weeks but quickly dropped back to pre-storm levels.

"We have such a well-developed infrastructure. It's very liquid, to use a term in financial markets," said Ken Medlock, an energy fellow at Rice University in Houston.

The concentration in the region is astounding. About 40% of U.S. refining capacity is located in a band along the coast from Mississippi to Texas. The biggest petrochemical plants are neighbors, sharing steam, electricity and the same streams of fossil fuels. Louisiana, by itself, is crisscrossed by 120,000 kilometers of pipelines, enough to circle the earth three times.

The Gulf Coast also is the nation's front door for foreign oil, importing about 60% of the crude from Saudi Arabia, Venezuela, Mexico and elsewhere through its ports. Of the 10 busiest crude-oil ports in the country, seven are located between New Orleans and Houston. And while oil and gas production in the Gulf of Mexico has been dropping, it still remains the nation's single-largest source of crude oil and a major source of natural gas.

Hurricane Gustav lashes Louisiana

Continued from first page

much of New Orleans. But the city's roads are a maze of downed trees, broken branches, loose power lines, and swelling puddles as rainfall and an incoming tidal surge followed the storm inland.

Mayor Ray Nagin, discussing water levels of the city's Industrial Canal, cautioned against any premature claims of triumph. "I'm not comfortable about any of this," he said, reminding listeners that most of the Katrina flooding occurred after the brunt of the storm had passed.

In remarks around midday, President George W. Bush praised coordination among federal and local officials in response to Gustav. After meeting with emergency-response officials in Texas, Mr. Bush said the storm is still a "serious event" and cautioned the danger "has yet to pass."

Millions of people have been evacuated from the Gulf Coast region ahead of the powerful storm, amid concerns of a replay of Hurricane Katrina, which left hundreds dead and caused tens of billions of dollars in damage.

Mr. Bush said the coordination among federal, state and local officials is "a lot" better than during Katrina. He said the federal government is "very much involved," and added that there's "clearly a spirit of sharing assets" among government officials at all levels. The president also urged the nation's volunteer community to be prepared assist with "donations of time and money" in the clean up.

Gustav's arrival also disrupted plans for the Republican National Convention, which was scheduled to begin Monday in Minnesota. Sen. John McCain canceled the first day of his convention, and his campaign made plans to turn the gathering into a giant fund-raiser as they braced for the natural and political fallout. President Bush scrapped his Monday appearance at the convention and instead headed to Texas, where emergency response personnel were getting ready.

Earlier, U.S. Gulf Coast residents evacuated their homes en masse as Hurricane Gustav bore down. Tropical-storm-force winds had reached the southeastern tip of the state early Monday morning, but local officials said they had not received any distress calls or reports of unexpected flooding.

With memories of Katrina fresh in their minds, Louisiana residents largely heeded the calls to evacuate. The state's governor, Bobby Jindal, said about 1.9 million people evacuated southern Louisiana, roughly 95% of the area's population. About 10,000 people remain in New Orleans, he estimated. Gov. Jindal said there had been unconfirmed reports of three deaths related to evacuating critical-care patients. Two were in Lake Charles, La., and one was in New Orleans, he said. One had a do-not-resuscitate order, he said.

Officials were particularly worried Gustav's storm surge could overwhelm the Harvey canal in New Orleans's West Bank area. Its earthen levees are as low as eight feet in some areas. Arthur Lawson, chief of police of the Jefferson Parish town of Gretna, said some sections of the parish could get flooding higher than four meters.

For decades, the businesses that lined the banks of the canal fought against raising the levees, because that would make it too difficult to load and unload the boats and barges. After Katrina, the Army Corps of Engineers began a massive project to build four-meter floodwalls along the canal, but only a half-mile to a mile has been completed, and the full project won't be completed for several more years, according to Chris Roberts, a Jefferson Parish councilman.

Another weak point is the Industrial Canal. The canal could overtop as it did three years ago, flooding the impoverished Lower Ninth Ward and other poor and working-class neighborhoods that suffered the brunt of Katrina.

Mr. Nagin imposed a dusk-to-dawn curfew and threatened that looters would be sent directly to the state's most notorious prison. Mr. Nagin said the city had evacuated more than 14,000 people—mostly the elderly, disabled and the poor with no other means of transportation—and they were being sent by bus to stay at shelters in several Texas cities and in Memphis, Tenn.

Associated Press

Water breaks over a wall along the Industrial Canal as **Hurricane Gustav arrives** in New Orleans on Monday.

Mr. Nagin said police and National Guard forces are much stronger than they were in the city after Katrina.

Outside New Orleans, residents of central Louisiana also were preparing for Gustav's arrival.

Hours before the massive storm was predicted to make landfall, Morgan City, La., projected to be near the center of the storm's path, was eerily quiet. As the first raindrops begin to fall, Roddy Prestenbatch screwed the final boards over the glass of a gas station here. A crew from a local television station filmed him, eager for any shots of people still in the city.

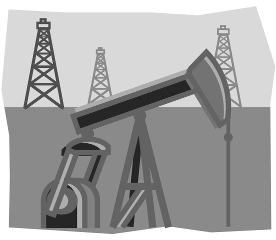
On the nearby highway, a string of ambulances sped toward Morgan City to get into position for the storm. They had the road to themselves.

—Greg Hitt contributed to this article.

CORPORATE NEWS

PETROCHEMICALS

Abu Dhabi and Petrofac to start oil-services firm



Daniel Pelavin

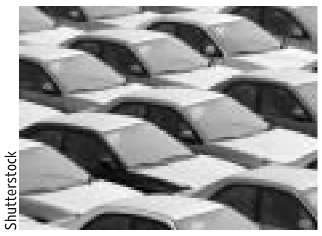
ABU DHABI government-investment firm **Mubadala Development** Co. said Monday it will set up an oil-and-gas-services firm with London-listed **Petrofac** PLC aimed at the United Arab Emirates.

Persian Gulf states including Saudi Arabia and Qatar are pouring billions into expanding their oil-and-gas sectors to meet rising energy demand. The new company, called Petrofac Emirates LLC, is set to start operations within months Mubadala said in a statement emailed to Zawya Dow Jones. Petrofac, which has a base in the U.A.E., will own 49% in the new company, with Mubadala owning the remainder.

—Oliver Klaus

AUTOS

New-car registrations fell 41% in Spain last month



Shutterstock

NEW-CAR registrations in Spain, which reflect car sales, fell 41% in August from a year earlier, marking the fourth-straight month of decline and the biggest drop this year amid a severe economic slowdown, industry group Anfac said. The sharp drop was due to two fewer working days this August as well as the continued "rapid deterioration of private consumption" in Spain, Anfac said. The August drop compares with falls of 27% in July, 31% in June and 24% in May.

Meanwhile, in France, August registrations fell 7.1%, but adjusted for the two fewer working days, they were up 2.2%—compared with a 0.2% decline in July.

—WSJ News Roundup

ALTERNATIVE ENERGY

Martifer to sell its stake in REpower to Suzlon

Shutterstock

SUZLON Energy Ltd. has struck a deal with Portugal's **Martifer SGPS** SA to purchase its stake in REpower Systems for €270 million ($396 million). Suzlon said the agreement to buy Martifer's 22.48% stake in REpower would be completed by Dec. 15.

"The completion of the agreement will take Suzlon's stake in REpower to about 90% and put both companies in a stronger position to derive synergy benefits from the collaboration," Suzlon Chairman Tulsi Tanti said in a statement.

Suzlon currently owns about 66% of REpower after it bought French state-run Areva's 30% stake in June.

—Reuters

Boeing, machinists hold firm as vote nears

Strike over contract could reduce revenue by $100 million daily

BY J. LYNN LUNSFORD

BOEING CO. and its union machinists continued their standoff on Monday over a proposed three-year labor contract, with the union urging its 26,800 members to shut down Boeing's commercial-airplane factories, a move that could further delay the company's most important new jet program.

Boeing's staredown with the International Association of Machinists and Aerospace Workers, which votes on the contract offer Wednesday, could have major consequences for the Chicago aerospace company.

The union, which mounted a strike during its last round of contract negotiations three years ago, is flexing its muscle at a time when Boeing's order books are overflowing. That would make any shutdown of the company's production lines especially costly and inconvenient.

Such a shutdown would halt deliveries to airlines that have been scrambling to replace older jetliners with ones that burn less fuel. Boeing would lose roughly $100 million in revenue for each day its production lines sit idle.

A strike would also try the patience of customers who are already chafing over an almost two-year delay in the company's 787 Dreamliner jet program.

Because of its status as the U.S.'s largest exporter, a strike at Boeing would cause ripples around the world. In 2005, when the union struck for 28 days, a number of Boeing suppliers were forced to temporarily lay off workers because unused parts were beginning to stack up.

Boeing officials say they are aware of the potential consequences, but they intend to stand behind their best and final contract offer.

At least two-thirds of the machinists must reject the contract and vote to strike, or the contract will go into effect by default.

So far, Boeing Chairman and Chief Executive Jim McNerney and Boeing unit Commercial Airplanes President Scott Carson have stayed out of the fray, relying on the company's negotiating team to communicate with union leaders.

"We worked really hard to put together a great offer, and we want to give the employees and their families time to consider it," a Boeing spokesman said Monday.

Associated Press

Boeing's union of machinists and aerospace workers will vote Wednesday on the company's latest labor-contract offer.

Mark Blondin, lead aerospace coordinator for the union, expressed frustration, saying, "You'd think that the bosses would want to look us in the eye and find out why we're about to shut them down, but it looks like they're going to roll the dice."

Company officials are hoping that kitchen-table economics, such as pressure from spouses and family members, will neutralize some of the vitriol and give Boeing the margin it needs. As part of that effort, Boeing offered each member a $2,500 signing bonus, but only if the contract is ratified on or before Sept. 3.

On Thursday, the company proposed a contact that would have raised wages by an average of 11%, or $34,000, for each worker over the life of the contract and boosted the monthly pension multiplier by 14% to $80 for each year of service. Under the new contract, the average union member would earn roughly $65,000 a year before overtime that averages $10,000 a year or more.

The union said it wanted pay raises of at least 13% and a larger pension amount, plus it wants the company to abandon plans to have workers take on a greater share of certain health-care costs.

Over the decades, both Boeing and the machinists have used the roller-coaster aerospace business cycle to their advantage to extract as many concessions as possible. In 2002, Boeing made substantial changes to job-security language that went into effect by default because the machinists fell just shy of enough votes to go on strike.

This time around, Boeing is booked for five years solid with new orders. The machinists believe this gives them the leverage to regain some, if not all, of the ground they believe they lost during previous talks. But Boeing refused to budge on job-security language in particular, saying it needed the freedom to make changes to the manufacturing process in order to increase productivity and cut overhead costs.

Political parties disagree on terms of talks on Tata plant

BY TARIQ ENGINEER

MUMBAI—The impasse continued over the factory designed to make the world's cheapest car as political parties sparred over terms of any negotiations that might lead to a breakthrough for one of India's most closely watched industrial projects.

For the past week, thousands of people have protested at the factory site in Singur in India's eastern state of West Bengal, disrupting plans for the production of **Tata Motors** Ltd.'s $2,500 Nano minicar.

The protests have been led by local political party the Trinamool Congress, the main opposition in the state that is governed by the Communist Party of India (Marxist).

The Trinamool Congress, led by a firebrand politician named Mamata Banerjee, and the protesters want some of the land that was purchased by the state for the factory to be returned to the farmers who made a living from it.

After meeting with the state governor Sunday, party officials signaled their willingness to enter talks over the issue but only if the West Bengal government acknowledges in writing that land can in principle be returned to farmers who have refused state compensation.

The Trinamool Congress has asked that about 160 hectares of the nearly 400-hectare factory site be returned to farmers.

"The government must write to Ms. Banerjee that the land can be returned. If there are problems, we can discuss," said Partha Chatterjee, a Trinamool Congress official.

However, the state government immediately rejected the suggestion, saying the land was legally purchased and can't be returned.

"The government has not done anything wrong," said Anil Basu, a Communist Party spokesman.

"The land acquisition has been done as per law," he said.

He said the Communist Party has been open for talks but that Ms. Banerjee hasn't reciprocated.

"If they have any alternative suggestions—increased compensation, employment—which are constructive, then we can settle the dispute amicably," Mr. Basu said. "She has chosen a path that would be a disaster for West Bengal."

The dispute has become a symbol of the clash between Indian industry's efforts to expand manufacturing and continue the country's vibrant economic growth and those who make their livelihood from the land that is required for factories.

It is a scenario being played out in many places across India, but Tata's project has attracted the most attention because of the company's reputation for social responsibility and its pioneering small-car project.

The thousands-strong protests already have disrupted work at the plant, where Mumbai-based Tata plans to produce the Nano in October.

Ratan Tata, chairman of the Tata Group conglomerate, already has said if the disruptions don't stop he will consider moving the plant elsewhere. And workers and managers have been ordered to stay home from work Friday, Saturday and Monday. (Sunday was a day off.)

Tata requires about 240 hectares for the main factory.

—Eric Bellman in Mumbai and Santanu Choudhury in New Delhi contributed to this article.

Steel goes vertical again

Rising prices prompt start-to-end plans; Brazil draws deals

By Robert Guy Matthews

Reuters

Brazil's **Cia. Vale do Rio Doce**, the world's large iron-ore miner by volume, said last month that it planned to build a $5 billion steel complex.

The global scramble for raw materials is changing the shape of the world's steel industry: Iron-ore miners are becoming steelmakers, and steelmakers are becoming ore miners.

In an effort to gain independence from the mining giants that control the world's iron ore and have raised prices more than 80% this year alone, a growing number of steelmakers are shopping for their own iron-ore mines. Meanwhile, several ore miners, including one of the world's largest, are seeking to cash in more directly on the world's growing demand for steel.

"The main difference between now and, say, 10 years ago is that there is no excess capacity in the market," says John Anton, a steel economist for Global Insight, an economic consulting company based in Waltham, Mass. "For one company to get what it needs, it now has to outbid another company."

The trend toward controlling production from the raw materials to finished product, known as vertical integration, harks back to the way the steel industry operated decades ago, when it was common for steelmakers to own their own mines. In the U.S., the practice fell by the wayside in the face of competition from foreign steelmakers. The thinking was that the best way to fend off competition from abroad was to focus on steelmaking, which historically was more profitable than mining iron ore.

The swing back toward vertical integration is most evident in Brazil, which has vast reserves of iron ore that remain either untapped or up for grabs. "Brazil is the strategic place for the steel industry," says Lakshmi Mittal, the chief executive of Luxembourg-based **ArcelorMittal**, the world's largest steelmaker by production. "It has the raw materials. It has the market. It has the growth."

In the past month, steelmakers and miners have announced major investments in Brazil's fast-growing economy. ArcelorMittal said it would pay $810 million for the Brazilian iron-ore assets of Oslo-listed **London Mining** PLC and agreed to develop a port facility to ship iron ore, while a consortium of Japanese steelmakers joined the bidding fray for a collection of Brazilian mines owned by Cia. **Siderúrgica Nacional.** Also interested in those CSN mines are steelmakers from China, India and Russia.

Meanwhile, Brazil's **Cia. Vale do Rio Doce**, the world's large iron-ore miner by volume, said last month that it planned to build a $5 billion steel complex. The mill, to be completed by 2013, would have about 2.5 million tons of capacity, with most of the output targeted for domestic use. Several other smaller iron-ore producers have indicated they also want to move into steel production.

Like many miners, Vale is flush with cash from historically high iron-ore prices and has been looking for new ways to deploy this capital. Vale has said it also wants to buy other mining operations as it moves to diversify away from iron ore. But even with $14 billion earmarked for that purpose, the company hasn't had success in buying other mining operations. For instance, Vale's proposed deal to buy smaller metals miner Xstrata PLC fell through this year over price negotiations.

In addition to the steel complex, Vale announced last month that it was building an aluminum plant in Brazil so it could feed that new plant with the bauxite from its mines. It is also investing in joint ventures with steelmakers. In April, the miner signed a memorandum of understanding with **JFE Steel** Corp., a large Japanese steelmaker, and **Dongkuk Steel Mill** Co., a South Korean-based mill, to construct a steel-slab plant in Brazil.

A Vale spokesman said that the company's mission is to enter into joint ventures with steelmakers to build in Brazil and increase the production of steel there. Those joint ventures would naturally purchase their iron-ore needs from Vale, which could deliver it more cheaply than off-shore rivals, which would have to pay transportation costs.

Steelmakers have focused on Brazil in part because Australia's iron-ore reserves are controlled by **BHP Billiton** and **Rio Tinto**, meaning there are almost no opportunities for a newcomer to gain a foothold in the market. Moreover, Australia's logistics and transportation system is nearly at capacity and labor costs are higher.

Australia also has less potential as a steel-consuming market. Civil construction projects and a growing automotive business have led to record steel output and double-digit sales in Brazil, the world's ninth-largest steel producer.

Much of ArcelorMittal's growth is coming from Brazil, where the company is investing heavily in new plants, new mines and joint ventures. Its main iron-ore supplier is Vale, and ArcelorMittal is expanding its mill in Vitória, which is directly adjacent to Vale's operations. Earlier this month, ArcelorMittal announced a $1.6 billion new steel plant, $1.2 billion expansion in one of its steel plants in Brazil, and the purchase of a 49% stake in another iron-ore mine in Brazil.

Last year, Mr. Mittal announced plans to double the capacity of its existing steel mills in Brazil, build a huge new blast furnace and extend rail lines to one of its Brazilian ports.

Manchester City majority stake is sold by Thaksin to U.A.E. firm

By Stefania Bianchi

An investment company based in the United Arab Emirates bought a majority stake in the Manchester City Football Club from former Thai leader Thaksin Shinawatra, whose funds have been seized in Thailand.

Abu Dhabi United Investment & Development Group concluded the deal Sunday night, Sulaiman Al Fahim, a board member of the closely held investment fund, told Zawya Dow Jones on Monday.

Mr. Al Fahim, who is also the chief executive of Abu Dhabi real-estate company Hydra Properties, declined to give a value for the undisclosed stake in the club. It is the first major foray into English Premier League football by Persian Gulf investors as they seek to diversify their wealth from bumper oil revenue and booming economies.

Mr. Thaksin bought Manchester City for about $160 million in 2007, after being deposed as Thailand's primer minister in a military coup. The billionaire, who is in exile in London, has been embroiled in legal problems at home ever since, with some of his assets frozen in Thailand.

English Premier League football teams increasingly have found themselves as targets of foreign investors. In 2003, Russian oligarch Roman Abramovich bought the Chelsea Football Club and has since spent hundreds of millions of dollars bankrolling the team. Manchester United, the Liverpool Football Club and the Birmingham-based Aston Villa Football Club also have been taken into foreign ownership.

Mr. Al Fahim, who will be a member of the club's new board, said the Abu Dhabi group is willing to bankroll transfers ahead of the European transfer deadline, which was Monday night. The club already has spent almost $80 million on new players for the current season.

GDF Suez net rises 14% on strong energy sales

By Adam Mitchell

PARIS—In its first earnings report, French utility **GDF Suez** SA said Monday that first-half profit rose 14%, helped by stronger energy sales and high market prices.

The company, created in July by the merger of French state-controlled gas company Gaz de France SA and Franco-Belgian utility Suez SA, said net profit rose to €3.38 billion ($4.96 billion) from €2.96 billion a year earlier. The year-earlier figures were calculated as though the two utilities had already been merged.

Total revenue rose 17% to €43.13 billion from €36.73 billion, as GDF's revenue grew 22% and revenue at Suez was up 14%.

Analysts noted that GDF made a very strong contribution to the overall first-half results. It benefited from higher gas sales amid a cold start to 2008, while its exploration and production operations, buoyed by production growth and high prices, "exceeded all expectations," Dexia analyst Steven de Proost said.

Chief Executive Gerard Mestrallet said GDF Suez's first combined financial results "attest to the strength and to the growth potential that follow from the unique complementarity of the positions of Gaz de France and Suez."

The company, one of Europe's largest utilities, said it benefited from a "growing and balanced generation portfolio" and new hydrocarbon production, and it expects high prices to prevail. It also pointed to the "diversity and quality" of its liquefied-natural-gas assets and a strong contribution from its infrastructure business as factors behind the solid earnings.

"Over the past six months we have accelerated our rhythm of industrial development in all of our activities," Mr. Mestrallet said, noting that the company spent €5.7 billion in the first half on industrial development—an increase of 50% from a year earlier.

The company confirmed its outlook, reiterating that savings related to the merger are expected to be about €1 billion a year by 2013. It will provide further details on the savings at an investor day slated for Nov. 26, Mr. Mestrallet said.

The first-half earnings were "very good numbers," said Per Lekander of UBS, echoing broad market sentiment.

GDF Suez shares gained 1.5%, or 60 European cents, to €40 Monday. Shares in GDF Suez made their stock-market debut July 22, the day the merger was finalized.

Wal-Mart emergency center keeps close eye on hurricane

By Ann Zimmerman

BENTONVILLE, Ark.—While Hurricane Gustav didn't make landfall until Monday, the emergency-operations center at **Wal-Mart Stores** Inc. has been in full swing for days.

With its huge, geographically diverse base of 4,500 U.S. stores and Sam's Club warehouses, Wal-Mart has become an emergency-relief standard bearer. The speed with which Wal-Mart and such retailers as Home Depot Inc. were able to get supplies to devastated areas after Hurricane Katrina rivaled government relief efforts.

In the aftermath of that storm, Wal-Mart's approach to emergency response was widely cited and studied by groups including the U.S. Senate and Harvard University's Kennedy School of Government. One of the biggest lessons: better coordination is needed between private and public sectors.

"The biggest change in the last three years is government opening its doors to the private sector in general, the recognition that we are part of the collective solution," says Jason Jackson, senior director of emergency management at Wal-Mart.

The retailer fielded calls late Thursday from Mississippi and Louisiana emergency workers looking for empty Wal-Mart facilities that could be used as shelters.

Meantime, an employee from Wal-Mart's trucking division worked on plans to get stores up and running after a massive storm. He contacted government agencies in Mississippi, Louisiana and Texas, the states in Gustav's path, for transportation credentials that would allow Wal-Mart trucks and emergency vehicles into the damage zones.

By Friday morning, as Gustav was lingering off the coast of Jamaica, about 10 people were manning the Wal-Mart emergency center, handling merchandise deliveries and dispatching portable satellite-phone teams, fuel teams and restoration teams to areas they expect will be at the periphery of the storm.

The center, a large open room inside Wal-Mart's headquarters, was equipped with several large flat-screen TVs tuned to the Weather Channel, as well as a bank of computers, maps of the U.S. Gulf Coast projected onto wall screens and cubicles filled with employees working the phones.

"It's been behaving erratically," said Wal-Mart meteorologist Lucas McDonald, as he surveyed Gustav's swirling weather system on a computer screen that displayed updated feeds from the National Hurricane Center in Miami. "It looks like it could slow down, which means it could be stronger and linger longer along the coast when it hits."

In a conference call with store managers in the storm's path, Mr. Jackson and his team updated them on the latest forecast. Some managers asked for evacuation plans. One wanted to make sure meat deliveries have been stopped; people preparing for storms don't buy meat, fearing it will spoil if the power fails. Wal-Mart's efforts also include mitigating its own merchandise losses because of a storm.

The Red Cross and Salvation Army plan to dispatch representatives to the Wal-Mart center, asking for supplies and helping to direct Wal-Mart workers to shelters if they need them. As he tracked Gustav's path, Mr. McDonald also watched Tropical Storm Hannah, which looked like it might hit the east coast of Florida later this week.

CORPORATE NEWS

Qantas to undergo audit

Regulator's review points to problems with maintenance

By Bill Lindsay

Associated Press

The review followed the July 25 decompression of an international flight after an exploding oxygen cylinder ripped a hole in the 747's fuselage.

SYDNEY—Australia's aviation-safety regulator will audit **Qantas Airways** Ltd.'s aircraft and practices after a review found its maintenance performance had slipped, a setback for an airline known for its strong safety record.

The Civil Aviation Safety Authority also said it instructed Qantas to produce a plan to address deficiencies in meeting some of its own maintenance-performance targets, and to report on "how the recent failures to fully comply with airworthiness-directive requirements have been addressed."

The review, which began in early August, found no relationship between a July explosion that tore a hole in the fuselage of a Qantas Boeing 747 and several less serious incidents. It also didn't find an increase in the airline's rate of safety incidents.

Still, the review "uncovered signs of emerging problems" in Qantas's maintenance systems and performance, said Mick Quinn, the authority's deputy chief executive officer, operations. "The review found maintenance performance within Qantas is showing some adverse trends and is now below the airline's own benchmarks," he said.

Geoff Dixon

Qantas Chief Executive Geoff Dixon said the airline's network-performance standards have been "significantly impacted" by a labor dispute between the carrier and its 1,500 aircraft engineers.

"These issues are not about safety or compliance and we are working to bring our network performance back to the standards which have earned us a reputation as one of the best and most reliable airlines in the world," he said.

While the pay dispute was settled last month, Mr. Dixon said the difficulties generated from a series of work stoppages by the engineers since May will continue for a "few weeks."

The review followed the July 25 decompression of an international flight after an exploding oxygen cylinder ripped a hole in the 747's fuselage. The plane landed safely with no fatalities. The review also followed six other less serious incidents.

The audit, which will include a full physical and maintenance-documentation inspection of one plane from each of Qantas's three main aircraft types, Boeing 747, 737 and 767, is expected to take about three months.

The aviation authority said the audit also will examine "whether the existing lines of authority and control over maintenance within the airline are delivering the best possible outcomes." Qantas temporarily grounded six Boeing 737 aircraft in August after it was discovered that work done on an aircraft's bulkhead to comply with an airworthiness directive hadn't been fully documented and reported.

A spokesman for the aviation authority said the organizational management structure in Qantas, where an in-house engineering and maintenance company provides services for the airline company, may have contributed to this oversight. "We're not saying change the structure...but the way they have it structured potentially had some risks of things falling through the cracks," he said.

Mr. Dixon said the management processes and responsibilities between Qantas's engineering and airline arms were consistent with regulations in Australia, but that the airline will work with officials to ensure the company is able to adapt to pending legislative changes.

Qantas enjoys a reputation for safety and strong management. But its position has been challenged in recent years by increasing competition on routes to and from Australia.

Fashion label Jil Sander to be sold

By Christina Passariello

Associated Press

Change Capital Partners reined in costs at German fashion label **Jil Sander**.

PARIS—Private-equity firm **Change Capital Partners** Monday sold minimalist German fashion label Jil Sander to Japan's **Onward Holdings** Co., in one of the first success stories for private equity in the luxury-goods industry.

Onward, an apparel maker, agreed to buy Jil Sander for €167 million ($245 million), more than triple the €50 million Change Capital Partners paid for the brand 2½ years ago. In addition, it will repay €45 million in debt. Onward, which owns Italian clothing manufacturer Gibo, has been looking to widen its overseas sales.

"Private equity can bring focus," Change Capital Partners founder Luc Vandevelde said in an interview. When Change Capital bought Jil Sander from **Prada Group** NV in 2006, the brand had become an unprofitable distraction from its main Prada label.

Not all private-equity adventures in luxury goods have been as smooth sailing as Change Capital's ownership of Jil Sander. After Permira bought Valentino Fashion Group in May of last year for €2.6 billion, the private-equity fund had to find a successor to the high-profile designer Valentino Garavani, who retired. This year, the chief executive of Valentino Fashion Group's cash cow Hugo Boss resigned over strategic differences with the new owner.

Other private-equity firms have found it difficult to exit their investments, as the credit crunch has sapped the mergers-and-acquisitions market recently. In January, Apax Partners shelved plans to list Tommy Hilfiger, which it bought for $1.6 billion in 2006.

At Jil Sander, the turnaround came by way of a strict focus on reining in costs. When Change Capital bought the label from Prada, three of its flagship stores—in Paris, London and New York—were losing millions of euros per year. They were moved to smaller, cheaper locations nearby.

Change Capital also closed duplicate production and logistics operations in Germany, consolidating them in Italy. Those moves enabled Jil Sander to swing from an annual loss of €12.9 million before interest, taxes, depreciation and amortization at the end of January 2006 to a profit of €6.1 million before interest, taxes, depreciation and amortization two years later.

—Hiroko Tabuchi in Tokyo contributed to this article.

Vivendi posts rise in net, outlines SFR unit goals

By Jethro Mullen

PARIS—French entertainment and telecommunications conglomerate **Vivendi** SA reported a 12% rise in second-quarter net profit, helped by a gain.

The owner of French mobile operator SFR and Universal Music Group, the world's biggest record label by sales, said net profit increased to €667 million ($978.6 million) from €594 million a year earlier. The results were boosted by an €83 million gain from the early redemption of exchangeable bonds in Sogecable, the broadcasting unit of Spanish media group **Promotora de Informaciones** SA.

Adjusted profit, which strips out most nonrecurring gains and charges, edged up to €757 million from €755 million a year earlier.

The company in July reported a 15% increase in second-quarter revenue to €5.99 billion, boosted by the acquisition of fixed-line and broadband operator Neuf Cegetel.

Jean-Bernard Levy

Vivendi on Monday said that thanks to the Neuf acquisition, its SFR unit—the second-largest French mobile operator by revenue after **France Télécom** SA's Orange—aims to reap €250 million to €300 million a year in savings from 2011.

Vivendi's purchase of Neuf means SFR is now able to better compete with incumbent France Télécom. The acquisition also helped consolidate the French telecommunications sector, now grouped around five main players.

"As everybody knows, the telecom business is a scale business," SFR Chief Executive Frank Esser said in a conference call with analysts. SFR plans to have five million French households connected to its next-generation fiber-optic network by 2013, he said.

Vivendi confirmed its full-year forecast of adjusted profit growth similar to the 8.3% increase reported for 2007. The outlook excludes the impact of the acquisitions of Neuf and videogame company Activision Inc., which brought together Vivendi's World of Warcraft online role-playing game with Activision's "Guitar Hero" videogame franchise.

Chief Executive Jean-Bernard Levy said in a conference call with reporters that Vivendi had abandoned plans to carry out a rights issue to help finance the two acquisitions.

Still, charges linked to the transactions and restructuring and transition costs tied to the two deals will drag down Vivendi's 2008 reported adjusted profit, Mr. Levy said, without elaborating.

Shares in Vivendi fell slightly to close at €26.30, down 13 European cents Monday in Paris.

Colonial loses $3.5 billion after write-downs of assets

By Christopher Bjork

MADRID—Spanish real-estate company **Inmobiliaria Colonial** SA said late Sunday that it swung to a first-half loss of €2.38 billion ($3.5 billion) as it wrote down the book value of its assets, reeling from the effects of the global credit crunch and the meltdown of the Spanish real-estate market.

Colonial is one of the largest real-estate companies to be hit by the collapse of Spain's property boom. Its market value briefly topped €9.5 billion at the peak of a real-estate bubble last year, before it started to fall rapidly amid indications of a deceleration in the industry. It now has a market value of about €630 million.

The company wrote down the value of its assets by about €2.58 billion, or nearly 20%. At the end of the first half, its total assets were valued at about €10.5 billion. For the year-earlier period, Colonial reported a net profit of €316.4 million.

Total revenue fell slightly in the first half to €270.4 million from €271.9 million a year earlier.

The write-downs included the elimination of €667.5 million in goodwill Colonial had booked when it acquired shopping-mall developer Riofisa. The company said there were "reasonable doubts" that it would ever see any of this goodwill—an accounting term used to describe the value of intangible assets such as a company's brand, good customer relations, and other factors that add value—because it may decide to sell Riofisa at some point.

It also slashed the book value of its 15% stake in **Fomento de Construcciones y Contratas** SA by €800 million. The remaining €1.1 billion cut was the result of a reduction in the value of its real-estate portfolio.

Over the past year, demand for new homes has collapsed and financing conditions for builders have become much more difficult. About a fifth of Colonial's business is residential development and land.

The bulk of Colonial's income comes from leasing big buildings to companies—a segment considered more resilient in a downturn—but soaring financing costs made its €9 billion debt load unmanageable. Colonial said Monday that it reached a preliminary agreement with its main creditors on the refinancing of the most of its debt. The company has said it may sell Riofisa to cut debt, and it is also talking to potential suitors on the sale of part of its 84% stake in French real-estate company **Société Foncière Lyonnaise**.

CORPORATE NEWS

U.S. drug ads questioned

Targeting consumers had little impact on sales of products

By Keith J. Winstein And Suzanne Vranica

Consumer advertising for prescription drugs had a negligible impact on sales of products studied by Harvard Medical School researchers—in a finding that may confound both advertisers and their opponents.

The study may undercut the arguments of opponents of such ads, which have been allowed almost nowhere outside the U.S. Critics say they lead to drug overuse and misuse by impressionable patients pressing their doctors to prescribe what is seen on TV.

But the study also raises the question of whether the pharmaceutical industry's $4.8 billion annual spending on such ads is a waste of shareholders' money.

The U.S. Food and Drug Administration, which loosened its regulations to widely permit such ads in the 1990s, is under pressure to tighten its rules and has announced it will study the issue. Meanwhile, the European Union, which bans consumer ads, is considering a proposal to loosen its rules. In Canada, where ads are also banned, a court battle could lead the government to allow them.

Other studies have found that direct-to-consumer advertising of drugs does raise sales. But the new study will draw some attention because it is among the first to compare the behavior of people exposed to drug ads with people who weren't. The results were published online by the British Medical Journal.

Several industry studies have calculated that for every dollar spent on a drug ad aimed at consumers, a manufacturer can expect to recover $2 in sales over the lifetime of a drug.

But those calculations are difficult to do correctly, said Stephen Soumerai, a Harvard Medical School professor who co-authored the new study. Just because a drug's sales are increasing along with its advertising doesn't mean the ads are causing the sales, Mr. Soumerai said. "They advertise popular drugs. They're going to be going up anyway," he said.

To try to correct for that issue, Mr. Soumerai and colleagues needed to find a control group of patients not exposed to American drug-company ads. They found one in Canada's French-speaking province of Quebec—a group of North Americans who spend less than 5% of their television-watching time tuned to U.S. channels.

The researchers then compared prescribing behavior in Quebec with that in Canada's English-speaking provinces—where residents are estimated to spend about 30% of their watching time on American channels.

The results: during two major ad campaigns—for **Amgen** Inc.'s Enbrel arthritis treatment and **Schering Plough** Corp.'s antiallergy drug Nasonex—there was no change in the difference between per-capita usage in Quebec and English-speaking parts of Canada. During a third campaign—for **Novartis** AG's Zelnorm, a since-withdrawn treatment for irritable bowel syndrome—usage in English-speaking Canada went up briefly over Quebec, but soon settled back.

"Direct consumer advertising is really a lousy way to influence prescribing," Mr. Soumerai said. He said the group intended to expand the results to cover more drugs.

Several advertising executives questioned the validity of the study. "To conclude that DTC doesn't work based on the U.S. advertising that spills into Canada is flawed," says Mel Sokotch, a veteran ad executive who consults for ad firms and pharmaceutical companies.

Sander Flaum, managing partner of Flaum Partners, said there is ample evidence that DTC prescription-drug ads do work. "Had anyone ever heard of erectile dysfunction or overactive bladder before the drugs were advertised?"

Mr. Soumerai said he didn't necessarily disagree. "Some advertising probably works," he said. But "it was pretty unimpressive, on the whole, across three drugs."

Debt costs slash Ferrovial's profit

By Santiago Perez

MADRID—Spain's **Grupo Ferrovial** SA said its first-half net profit nose-dived 92%, hit by debt-servicing costs, a slowdown in its Spanish construction business and losses as its British airports unit, BAA.

Spain's second-largest construction company by market value behind **Actividades de Construccion & Servicios** SA on Monday said first-half net fell to €58.7 million ($86.1 million) from €756 million a year earlier.

Ferrovial's revenue fell 5.2% to €6.76 billion, hurt by a 4% drop in sales from construction operations.

Revenue generated by all its businesses in Spain fell 5.2% for the latest period, while revenue at its U.K. operations dropped close to 12%.

Ferrovial said financing costs on its debt of about €28.7 billion rose 21% to €1.10 billion.

Two years ago, Ferrovial led a group of investors in the highly leveraged £10.3 billion ($18.78 billion at current exchange rates) takeover of BAA, which is one of the world's largest airport operators and manages seven U.K. airports.

Ferrovial expects BAA to suffer €300 million in losses this year due to higher costs and the inauguration of a new terminal at London's Heathrow airport.

Ferrovial shares have lost about 28% of their value in the past year on concerns about BAA and the U.K. construction market following a dramatic correction in economic growth. The shares closed Monday 0.76% lower at €33.98 in a broadly weaker Spanish market.

"It's obvious that the group's businesses are being affected by the economic situation," Chief Executive Joaquin Ayuso told analysts at a conference call. "However, we are unconcerned because we have assets that won't be as deeply affected by the economic situation."

Uncertainty over BAA persists, as the U.K.'s competition regulator recently said ownership of seven U.K. airports by BAA was having adverse consequences for passengers and airlines. It recommended BAA sell two of its three London airports and either its Edinburgh or Glasgow airport in Scotland.

China Resources Power net falls 29%

By Aries Poon

HONG KONG—**China Resources Power Holdings** Co. said its first-half net profit fell 29% from a year earlier on higher coal costs, but a big increase in generating capacity helped it outperform the four other Chinese power producers listed in Hong Kong.

Chief Financial Officer Wang Xiaobin said at a news conference that high coal costs will continue to weigh on earnings in the second half, but strong cash flow from operations will give the company sufficient funds to acquire cash-strapped rivals, buy assets from its parent and expand capacity.

China Resources Power, a unit of state-owned **China Resources National** Corp., said its net profit for the first half was 1.01 billion Hong Kong dollars (US$129.4 million), down from HK$1.41 billion in the same period a year earlier. Revenue rose 83% to HK$12.14 billion.

Its unit fuel cost rose 24% from a year earlier to 208.50 yuan (US$30.44) a megawatt-hour. Ms. Wang said she expects unit fuel cost this year to rise by more than 20%.

"I think the government will likely raise tariffs again by this year-end, with an increment similar to the last two hikes," she said. "But while the hike may not necessarily restore our profit, it will help cut our losses."

Beijing raised domestic electricity prices by about 11% in two increases this year and has told thermal-coal suppliers to cap their prices. Some power plants in China have shut down because of high operating costs, while some are running at a loss. Beijing's policies are aimed at stabilizing power supply in the country.

Three of the five Hong Kong-listed Chinese power companies—Huaneng Power International Inc., the country's biggest power company by capacity, Huadian Power International Corp. and China Power International Development Ltd.—posted first-half net losses. Datang International Power Generation Co. reported a 78% drop in its net profit because of coal costs.

China Resources Power said net cash flow from operations in the first half rose 24% to HK$2.94 billion from HK$2.38 billion. It was the only Hong Kong-listed Chinese power firm that showed an increase in cash flow during the period.

GLOBAL BUSINESS BRIEFS

Taylor Nelson Sofres PLC

U.K. firm again urges holders to reject WPP takeover bid

U.K. market-research and information group **Taylor Nelson Sofres** PLC again called on its shareholders to reject a £1.2 billion ($2.2 billion) takeover offer from advertising company **WPP Group** PLC. Friday, WPP said it had received acceptances for 8.6%, or 35.9 million, of TNS shares and extended its offer, which is conditional on receiving more than 90% acceptances from TNS shareholders and competition approval, until Sept. 12. The only other potential suitor for TNS, Germany's GfK AG, had dropped out of talks last week, citing funding problems. WPP wants to combine TNS with Kantar, its own market-research and information group. Beefing up its market-research business could help WPP though the slowdown in advertising expected in the aftermath of the Beijing Olympics and the U.S. election.

Sacyr Vallehermoso SA

Spanish construction company **Sacyr Vallehermoso** SA swung to a first-half loss, hit by accounting adjustments following the sale of its stake in France's **Eiffage** SA. The Madrid-based company reported a net loss of €87.8 million ($128.8 million), compared with a net profit of €602.9 million a year earlier, even though revenue rose 14% to €2.92 billion from €2.57 billion. Excluding the impact of the sale of its 33.32% stake in Eiffage for €1.92 billion in April, the company said its net profit would have been down 3.5% to €415.5 million from €430.4 million. Sacyr, which recently dropped a hostile takeover bid for Eiffage, used to consolidate the French company's results on its balance sheet. The proceeds from the sale are being used to repay some of Sacyr's €18.26 billion debt.

Levi Strauss & Co.

Levi Strauss & Co. said its chief financial officer, Hans Ploos van Amstel, has decided to leave the company to pursue other opportunities. The closely held jeans maker named Heidi Manes, its corporate controller and principal accounting officer, interim CFO while it searches for a permanent replacement. Mr. Ploos van Amstel will serve as a consultant for the next several months to help with the transition. Levi Strauss spokesman Jeff Beckman said Mr. Ploos van Amstel's departure was the result of "an unexpected personal decision." Mr. Ploos van Amstel wasn't available to comment, the company said. Levi Strauss Chief Executive John Anderson said Mr. Ploos van Amstel "was a key contributor in strengthening the financial performance of the company."

Adecco SA

Adecco SA, the world's largest staffing company, agreed to buy **DNC De Nederlanden Compagnie** NV for about €56 million ($82 million), the latest move in the consolidation of Europe's fragmented employment market. Switzerland-based Adecco, which hasn't been successful in its £1.3 billion ($2.4 billion) approach for the U.K.'s **Michael Page International** PLC, is offering €12.25 per DNC share. The shares were up 48% at €11.95 in late Amsterdam trading Monday.Netherlands-based DNC is a specialized employment firm active in the finance, legal, management-support and information-management sectors.The deal will help Adecco bolster its professional-staffing operations.

Accor SA

French hotels and services company **Accor** SA said it added new members to the executive board and expanded responsibilities of other members. Chief Executive Gilles Pelisson said the changes are designed to help the company as "economic conditions tighten." Oswaldo Melantonio Filho, 56 years old, chief operating officer of the services operations in Brazil, will represent services, while Olivier Poirot, 40, chief operating officer of Accor's North American operations, will represent the hotel division. They will be joined by Executive Vice President Jean-Luc Chretien, 51, in charge of Accor's different distribution channels, and Corporate Secretary Pascal Quint, 50, who will direct legal affairs, risk management and insurance.

Santander BanCorp

The president and chief executive of **Santander BanCorp**, of Puerto Rico, resigned and will be succeeded by an executive from the bank's Spanish majority owner. Parent company **Banco Santander** SA owns 91% of the bank, and Juan Moreno Blanco, Banco Santander's director of business development for America, will become chief executive. José Ramón González, who resigned as CEO Thursday, will stay on the bank's board. The bank also said it discontinued the dividend on its common stock, "in light of the continuing challenging economic conditions in Puerto Rico and the global capital markets."

OAO Uralkali

Russian fertilizer producer OAO **Uralkali** said its first-half net profit soared thanks to significantly higher potash prices. Net profit jumped to 13.79 billion rubles ($559.5 million) from 3.82 billion rubles a a year earlier, while revenue more than doubled to 28.56 billion rubles. "The dynamics of the international potash market have continued to benefit Uralkali and allowed the company to increase production volumes amid growing global demand," the London-listed company said. The company's average realized potash price more than doubled from a year earlier to $387 per metric ton, said analysts at Alfa Bank in Moscow, while volumes sold rose 8%.

LVMH

LVMH Moët Hennessy Louis Vuitton SA has signed an agreement to acquire Dutch yacht maker Royal van Lent Shipyard BV from the Amsterdam-based private-equity firm **Egeria**. The move reflects the luxury-goods company's expansion into the yacht industry—a sector that has grown rapidly as newly minted moguls from Russia and the Middle East pour their oil wealth into mammoth boats. LVMH paid "several hundred million euros" for the yacht maker, according to a person familiar with the matter. The company's yachts sell for an average of €30 million ($44 million) each, the person added.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

ROMANIA

Economy expands 9.3%, bucking European trend

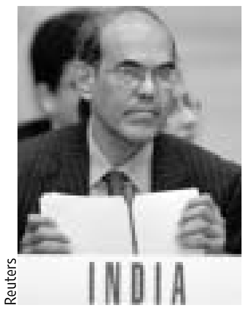
Shutterstock

ROMANIA'S economy bucked the broader European slowdown in the second quarter, growing 9.3% from a year earlier thanks to a recovering farm sector and booming lending and investment, the National Statistics Institute said. The pace improved on an 8.2% expansion of the first quarter and a 5.7% rate from the second quarter of 2007.

Analysts said the growth could continue in the current quarter, as the government seeks to stimulate the economy ahead of general elections in November, but said the country is also in danger of overheating as it catches up with its more-developed neighbors. *—Christopher Emsden*

INDIA

Finance secretary to take top central-bank position



Reuters

THE INDIAN government named Finance Secretary Duvvuri Subbarao, the finance ministry's top-ranking bureaucrat, as its new central-bank governor in a move that is expected to continue the bank's strict anti-inflation policies.

Mr. Subbarao, 59 years old, will take over from Yaga Reddy, who retires Friday. Before serving as finance secretary, Mr. Subbarao held a number of jobs in state and central governments, including finance secretary of the government of the southern state of Andhra Pradesh and secretary to the prime minister's Economic Advisory Council. He was also an economist at the World Bank. *—Jackie Range*

UNITED NATIONS

Rights chief courts Israel, U.S. for racism conference

Associated Press/Keystone

THE U.N.'S new human-rights chief said she hopes to persuade the U.S. and Israel to drop their opposition to a global racism conference. "My instinct would be to get as many countries to participate as possible," Navi Pillay, above left, said on her first day as U.N. High Commissioner for Human Rights.

The "Durban II" meeting in Geneva next year will review progress in fighting racism since the U.N's first such conference in 2001 in Durban, South Africa. The U.S. and Israel walked out midway through that conference because of a draft resolution that singled out Israel for criticism and compared Zionism to racism. *—Associated Press*

Fukuda resigns, marking Japan's latest test

Surprise move comes after weak reaction to economic package

BY YUKA HAYASHI
Tokyo

PRIME MINISTER Yasuo Fukuda resigned Monday, saying he wasn't successful in dealing with Japan's enormous challenges, as the world's second-largest economy flirts with recession and its population declines.

The surprise resignation came days after an economic-revitalization package got a lukewarm reception—and less than three weeks after the government announced the economy contracted sharply in the latest quarter.

An immediate favorite to take over from Mr. Fukuda was Taro Aso, a former foreign minister who is now the general secretary of the ruling Liberal Democratic Party. Mr. Aso, 67 years old, is a sharp-tongued political fighter but isn't known for taking a stand on economic policy.

In a televised news conference, the 72-year-old Mr. Fukuda said that since he took office last September, his efforts to pursue important policies were repeatedly hampered by the opposition's actions in a split Parliament. Frustrated with the slow results, Mr. Fukuda said he decided it would be better for someone else to lead.

"I made a decision to step down today because I believe we need to have a new leadership to achieve policy goals," Mr. Fukuda said. In recent months, he and his party suffered from low approval ratings that hovered around 30%

Mr. Fukuda's resignation set off harsh criticism of him and his ruling Liberal Democratic Party from opposition politicians as it came less than a year after his predecessor Shinzo Abe suddenly gave up, also after less than a year on the job.

Monday's resignation came as a surprise even to top LDP officials. Only a month ago, Mr. Fukuda overhauled his cabinet and appointed a number of new ministers in key positions such as finance and economy.

The main cause of Mr. Fukuda's downfall was an erosion of the LDP's power after it lost control of Parliament's upper house in an election last year. This left Mr. Fukuda with a hard task: Though the ruling coalition controls the more-powerful lower house, the upper house can delay legislation and veto key appointments. The opposition Democratic Party of Japan used its newly won clout to frustrate Mr. Fukuda's government, with the aim of forcing him to call a general election.

Because of the split Parliament, Japan had to temporarily drop out of a mission to refuel ships operating in the Indian Ocean as part of a U.S.-led operation in Afghanistan. Earlier this year, Japan's central bank was left without a governor for weeks after the DPJ vetoed several candidates put forward by Mr. Fukuda. One of the vice governor's positions still remains vacant, almost half a year after contention began about top Bank of Japan posts.

The departures of two prime ministers in less than two years come as Japan slips back into a period of drift. After more than a decade of malaise, Japan's economy started recovering in the early 2000s, helped by strong leadership of Junichiro Koizumi, who pursued policies to overhaul and invigorate the economy during his five-year tenure as prime minister.

But since Mr. Koizumi's departure in September 2006, the momentum to deregulate the economy has slowed and the focus of policies has shifted toward aiding those who had lost ground during his era, such as rural communities and low-income workers.

Mr. Fukuda is leaving his job just as the Japanese economy enters a slump after years of steady, if modest, growth. The economy shrank at an annualized pace of 2.4% in the April-June quarter, representing the largest decline in nearly seven years and the worst performance among the world's major economies for the second quarter.

The country that had experienced stable or weaker prices for years is now experiencing a sudden emergence of inflation due to higher oil and commodities prices, hurting consumers' ability to spend and cutting into corporate earnings. The core consumer-price index, which excludes fresh food but includes energy products, rose 2.4% in July from a year earlier, the fastest pace in a decade. A year earlier, the same index fell 0.1%.

Associated Press

Prime Minister **Yasuo Fukuda bows** at the end of a news conference where he said he is resigning after less than a year in a bid to break Japan's political deadlock.

Meanwhile, Japanese exporters are seeing their sales erode in pivotal markets like the U.S. and Europe, and many are likely to report profit declines for the first time in five years or more. Bankruptcies among smaller companies are increasing, as banks, hurt by the turmoil in the global financial market, tighten credit.

To help the nation weather the rough patch, Mr. Fukuda's government unveiled an 11.7 trillion yen ($108 billion) economic-stimulus package last Friday, with a hodgepodge of steps including a one-time tax cut and loan guarantees for smaller companies. The government plans to implement actual fiscal spending of some $16 billion to cover these steps, excluding the tax cut, during the current fiscal year that ends March 31, and will probably spend a similar amount next fiscal year.

Mr. Fukuda said Monday that this package, put together by his new cabinet, was one of the main achievements of his government, along with a plan to create an agency for consumer protection and a law change aimed at reducing wasteful road construction.

The prime minister said now that these policies have been drafted, he wanted to exit to make room for new leadership before the Parliament starts a new session on Sept. 12.

Mr. Fukuda didn't say when the resignation would take effect, signaling that he would stay in office until the LDP selects a new leader. The party must hold an internal election to decide on its new chief, a process that can take weeks. Candidates for the top job have been known to fluctuate—last year, Mr. Aso was seen as the favorite to succeed Mr. Abe, but Mr. Fukuda came in at the last minute to overtake him.

Whoever gets the job, however, might have a short tenure. A general election for the lower house is scheduled for September 2009. And there is a chance for a snap election before that as the opposition parties have been calling for one, citing the split Parliament. The LDP has so far resisted such a demand because an election now would mean a major defeat given how unpopular Mr. Fukuda has been.

The LDP "should dissolve the Parliament now and hear what the voters have to say," Yukio Hatoyama, one of the top officials at the DPJ, said after Mr. Fukuda's resignation. "It's totally irresponsible of Mr. Fukuda to abandon the job without achieving anything."

After long wait, a chance to lead

BY HIROKO TABUCHI

TOKYO—The early front-runner to succeed Yasuo Fukuda as Japan's prime minister is Taro Aso, a veteran politician who has waited for this opportunity for years. Mr. Fukuda said Monday he would resign.

If the 67-year-old Mr. Aso wins internal elections to lead the ruling Liberal Democratic Party, a post that would ensure his selection as prime minister, he will be fourth-time lucky. Mr. Aso, currently the LDP's secretary-general, has run for the top job three other times, in 2001, 2006 and 2007. He lost each race to Japan's previous prime ministers, Junichiro Koizumi, Shinzo Abe and Mr. Fukuda, respectively.

Now, some analysts say Mr. Aso's time has finally come. Partly as consolation for his failed bids at party leadership, Mr. Aso has been awarded an impressive résumé of posts, four times serving as cabinet minister and twice holding the No. 2 position at the LDP. He has emerged as a natural leader within the LDP, says political analyst Eiken Itagaki.

"The party is looking for strong leadership, and there's a view that he's the only one left who can provide that," Mr. Itagaki says.

Mr. Aso isn't a champion of change like Mr. Koizumi, who led the country out of an economic slump by cutting through pork-barrel policies in favor of small-government policies. Analysts say Mr. Asocould allow backsliding from Mr. Koizumi's drive for a smaller government.

ECONOMY & POLITICS

Zardari would hold broad Pakistan power

Sway may approach that of Musharraf; concern in military

By Zahid Hussain

ISLAMABAD, Pakistan—Asif Ali Zardari is the odds-on favorite to become Pakistan's president Saturday after a long-running campaign to curtail Pervez Musharraf's powers, but once in office he will inherit much of the same grip on power that Mr. Musharraf enjoyed at the height of his military-backed presidency.

Mr. Zardari will retain the power to dismiss Parliament—a power that both he and the Pakistan People's Party, which he leads, have said in recent weeks should be eliminated. He will be the supreme commander of the nation's military forces and custodian of the nation's nuclear arsenal. And he will enjoy virtually unchallenged power in the legislature, where he installed the prime minister several months ago.

The PPP not only is the senior partner in the national ruling coalition but also has a majority in three of the four provincial governments.

Mr. Zardari, 52 years old, is expected to win the presidency for a five-year term in Saturday's election after his predecessor, Mr. Musharraf, resigned from office last month under threat of impeachment charges. The election is held by an electoral college comprising both houses of Parliament and provincial legislators, giving Mr. Zardari hefty support; there are two other contenders for the position.

Mr. Zardari's supporters say the huge influence he will hold in the job provides the best chance of much-needed stability in the volatile nation, which has lurched through several political crises during the past year and is struggling with slowing economic growth and a growing Islamic insurgency.

"Mr. Zardari believes in the balance of power between the president and the Parliament," said Sherry Rehman, information minister.

But even some of Mr. Zardari's associates acknowledge he has no interest now in giving up any of the powers he sought to reduce before he decided he wanted to be president. "He is interested in running the show himself," said a senior PPP official.

Others contend that Mr. Zardari as a powerful president isn't what the country needs as it seeks to transition from nine years of military rule to a civilian democracy, a process that began with much promise with parliamentary elections in February but has stalled since because of months of bickering among the major parties.

"Given the problems of Pakistani politics, a president needs to function as an elder statesman and nonpartisan adviser to keep the democratic process on the track," said Hasan Askari Rizvi in Lahore, a visiting adjunct professor of South Asian studies at the School of Advanced International Studies at Johns Hopkins University in Washington, D.C. "With Mr. Zardari in the office, it will be difficult for the presidency to play such a role."

Mr. Zardari remains a controversial and divisive figure. He spent a total of 11 years in prison in Pakistan on corruption and other charges. He was never convicted of those charges and was granted an amnesty last year. He said the charges were politically motivated.

A recent public-opinion poll conducted by ARY, an independent Pakistani television channel, showed his approval rating as the lowest among the three presidential candidates.

His potential ascent to the presidency also may alarm the military, which has stayed on the sidelines of politics so far this year. "It is certainly not good news for a country as it passes through one of its most difficult periods in its history," said a senior security official. "He may amass more power as president, but he will always lack authority."

There is apprehension in the military that Mr. Zardari may try to force changes among senior commanders, a move that could bring him into direct confrontation with the army's top generals, according to a former Pakistani diplomat.

Mr. Zardari's relations with the military were soured in July when his government tried to put Pakistan's premier spy agency, Inter Services Intelligence, under the home ministry rather than the military. The decision was reversed under pressure from the military leadership, but the effort sowed mistrust. "The move had a disastrous consequence," said a senior aide to Prime Minister Yousaf Raza Gilani.

Mr. Zardari's potential ascent to the presidency may alarm the military.

Mr. Zardari also is expected to assert control over the nation's antiterrorism efforts, which the government has struggled to coordinate and left largely to the military. "The presidency under Mr. Zardari should be better-placed to face such a grave national challenge," said Ms. Rehman, the information minister.

Greater government focus on the problem is likely to be welcomed by the U.S. and North Atlantic Treaty Organization, which have pushed Pakistan to do more to prevent militants attacking their troops in Afghanistan from across the border. But there also is a chance that the counterinsurgency will become more politicized under Mr. Zardari as president.

The government has ordered the military to cease firing on militants in the embattled region of Bajur starting Tuesday for the holy Muslim month of Ramadan, a move some fear will allow the militants to regroup.

Pakistani authorities have taken similar action in the past and a military spokesman said troops would retaliate if attacked. But the cease-fire decision followed a threat by Maulana Fazlur Rehman, the leader of the Jamiat Ulema-e-Islam political party, to withdraw support for Mr. Zardari's candidacy.

The government also last weekend allowed the reopening in Islamabad of two madrassas, or Islamic schools, that were closed by Mr. Musharraf's government last year after the military launched a raid on extremists holed up in Islamabad's Red Mosque. Both schools have been described by the government in the past as centers of militancy.

U.S. REPUBLICAN CONVENTION

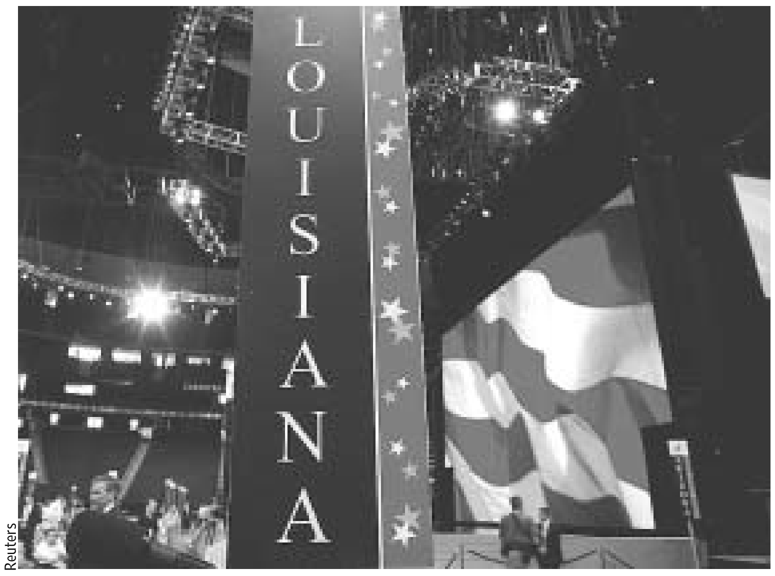
Gustav delays gathering

McCain to raise cash for storm's victims; plans up in the air

Sen. John McCain canceled the first day of the Republican National Convention, and his campaign made plans to turn the gathering into a giant fund-raiser as they braced for the natural and political fallout from Hurricane Gustav.

Appearing by satellite from St. Louis, he told reporters in St. Paul, Minn., ahead of the convention that "we have to do away with our party politics and act as Americans."

By **Elizabeth Holmes** *in St. Louis and* **Laura Meckler** *in St. Paul, Minn.*



Reuters

With Hurricane Gustav bearing down on the Louisiana coastline, **some state Republican delegates** have returned to their home state.

Campaign and convention officials said no decisions have been made about what will happen beyond Monday night, saying decisions would be made day by day. They wouldn't rule out the possibility that Sen. McCain wouldn't appear in person to accept the nomination, a politically important moment to speak to many voters who don't normally hear his words.

Campaign manager Rick Davis said the idea that he wouldn't appear is possible but "completely premature," and a senior adviser said he can't foresee circumstances where he wouldn't be in St. Paul Thursday night.

One day before the convention was scheduled to begin, it was clear that the hurricane presented both risk and also opportunity for Sen. McCain, who is set to claim the Republican nomination that he first sought more than eight years ago.

The campaign doesn't want to be seen as politicking or celebrating as Americans are suffering. At the same time, a show of compassion could be politically useful, even as they forego the opportunity for prime-time assaults on Democratic Sen. Barack Obama. Sen. McCain's campaign theme is country over self, and turning a political gathering into a community-service event is not an altogether bad thing for him.

"Ahead of time, I want to thank all of my fellow Republicans as we take off our Republican hats and put on our American hats," Sen. McCain told reporters.

Mr. Davis and others said they are making plans to mobilize delegates gathered in St. Paul for a possible telethon to raise money for disaster victims. Lobbyists and others sponsoring parties are being asked to turn those gatherings into fund-raisers.

By lunchtime, the campaign had decided to call off the entire opening night's program. Instead, the convention will meet for about 2½ hours on Monday afternoon for business such as adopting the rules and the party platform and electing convention officers.

The convention also must formally nominate their presidential and vice-presidential candidates.

Mr. Davis said the convention would try to reschedule speaking slots for secondary speakers on Monday's schedule.

Sen. McCain said he expects the response to this storm to be a significant improvement over that of 2005's Katrina. "The level of cooperation between the federal government, the state governments, the local governments in Louisiana and in the other effected states is excellent," he said. "And I have every expectation that we will not see the mistakes of Katrina repeated."

It wasn't the first time Sen. McCain got into the disaster zone.

Govs. Bobby Jindal of Louisiana, Rick Perry of Texas and Charlie Crist of Florida have all said they plan to stay home from the convention to direct preparations for the storm.

Campaign aides to Sen. Obama said the Democratic nominee talked Sunday morning with Louisiana's lieutenant governor, Mitch Landrieu, and was briefed by Homeland Security Secretary Michael Chertoff on the status of the storm, the evacuation process and coordination between federal, state and local authorities. A day earlier, Sen. Obama spoke with other federal and state officials.

Democratic vice-presidential nominee Sen. Joe Biden dispensed with his jocular style as he opened a town hall meeting Sunday afternoon in Toledo. "Say a little prayer because these folks have been treated like hell," Sen. Biden said of the Gulf Coast residents.

In St. Paul, parties were already morphing or falling away altogether. A Spirits of Minneapolis event, a party scheduled for Monday and sponsored by the Distilled Spirits Council, was transformed into Spirits of the Gulf Coast, a fund-raiser for the American Red Cross with the hosts pledging to match the donated funds. The Florida Republican Party canceled the Florida Convention Sunset Party planned for Thursday and said money for the event would be donated to the American Red Cross as well.

The biggest question was how Sen. McCain would deliver his acceptance speech and what he would say. One way or another, the campaign is eager for a chance to upstage his rival, Sen. Obama, who delivered a stirring address to 80,000 people at a football stadium at the Democratic National Convention in Denver last week.

Sen. McCain traveled Sunday to Jackson, Miss., for a briefing at the Mississippi Emergency Management Agency Emergency Operation Center. Then the Arizona senator and Mississippi Gov. Haley Barbour held a teleconference call with the Republican governors of three other states in Gustav's path: Messrs. Jindal and Perry, and Gov. Bob Riley of Alabama.

"The level of cooperation between the federal government, the state governments, the local governments in Louisiana and in the other affected states is excellent," Sen. McCain said afterwards.

It wasn't the first time Sen. McCain took the chance to get into the disaster zone. This summer, he toured flood-damaged areas of Iowa, and before Hurricane Fay hit Florida in August, he visited a fire and rescue headquarters outside of Orlando.

Sen. McCain has visited New Orleans, the site of much Katrina devastation, several times since securing his party's nomination. He hasn't held back criticism about the way the post-Katrina evacuation of New Orleans was handled. During a tour of the Lower Ninth Ward in late April, Sen. McCain delivered some of his harshest criticism of President George W. Bush. "Never again will a disaster of this nature be handled in the terrible and disgraceful way that it was handled," Sen. McCain said to applause. "Never again."

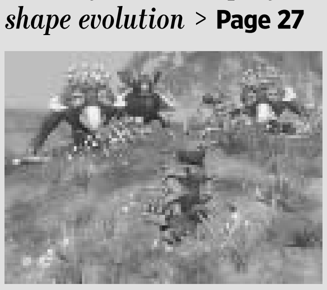
At a rally in Washington, Pa., Saturday evening, Sen. McCain began by expressing his concern. "They want, they need to know, and I know that they know, that they are in our thoughts and prayers as this impending hurricane approaches," Sen. McCain said. "We pray God that it will spare them and a minimum of loss that might result from this natural disaster."

—John D. McKinnon and Corey Dade contributed to this article.

Marketplace

Brave new world

EA is betting big on Spore, a videogame where players shape evolution > **Page 27**



CAPITAL JOURNAL ▪ GERALD F. SEIB

Palin reinforces McCain's image as maverick—and can widen base

THE GOOD NEWS for Republicans is that Gov. Sarah Palin seems to be exciting the previously, and famously, unexcited Republican Party base.

The bad news is that an excited base is necessary but insufficient for Republicans to win this year. To prevail, Sen. John McCain has to reach beyond the base vote that was sufficient to win the last two presidential races.

Thus, the fundamental gamble Sen. McCain took in picking Gov. Palin as his running mate is that she can both excite the base *and* reach well beyond it. If she can't, the gamble won't succeed.

The stakes in the Palin gamble grew even higher Monday, when the governor announced that her 17-year-old unmarried daughter is five months pregnant. That raises unanticipated questions about how the social and religious conservatives, whose support for her has been taken for granted, will react.

The risk, of course, is that they might see the unwanted pregnancy as a sign of deficient family values. And if social conservatives recoil, one of the fundamental reasons for going the Palin route will wither.

Initially, though, the reaction on the right seems to be the opposite: a rallying around Gov. Palin and her daughter. "Her daughter is marrying the father, and under the circumstances doing the right thing, and this is how her supporters will view it," says Greg Mueller, a conservative Republican activist and consultant. "It is a nonissue, and if the Democrats and media come down too hard it will deepen enthusiasm and support for Gov. Palin."

BUT EVEN IF social conservatives remain enthused, that won't be enough. Put bluntly, Gov. Palin has to draw in more independents and soft Democrats, convincing them that she will help shake up Washington, than she puts off with her lack of experience.

In that sense, the Palin choice reflects in one nice, neat package the strategic quandary the McCain campaign faces as it works through the hurricane-plagued Republican convention here. Sen. McCain can't win without an energized party base of conservative activists who will show up in force at the polls and do the shoe-leather work needed to get others out as well.

But unlike when President George W. Bush won in 2000 and 2004, it appears impossible this time to win a "turnout election"—that is, an election in which Republicans can prevail simply by getting more of their team out to vote than the other side does. The GOP team has shrunk too much for that.

"If the Palin selection does nothing more than generate enthusiasm among the base, then it will have been a failure," says Neil Newhouse, a Republican pollster who helps conduct the Wall Street Journal/NBC News poll. "Simply put, the GOP base is significantly smaller than it was four years ago, and a jack-up-the-base strategy cannot win this time around."

Here's the strategic problem Sen. McCain faces. In the latest Wall Street Journal/NBC News survey, 43% of those surveyed identified themselves as Democrats, while just 34% identify themselves as Republicans. By contrast, four years ago the Democratic advantage in party identification was just two percentage points, 40% to 38%.

Worse for Sen. McCain, that smaller base isn't very intense. When voters were asked whether they were excited about their presidential preference, just 12% of McCain voters said they were excited, while 46% of Sen. Barack Obama's voters said they were. That is a potentially fatal intensity gap.

HERE'S WHERE Gov. Palin comes in. She is a virtual unknown to most Americans, but she has become a sweetheart to the conservatives at the party's base. Her antiabortion views, her anticountry-club image, even her crusades against the party establishment in her state all appeal to core conservatives.

"She brings to the table an energized conservative base that was lacking a bit," says Mr. Greg Mueller. And that conservative base, he adds, "is absolutely crucial in this campaign, given it is this base that knocks on doors, rings the phones and fliers the strip malls and the churches to get the vote out."

The harder question is the Palin reach beyond the base. On that front, the easy assumption has been that she would have a special ability to convert some of those women who supported Sen. Hillary Clinton for the Democratic nomination and now are so upset that she didn't get it that they are willing to migrate toward the first woman on a Republican national ticket.

But how many of those Hillary women are really open to the Palin lure? The Journal/NBC News poll suggests that some certainly are. Among voters who backed Sen. Clinton in the primaries but now don't support Democratic nominee Barack Obama, six in 10 are women. They tend to be older, and fully 65% say their ideology is moderate or conservative. Half of them have a negative view of Sen. Obama.

So there would seem to be some Clinton women who might be open to voting Republican. But many others—those who identify themselves as liberals, for example—aren't likely to bite, so Gov. Palin's draw has to be broader than that.

Knowing that, Republicans are calculating that she also reinforces the McCain image as a maverick reformer who is willing to shake up the status quo. That, much more than her appeal to the party base or her appeal to women, is the standard by which the pick will be judged.