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McCain aims to raise \$100 million in the final two months of the campaign to close his money gap with Obama. **Page 31**

South Korea said North Korea started restoring its Yongbyon nuclear reactor, but U.S. officials said it appeared that Pyongyang hadn't actually taken such a step.

Pakistan accused U.S.-led forces of raiding a village from Afghanistan and killing 20 people, including children. **Page 8**

Britain's Brown is expected to emphasize the global causes of the credit crunch in a key economic speech Thursday. **Page 3**

One journalist was shot to death and another hospitalized with a skull fracture in attacks in Russia's Caucasus area. **Page 8**

India's government is being criticized by some experts and aid agencies for failing to warn people about floods in Bihar state and for mishandling relief.

Afghan officials said 32 Taliban fighters were killed in clashes with Afghan and coalition troops. Three Canadian soldiers were killed in the south in an ambush.

Six Iraqis were killed after Iraqi security forces fired on U.S. forces in military boats on the Tigris River near Baghdad in a friendly-fire incident.

Thailand's prime minister remained under pressure, though political tensions eased slightly after a threatened strike by state-sector workers fell flat.

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Not-so-invisible hand
How Germany's Landesbanken may affect Commerzbank-Dresdner's success. **Page 12**

Ukraine president pulls party out of coalition

Yushchenko claims premier is too close to pro-Russian group

BY ANDREW OSBORN

Ukraine President Viktor Yushchenko withdrew his party from the pro-Western coalition government, saying that Prime Minister Yulia Tymoshenko had become too close to a pro-Russian opposition party.

If a compromise isn't found, there will be new parliamentary elections or a new coalition likely to be friendlier toward Moscow, as Russia's war with Georgia forces politicians across the region to choose sides and define their countries' relationships with the Kremlin.

On national television Wednesday night, Ms. Tymoshenko urged Mr. Yushchenko to reverse his decision. Accusing him of imperiling Ukraine's "European choice," she played down the idea that she intended to form a new coalition.

"I believe that the [existing] coalition will be preserved," she said.



Ukraine President **Viktor Yushchenko** Wednesday withdrew his party from the pro-Western coalition government, which could force early parliamentary elections.

Such infighting has been a staple in Ukrainian politics, and the jockeying comes as politicians position themselves ahead of a 2010 presidential election. "Above all, this is about domestic politics," said Oleksandr

Lytvynenko, a political analyst at the Kiev-based Razumkov Center.

Like Georgia, Ukraine harbors hopes of joining the North Atlantic Treaty Organization military alliance

Please turn to back page

Oil data draw U.S. inquiry over accuracy

BY ANN DAVIS

U.S. commodity-market regulators are investigating whether big energy-market players are injecting false data into the marketplace to influence perceptions about crude-oil supply and demand, people familiar with the probe say.

Among other things, regulators are concerned that companies may be reporting inventory levels that benefit their own trading positions but that may not be accurate, people familiar with the regulators' thinking say.

Unexpected drops in oil inventories reported each Wednesday by the U.S. Energy Information Administration can spark huge price surges on the main oil-futures benchmark on the New York Mercantile Exchange. A company could theoretically underreport barrels in its tanks, for example, at a critical hub to suggest oil is scarcer than it really is, and then sell its physical oil at a premium when oil prices jump on misleading news. Another concern is whether companies conduct some physical oil sales and purchases solely to influence short-term pricing on oil-futures markets.

It isn't clear whether the regulators, at the U.S. Commodity Futures Trading Commission, have certain energy firms in their sights. But the agency has been more active lately in soliciting and acting on leads from sources in the oil-trading

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John McCain, right, greets **Levi Johnston**, left, and **Bristol Palin**, daughter of vice presidential candidate Sarah Palin.

In U.S. debate over abortion, middle ground stays elusive

BY GERALD F. SEIB

ST. PAUL, Minn.—What are we to conclude about the state of the abortion debate from the fact that Sen. John McCain wavered in choosing a

those same groups?

And what to make of the fact that the prime-time schedule for the Republican National Convention Wednesday night started with a speech by former New York Mayor Rudy Giuliani, a onetime presidential contender who was noteworthy for his support of abortion rights, and ended with a speech by Gov. Palin, who has said the only time she would support an abortion is if the mother's life was in danger?

Perhaps these are signs that Republicans are moving toward a middle ground on the subject of abortion and constructing the fabled "big tent" that accommodates a broad range of views on

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running mate between Sen. Joe Lieberman, who gets a voting score of zero from groups that oppose abortion rights, and Gov. Sarah Palin, who gets perfect reviews from

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11532.88	+15.96	+0.14
Nasdaq	2333.73	-15.51	-0.66
DJ Stoxx 600	285.58	-4.50	-1.55
FTSE 100	5499.7	-121.0	-2.15
DAX	6467.49	-50.98	-0.78
CAC 40	4447.13	-91.94	-2.03
Euro	\$1.4452	-0.0075	-0.52
Nymex crude	\$109.35	-0.36	-0.33

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LEADING THE NEWS

U.S. auto sales slip again

Ford posts 27% drop as GM, Toyota fall; Accord tops F-series

BY MIKE BARRIS

U.S. auto sales continued their slide in August, despite stepped-up incentives to buyers, with General Motors Corp. posting a 20% drop and Ford Motor Co. a 27% decline.

GM also raised its third-quarter production forecast, crediting its effort to pare its bloated inventory. But on a grimmer note, Ford executive Jim Farley doesn't see the sales picture improving in the near term.

"We expect the second half of 2008 will be more challenging than the first half, as weak economic conditions and the consumer-credit crunch continue," Mr. Farley said.

Japan's Toyota Motor Corp., which is closing in on GM in the race to be the world's top-selling auto maker, despite problems of its own, reported a 9.4% decline in August sales.

As in June and July, Honda Mo-

tor Co. was a bright spot, with its U.S. sales declining just 7.3% to 146,855. Car sales fell 5.1% to 86,827, while truck sales fell 10.3%, a smaller decrease than that of rival auto makers. Honda's Accord outsold Ford's onetime sales juggernaut—its F-series pickups—with 43,613 sales.

GM sales of cars and light trucks for August totaled 307,285, down from 385,529 a year earlier. There were 27 selling days, the same number as a year ago. Sales of light trucks fell 24% to 182,844, while car sales fell 14% to 124,441.

GM, noting that the August sales showing was its best so far this year, said it is extending its employee-discount promotion through the end of September, and adding some 2009 models to the incentives list of eligible vehicles. Compared with July, total sales rose 31%, retail sales were up 32%, and fleet sales were up 29%, GM said.

Toyota's string of negative monthly sales—its fourth in a row—shows how the Japanese titan, once considered almost immune to the economic forces that have battered its Detroit-based rivals, is now also suffering. Toyota sold 211,533 vehicles in August, compared with 233,471 a year earlier.

Toyota said passenger-car sales fell 4.3% to 129,622, while SUV sales dropped 25%. Toyota division sales fell 9.4%, and Lexus recorded a 9.1% decline.

In August, Ford sold 155,117 light vehicles, compared with 210,958 a year earlier, as the company also lowered its second-half North American production forecast.

In other reports Wednesday, Japan's Nissan Motor Co. posted a 13.6% August sales jump, helped in part by customer purchases of its Rogue crossover vehicle. The auto maker sold 108,493 cars and trucks, compared with 95,527 a year earlier.

Looking ahead, GM now forecasts third-quarter North American production of 920,000 vehicles, down 10% from a year ago. Its previous estimate was 900,000, down 12%. It attributed the forecast to "market changes" that will reduce the number of trucks produced by about 176,000 and increase the number of cars by about 76,000, compared with a year earlier. For the fourth quarter, it expects to build 875,000 vehicles, or 436,000 cars and 439,000 trucks, down about 16% from a year earlier.

Ford, meanwhile, cut its second-half production forecast by 50,000 vehicles. It now plans to produce 890,000 vehicles in the second half—420,000 vehicles in the third quarter and 470,000 vehicles in the fourth quarter.

Amid the difficulties in the U.S., Toyota last week slashed its 2009 global sales target to 9.7 million vehicles from the target of 10.4 million vehicles it set a year ago.

Data for euro zone confirm pullback; recession possible

BY EMMA CHARLTON AND JOE PARKINSON

LONDON—The euro-zone economy contracted in the second quarter, final data confirmed, even as new signs emerged that third-quarter gross domestic product could also be negative, potentially pushing the 15-country bloc into a technical recession.

A similar retreat in the U.K. services sector suggested that it, too, could see a decline in output in the third quarter. A recession there is deemed possible before year end.

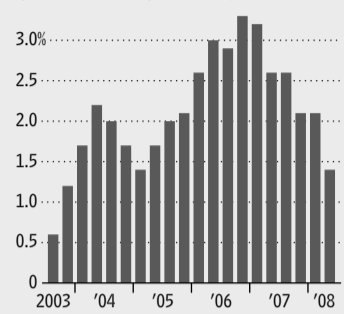
In the euro zone, sluggish private consumption and business investment caused GDP to contract for the first time since 1995. Statistics agency Eurostat confirmed that the measure fell 0.2% in the second quarter after rising 0.7% in the first.

Soaring commodity prices, falling home values and tighter credit conditions a year after the subprime crisis swept in from the U.S. have crippled European domestic spending at a time when exports are withering amid a global slowdown.

In an early look at the third quarter, the purchasing managers index for the euro zone's services sector—which collates data from about 5,000 companies—read 48.5 in August after 48.3 in July, data from research group Markit Economics showed Wednesday. A reading below 50 signals that business activity in the sector is shrinking.

Slowing

Euro zone's GDP growth, percentage change compared with the same quarter of the previous year



Note: Seasonally adjusted data
Source: Eurostat

Eurostat also said higher prices for food and fuel prompted euro-zone sales volumes to fall 0.4% in July from June and drop 2.8% from last July, below expectations of a 0.2% fall for the month and a 2.1% decline from a year before.

The European Central Bank and the Bank of England will conclude monetary-policy meetings Thursday. But analysts widely agree that neither central bank is likely to change interest rates, since inflation is still running well above targeted levels.

In the U.K., the purchasing managers' survey showed shrinkage in services business for the fourth month in a row.

CORRECTIONS & AMPLIFICATIONS

Alaska Gov. Sarah Palin lives in Wasilla, Alaska. A chronology of her career that accompanied a News in Depth article Monday about her selection as U.S. Sen. John McCain's running mate incorrectly said that Wasilla is in Washington state.

The home state of U.S. Rep. Randy Kuhl is New York. An article Monday about congressional Republicans skipping their party's national convention incorrectly identified his home state as Michigan.

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LEADING THE NEWS

Bush pledges Georgia aid

Cheney visits region to discuss details of \$1 billion package

Bearing a \$1 billion U.S. aid package, U.S. Vice President Dick Cheney on Thursday arrives in Georgia to fortify the war-rattled government of President Mikheil Saakashvili, a leader Moscow this week declared a "political corpse" set for an exit.

Mr. Saakashvili's future is the focus of a tense battle of wills between

By John D. McKinnon in Zagulba, Azerbaijan, and Andrew Higgins in Tbilisi, Georgia



In Azerbaijan Wednesday, U.S. Vice President **Dick Cheney**, here with Azeri President Ilham Aliyev (left), emphasized U.S. interests in the Caucasus region.

Washington and Moscow, and its outcome will shape a broader struggle for influence in the Caucasus and beyond.

Mr. Cheney's visit to Tbilisi signals Washington's support for an American-educated lawyer who on Tuesday was pronounced politically dead by Russian President Dmitry Medvedev.

"For us, he does not exist," said Mr. Medvedev, who indicated that any rapprochement with Georgia is impossible so long as Mr. Saakashvili is in office.

Mr. Saakashvili, for his part, dismissed the death notice as premature and said he has "an obligation" to serve out his second term, which ends in 2013.

In an effort to shore up Mr. Saakashvili's government, the Bush administration on Wednesday announced the aid package, which includes about \$500 million that will be made available immediately for supporting the Georgian government's budget, rebuilding damaged roads and other infrastructure and investing in private-sector projects. The administration also is proposing special trade benefits for Georgia, and will ensure marine insurance is available for war risk if the private market dries up.

Mr. Cheney, a longtime and robust critic of Moscow, is the most senior U.S. official to visit Tbilisi since a brief war last month that saw Russian troops push deep into Georgia. Most

of these have now pulled back but some remain, in defiance of a cease-fire accord negotiated by France.

In his first stop in the Caucasus region, Mr. Cheney met in Azerbaijan Wednesday evening with President Ilham Aliyev. Mr. Cheney stressed U.S. interests in the region, particularly an energy pipeline corridor that the U.S. has encouraged between Azerbaijan, Georgia and Turkey as a way to loosen neighboring Russia's grip on the region's energy resources.

In a joint appearance before dinner, the vice president took a few verbal shots at Russia's leaders, saying the principle of respect for national borders "is endangered today," noting "the shadow of the recent Russian invasion of Georgia." Russian recently recognized two separatist regions of Georgia as independent states, a move that effectively redraws Georgia's frontiers.

Russia's growing assertiveness had made it "increasingly urgent," said Mr. Cheney, to diversify energy sources and supply lines—for instance, by building new pipelines from the Caspian basin to Europe. Russian warplanes dropped bombs near the main non-Russian pipeline from the Caspian, which passes from Baku to Turkey through Geor-

gia. The Georgian portion is operated by BP PLC and is the country's largest foreign investment.

Mr. Aliyev, the Azeri president, avoided any direct criticism of Russia, which has been courting Azerbaijan and is eager to get more of that country's oil pumped through pipelines run by Russia. Still, Mr. Aliyev spoke optimistically about the outlook for future cooperation with the U.S. and Europe over energy transmission.

Prospects for new Western-sponsored lines such as the proposed Nabucco pipeline have been clouded by the Russian military moves in Georgia.

In Tbilisi, Mr. Cheney will discuss possible additional U.S. and Western aid to help Georgia rebuild and strengthen its military. Mr. Saakashvili said his country needed mainly training and had so far received no new weapons from the West.

Georgia's military, said Mr. Saakashvili, needs to rethink its mission and will look to the West for help. "We need much more training than we had. We trained as a counter-insurgency force, not to contain 80,000 Russian troops and 3,000 Russian tanks."

Russia, said Mr. Saakashvili, is determined to unseat his government. "They hate the idea that I'm still sitting in this office," he said.

Brown's relaunch targets economy

By Alistair MacDonald and James Herring

LONDON—Prime Minister Gordon Brown is expected to hammer home the global causes of the credit crunch and need for new approaches to regulating financial and commodity markets in a major speech on the economy Thursday as he attempts to recover from his deep unpopularity with British voters.

On Monday, returning from his summer holidays and visit to the Olympics, Mr. Brown began what politicians see as his political relaunch with measures aimed at helping the U.K.'s deteriorating housing market. Mr. Brown will face his party's annual conference in a few weeks and wants to build momentum going into it.

Thursday's speech is expected to emphasize the global roots of the economy, a favorite theme of Mr. Brown's. But, underlining how the

global nature of today's markets leaves Mr. Brown with few obvious economic remedies, the prime minister is struggling in his efforts to convince foreign utility companies, which dominate the U.K. energy market, to help low-income households with higher fuel bills. As a result, the government has had to delay a big plank of his comeback plan and hasn't yet announced how it will help consumers with their energy bills.

"I will be proposing new steps that can be taken within the global economy as a whole to deal with financial turbulence," he

plans to say, according to excerpts released late Wednesday, in a speech to the Confederation for British Industry in Glasgow on Thursday. Mr. Brown plans to say that current ways of regulating global financial markets and commodities such as oil are not "adequate," according to the excerpts.

His speech will include more immediate measures to help mitigate the impact on British families of an economic slowdown that is likely to push the U.K. into recession.

The prime minister is suffering from record lows in opinion polls as the economy slides. Wednesday, the pound continued its recent steep slide, dropping to \$1.7758 from \$1.7819, and the FTSE 100 stock index of leading shares closed 2.2% lower.

Mr. Brown's efforts, so far, have been overshadowed by pessimistic remarks on the U.K. economy by his Treasury Chief Alistair Darling and by a prediction from the Organization for Economic Cooperation and Development that the U.K. will be the only major economy to slide into recession this year.

Mr. Brown plans to say the credit crunch and soaring oil and food prices have brought home how an interconnected global economy is different from the one his Labour Party inherited when it came to power in 1997.



Gordon Brown

Rosneft cuts output goal, delays start of oil field

By Jacob Gronholt-Pedersen

MOSCOW—OAO Rosneft, Russia's biggest oil producer, on Wednesday cut its 2008 oil-output target and said it is delaying the launch of its giant Vankor field in East Siberia, in the latest sign that Russia might experience its first production decline in years.

State-controlled Rosneft expects this year's production to grow by 9% from last year, down from the previous forecast of 11% growth, said Mikhail Stavsky, the company's vice president and head of operations. Last year, Rosneft produced 100 million metric tons of oil, or around two million barrels a day.

Russia's top oil producers are struggling to keep up production levels in order to avoid the country's first output decline since 1999. Output growth has been stunted by maturing fields in West Siberia, where most of Russia's oil is produced, as well as a heavy tax burden.

In the first eight months of 2008, Russia produced an average of almost 9.8 million barrels a day, down 1% from a year earlier.

Mr. Stavsky said the company has been forced to delay the launch of the Vankor field by six months to mid-2009. Vankor's launch has been pushed back because the field holds more oil than originally thought, Mr. Stavsky said, adding

that peak production at the field is forecast to double to 25.5 million tons a year from the 12 million tons earlier predicted.

"It is impossible to increase planned peak production by more than two times and to meet the same tight time schedule stipulated in initial field-development plans," Mr. Stavsky said.

East Siberia and Rosneft's Vankor field in particular is seen as a key field to get production back on track in Russia, the world's second-largest oil exporter after Saudi Arabia.

Since Rosneft acquired the Vankor license in 2003, reserves at the field have increased more than fourfold to 515 million tons.

Rosneft has transformed itself from a midsized company into Russia's largest oil producer, overtaking OAO Lukoil, after acquiring assets of bankrupt oil firm Yukos in a series of auctions organized by the state. Rosneft now accounts for over a fifth of Russia's total oil output.

Friday, Rosneft beat forecasts with its second-quarter earnings report, although net profit fell because of an \$8 billion gain in the year-earlier period.

The company said it would provide more detailed information once the board has discussed the adjusted business plan at a meeting in late October.

Global airline group predicts losses of \$5.2 billion in 2008

By Ann Keeton

The global airline industry continues to face a "perfect storm" of slowing passenger-traffic growth and high fuel prices, which could lead to a loss of \$5.2 billion worldwide this year, followed by a \$4.1 billion loss in 2009, the International Air Transport Association said Wednesday.

During a news conference in Montreal, which was Web cast, the trade body's director general, Giovanni Bisignani, said many airlines are at risk of going bankrupt as the industry heads into autumn, its weakest season for generating revenue.

The industry has been losing money this year as a result of higher fuel costs, as oil averaged \$113 a barrel in the first six months of 2008, compared with \$73 a barrel a year earlier.

The forecast for 2008 is worse than the outlook the trade group gave in June, even as fuel prices have declined. A deteriorating world-wide economy, which has helped bring down fuel prices, also has led to a slowdown in business and leisure travel.

The group's first look at 2009 outlined continued tough conditions for airlines.

Mr. Bisignani advised the industry to "fasten your seatbelts for at least another two years," the time it may take for the global economy to get stronger.

North American carriers, hit by a financial-industry crisis in the U.S., along with record-high oil prices, are expected to report the lion's share of the world-wide an-

nual losses, with a forecast for losses of \$5 billion this year.

Carriers in Latin America and Africa are also expected to lose money this year, while airlines in the Asian-Pacific region, Europe and Middle East are likely to post smaller profits than a year earlier.

With fuel by far the biggest expense for airlines, the main question now is where oil prices are headed. Currently, crude oil was trading a little below \$110, down sharply from a high of \$147 a barrel earlier this summer. IATA's forecasts factor in an average oil price of \$113 a barrel.

If oil prices are higher next year—a forecast from analysts at UBS AG sees oil averaging \$120 a barrel in 2009—airline losses would be greater than IATA expects. However, the industry could break-even in 2009 if oil prices were to average around \$95 a barrel, the trade group said.

Marketplace

Physical comedy

Scientists try improv to explain a controversial project > Page 28



CORPORATE NEWS

RETAIL

Russia, India could be next stop for Uniqlo brand



FAST Retailing Co. said it is considering opening Uniqlo casual-clothing stores in India and Russia and remains interested in acquisitions in the U.S. and European markets as it seeks to establish itself as a major international apparel retailer.

The interest in India and Russia comes as the Japanese company aims to more than triple its revenue from

overseas Uniqlo operations to 100 billion yen, or about \$920 million, by fiscal 2010.

The company also said it started a joint venture in Singapore with Wing Tai Retail Pte., a unit of Wing Tai Holdings Ltd., with the first store scheduled to open in the spring.

—Juro Osawa

AUTOS

Russian auto maker sets joint venture with GM



RUSSIAN CAR and truck maker OAO Gaz, owned by billionaire Oleg Deripaska, left, has bought a 50% stake in Italian diesel-engine producer VM Motori SpA and formed a joint venture with General Motors Corp., which owns the other half, the companies said. The deal allows Gaz to make VM Motori engines under license in Russia

for its range of light commercial vehicles.

Gaz plans to build a plant with capacity of 300,000 engines a year in two to three years in Yaroslavl or Nizhny Novgorod, where it has plants. Gaz bought the stake for an undisclosed sum from Penske Corp.

—Alexander Kolyandr

ENERGY

Total buys producer Goal to expand Dutch business



FRENCH OIL major Total SA said it agreed to buy Dutch gas producer Goal Petroleum (Netherlands) BV for about \$480 million, strengthening its exploration and production position in the country.

Total, which is buying the business from Canada-based oil and gas company Talisman Energy Inc., said the deal will increase its Dutch exploration and production unit's reserves by about 20%. "The acquisition will strengthen Total's portfolio on the Dutch continental shelf, where the group will continue to optimize its exploration and production activities and maximize the recovery factor of its gas fields' reserves and resources in a mature area," the company said.

—Adam Mitchell

West aids China jet firm

U.S. companies aim at a growing market; helping future rival

WESTERN COMPANIES are playing a prominent role helping China become a serious new competitor in the global aerospace industry.

About half of the equipment on the ARJ21, the first regional jet made by government-run AVIC I Commercial Aircraft Co., is made by U.S. companies. The 90-seat aircraft

By Bruce Stanley in Shanghai and J. Lynn Lunsford in Dallas

represents China's latest bid to eventually challenge Boeing Co. and European Aeronautic Defence & Space Co.'s Airbus in the market for bigger planes. A twice-delayed maiden flight is now scheduled for Sept. 21.

Even the U.S. government is involved. The Federal Aviation Administration, citing safety and the participation of so many U.S. firms, opened a bureau in Shanghai last year to help the Chinese win certification for the ARJ21 to fly in the U.S.

Canada's Bombardier Inc.,

which makes competing regional jets, is angling for a role in ACAC's development of a larger version of the aircraft. It has said it expects to invest \$100 million in the larger jet, citing parts-sharing and cost-saving potential for its own jets.

The world's aerospace companies are eager to gain a foothold in a market where air traffic is expected to grow 8.9% annually by Boeing's forecast. Their participation could help China do in aerospace what it has done in industries ranging from toys to cars: move from a basic fabricator to a global competitor.

"We understand that they may well want to develop an indigenous industry, but we want to stay a part of it as long as we can," says Clayton Jones, chief executive of Rockwell Collins Inc., Cedar Rapids, Iowa, which provides radios, navigation equipment and other avionics systems for the ARJ21. "If I don't move in there, somebody else will," he says.

A serious challenger to today's plane- and parts-makers is probably decades away. Passenger jets are extremely complex to design and build. The ARJ21, which lists for \$30.5 million, has suffered several delays. Most recently, an equipment delivery delay forced the jet to miss a scheduled inaugural flight in March.

Boeing and Airbus already are offering a new generation of larger jets built from fuel-saving lightweight composite materials instead of the ARJ21's traditional metals. The ARJ21 is "an important airplane for Chinese industry," Boeing Commercial Airplanes President Scott Carson said at the Farnborough International Airshow in July. But he added, "It's not a very exciting airplane and doesn't take you very far into the future."

Still, the assistance of Western parts makers allows China's fledgling aircraft makers to buy complex cockpit instruments and flight-control systems and focus on assembly, marketing and creating a much-needed after-sales support network. It also guarantees that Western companies will enjoy maintenance and support roles when the planes go into service. Chinese aviation officials expect to spend more than \$600 million on the program; industry experts say they will likely spend much more.

The ARJ21, dubbed the "Flying Phoenix," has won 206 of the 300 orders that ACAC says it needs to break even. The Shanghai-based company touts the plane as well-suited for the high-altitude airports and lightly traveled air routes of western and central China, where Beijing has targeted economic development efforts.



U.S. companies supply half of the equipment on the ARJ21, the first regional jet made by Chinese government-run AVIC I Commercial Aircraft.

Chen Jin, ACAC's vice president for sales and marketing, says the aircraft manufacturer eventually hopes to sell the plane in emerging markets such as Malaysia, Turkey and India. It is preparing to open a sales office in Munich and is seeking air certifications for the jet in Europe.

The sales executive acknowledges there are hurdles to winning sales outside China. "We don't have a very well-known brand, and we don't have a good after-sales service network," Mr. Chen says. The global market for regional jets is crowded, with newcomers from Russia and Japan joining the fray

against Bombardier and Empresa Brasileira de Aeronautica SA, known as Embraer.

But ACAC has strong domestic demand. Airbus estimates China will need \$391 billion worth of new aircraft of 100 seats or more by 2026, and China's state-controlled airlines could favor domestic manufacturers at the expense of Western companies.

General Electric Co. foresees over the next 20 years a need for at least 500 regional jets in China, a figure that equates to more than \$15 billion in engines, spare parts and services. "That was enough to get us excited," says Mike Wilking, president of GE's aviation business in China. GE supplies engines for the ARJ21.

Parker Hannifin Corp., which makes fuel, hydraulics and flight control systems for the plane, expects 500 ARJ21s could earn it \$275 million in revenue and at least that much in after-sales services. During the jet's design phase, Parker sent three engineers and a program manager to Shanghai from its headquarters in Irvine, Calif.

Components maker Goodrich Corp. has won key positions in several projects, providing wheels and brakes on a Russian-made jet, lighting on the ARJ21 and engine housings on Japan's Mitsubishi Regional Jet. Goodrich Chairman and Chief Executive Marshall Larsen said he has "mixed feelings" about the situation.

Russia and China will need more than 20 years before they will pose a competitive threat, he says. But he adds, "If they can put people in space, they'll definitely be able to build airplanes."

India's Suzlon accelerates REpower takeover

BY TOM WRIGHT

Suzlon Energy Ltd., the world's fifth-largest wind-turbine manufacturer by sales, is moving ahead of schedule to consolidate its takeover of Germany's REpower Systems AG, a move that will speed the transfer of technology between the two companies.

Suzlon Energy, based in Pune, India, has faced concerns about its technology after blades on 2.1-megawatt turbines sold in the U.S. to Deere & Co. and Edison International's Edison Mission Energy began splitting last year. Customers in India also have complained their turbines don't generate as much power as expected.

In a bid to improve its technology, Suzlon agreed last year to take over

Hamburg-based REpower in a deal that valued the German company at \$1.7 billion. Analysts applauded the tie-up, which will give Suzlon access to REpower's cutting-edge technology, including blueprints for large offshore wind turbines.

But Suzlon has been unable to draw on REpower's technology because of a strict German corporate law aimed at protecting minority shareholders. The law requires that foreign investors taking over German companies reach a so-called domination agreement before they can transfer technology or profits out of a target company. Such an agreement involves getting 75% of shareholders on board and making a tender offer to buy out minority shareholders.

Suzlon said this week it plans to

push for a domination agreement to be concluded in "due course" according to German law. And it is setting up the agreement to be in place faster than originally planned. Under last year's deal, Suzlon was to in-

Winds of change

U.S. officials plan wind projects on the outer continental shelf23
Gabelli studies a clean-technology and alternative-energy fund21

crease its initial 34% stake in REpower in stages until May next year. But the company also said this week that it has reached a deal to pay Portugal's Martifer SGPS SA €270 million (\$392 million) for Martifer's

CORPORATE NEWS

Grupo Mexico loses fight

In lengthy case, judge finds firm defrauded Asarco's creditors

BY JOEL MILLMAN

A U.S. judge found that Mexican mining company Grupo Mexico SAB, the world's third-biggest copper company by production, committed fraud against U.S. mining company Asarco LLC—the latest twist in a long-running legal battle over control of the U.S. firm.

Judge Andrew Hanen in Brownsville, Texas, said the Mexican company defrauded the U.S. firm's creditors when, in 2003, it transferred Asarco's stake in its valuable Peruvian copper company to another Grupo Mexico unit shortly before Asarco declared bankruptcy.

In Saturday's decision, the judge said the Mexican company acted "to structure and accomplish the... transfer, knowing that the transaction as contemplated would constitute a transfer in fraud of Asarco's creditors."

The decision marks the latest twist in a legal war between U.S. and Mexican mining interests rising from Asarco's decision to enter bankruptcy protection in 2005. For years, critics of the Asarco maneuver have argued that Grupo Mexico put its U.S. unit into Chapter 11 to avoid paying Asarco's liabilities, which amount to paying extensive environmental clean-up charges as a result of more than a century of mining and refining across the Western U.S.

A ruling from a U.S. bankruptcy court as to who will control Asarco after it emerges from bankruptcy is expected later this year. In that case, Grupo Mexico is competing against Indian metals giant Vedanta Resources PLC, which bid \$2.6 billion for Asarco's assets in May.

Attorneys for Asarco claimed victory and the company's bankruptcy-court-appointed directors are asking for damages of \$8 billion following the ruling. Simultaneously, Grupo Mexico issued a statement highlighting the judge's ruling to deny the plaintiffs punitive damages, which would undercut their demand for damages.

Run by Mexican copper mogul Germán Larrea, Grupo Mexico stunned the mining world in 1999 when it bought Asarco for \$1 billion. But in 2003, Grupo Mexico later forced Asarco to sell its majority stake in Southern Peru Copper Corp., the company's crown jewel, to another Grupo Mexico subsidiary. Asarco subsequently declared bankruptcy, citing an ongoing labor dispute, in August 2005.

The court-appointed management of Asarco, during bankruptcy proceedings, later accused Grupo Mexico of selling Southern Peru in order to force the bankruptcy and avoid paying Asarco's liabilities, which amount to paying extensive environmental clean-up charges left by a over a century of mining and refining across the Western U.S.

Testifying in June, Mr. Larrea said it had been Grupo Mexico's intention to settle all environmental claims, and that he had hoped the bankruptcy proceedings would speed such a process by setting a fixed value on the amount what Asarco owed.

Judge Hanen in Brownsville found Grupo Mexico may well have paid a fair amount for Asarco's 54.2%

stake in New York Stock Exchange-listed Southern Peru Copper Corp., when it sold the holding from Asarco to another Grupo Mexico subsidiary in exchange for retiring a portion of Asarco's outstanding debt. The \$765 million value Grupo Mexico placed on Asarco's stake today is worth much more, thanks to a surge in world copper prices since 2003.

Following the transaction with Asarco, Grupo Mexico recapitalized Southern Peru Copper, and raised its position in the company, renamed Southern Copper Co. After buying out minority shareholders, Mr. Larrea's company raised its stake in the Peruvian unit to 75%, now worth some \$16 billion.

But the court did find Grupo Mexico guilty of one count it hindered payment to some of Asarco's creditors. That opens the possibility that Judge Hanen could rule Asarco de-

serves to get its SPCC shares back. Grupo Mexico is appealing that part of the ruling.

Both sides are due back in Judge Hanen's court later this month to present arguments on how the court should establish damages, including whether Asarco's old stake in Southern Peru Copper, and \$1.8 billion in dividends and interest earned by Grupo Mexico from its control of those shares, should be returned to Asarco.

Grupo Mexico's lawyers dispute that claim, arguing that Asarco should not recover more than its parent corporation already has guaranteed Asarco's creditors under a restructuring plan it presented to a bankruptcy court in Corpus Christi, Texas, last month.

With punitive damages no longer a factor, the Mexican company argues, creditors are not entitled to



Along with its legal battle with Asarco, Grupo Mexico has to deal with a long-running strike and protests at its Cananea copper mine, above.

shares of Southern Copper Company, which that are now worth many times what Asarco sold them for in 2003. The Mexican company says creditors are entitled only to the

value of what they are owed, which Grupo Mexico says it will pay—100 cents on the dollar—and therefore would not be entitled to the \$8 billion plaintiffs hope to collect.

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CORPORATE NEWS

Coke bets big on China

Offer of \$2.4 billion for juice maker marks bid to tap affluence

Coca-Cola Co. is making a \$2.4 billion bet on China's willingness to pay for good health.

The Atlanta beverage giant offered to buy Beijing's China

By Sky Canaves and Geoffrey A. Fowler in Hong Kong and Betsy McKay in Atlanta

Huiyuan Juice Group Ltd., a fast-growing juice maker. The potential purchase would help Coke move beyond less-pricey colas, where it is locked in fierce battle with PepsiCo Inc. It also would highlight the drive by Western companies to tap China's more-affluent consumers.

Coke's offer amounts to 12.20 Hong Kong dollars (US\$1.56) a share for Hong Kong-listed Huiyuan, nearly triple Friday's trading price, before its shares were halted Monday pending news. Analysts said the premium offer reflects the company's eagerness to get into more lucrative niches.

"We think we're paying a fair price, as evidenced by the fact that we have a willing seller and a willing purchaser," said a Coke spokesman.

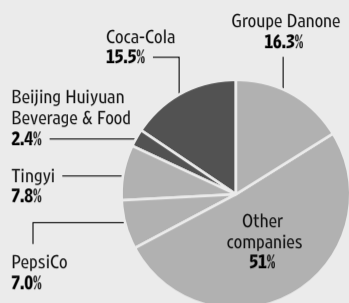
Muhtar Kent, Coca-Cola's chief executive officer, said in a statement that the deal would "provide a unique opportunity to strengthen our business in China, especially since the juice segment is so dynamic and fast-growing."

Coke has been putting more attention outside carbonated soft drinks, most notably with its \$4.1 billion acquisition last year of Energy Brands Inc., maker of Glaceau Vitaminwater. But sales, while still brisk, have slowed amid a general softening of beverage sales in the U.S. in the slowing economy. A Coke spokesman says Glaceau growth is strong, and the company says part of the acquisition payoff will come from expansion to countries outside the U.S.

Coke's bid—which, if consummated, would be the largest foreign takeover of a Chinese company, according to Thomson Reuters—will again test China's tolerance for outside buyers.

China's soft-drink market shares

In 2007



Note: Soft drinks represent carbonated drinks, fruit and vegetable juice, bottled water and ready-to-drink beverages

Source: Euromonitor International



Huiyuan's shares finished Wednesday at HK\$10.94, reflecting concerns by some investors that Beijing could quash the deal. Some reports on the offer from state-controlled media sounded skeptical notes.

"The approval of the acquisition faces many difficulties," said Mei Xinyu, a researcher at the Chinese Academy of International Trade and Economic Cooperation, a government think tank under the Ministry of Commerce, according to the state-controlled Xinhua news agency. Mr. Mei cited Huiyuan's high-profile brand name and market concentration. Huiyuan, which uses the marketing slogan "A healthy life starts from drinking Huiyuan juice," holds the No. 1 position in China in 100% juices and in nectars, which have juice content of between 25% and 99%, according to research firm ACNielsen.

In July, U.S. private-equity firm Carlyle Group ended its years-long effort to buy a majority stake in Xugong Group, one of China's biggest manufacturers of construction machinery, amid persistent regulatory resistance.

Deal watchers say Huiyuan's status as a private company, compared with state-controlled Xugong, and the small role the beverage business plays in the economy could help the deal. Coke has strong relationships in China, culminating with its high-profile role as a sponsor during the Olympic Games. Huiyuan couldn't be reached for comment.

China beverage sales are ex-

pected to reach \$123 billion this year, according to research firm Euromonitor International. But size isn't everything in a market with such extremes of poverty and wealth. Coke doesn't release data on its profits in China, but prices have been a challenge. They vary widely across the country, but in relatively affluent Beijing, a half-liter bottle of Coke would cost a consumer no more than five yuan, or less than 75 U.S. cents. A bottle of high-quality juice could cost more than twice as much. Last year, Huiyuan said first-half prices for 100% juice products rose 20% compared with a year earlier.

That fits with an overall trend among middle-class Chinese toward buying high-quality products with greater nutritional value. Gyms and health clubs, once a rare sight, are increasingly common as well.

"Moving into juices is a good thing as health consciousness rises," says Darryl Andrew, the China chief executive of Aegis Group's research house Synovate, which has studied the shifting tastes. Traditional Chinese medicine, he says, has long placed an emphasis on good foods as a preventative health measure.

In its prospectus last year, Huiyuan said the 2003 outbreak of severe acute respiratory syndrome in China helped enhance the health consciousness of Chinese consumers.

Royal Bank of Scotland Group's ABN Amro arm advised Coke, while Goldman Sachs Group is advising Huiyuan.

Pfizer has high hopes for Russian cold remedy

BY SHIRLEY S. WANG

Pfizer Inc. is betting a 25-year-old Russian cold medicine can help replenish its aging drug pipeline and vault it into a leadership position in the race to develop effective medicines for Alzheimer's disease.

The New York drug company said Wednesday that it agreed to develop and co-market the drug, called Dimebon, with Medivation Inc., a tiny San Francisco-based biopharmaceuticals company, in a partnership deal valued at as much as \$725 million.

Drug makers are rushing to develop medicines that might slow the progression of Alzheimer's, which robs victims of their memory and the ability to perform basic daily functions of life. Current treatments, such as Pfizer's market-leading Aricept, which the company co-markets with Eisai Co. of Japan, work on improving symptoms of the disease but don't slow its progress.

Pfizer said it will pay Medivation \$225 million in cash, plus additional milestone payments of as much as \$500 million for the right to co-market Dimebon in the U.S. and for exclusive marketing rights outside the U.S.

Pfizer will share in 60% of the U.S. development and commercialization costs and any losses and get 60% of related profits.

The deal potentially propels Pfizer to the front of the line, ahead of Eli Lilly & Co. and partners Wyeth and Elan Corp., which have late-stage Alzheimer's drug trials under way.

"Now they [Pfizer] can compete," said Lehman Brothers analysts C. Anthony Butler. "It certainly moves their entire program up in time."

Dimebon is considered one of

the most advanced of new Alzheimer's remedies in development. In a late-stage trial, it showed efficacy in improving some aspects of memory and thinking as well as routine activities like eating for up to one year. Data presented at the International Conference on Alzheimer's Disease in Chicago in July indicated the drug appears to control the disease—although symptoms no longer improve after 18 months.

But there is plenty at risk for Pfizer. Some experts are skeptical about the results because the study was small—183 patients—and conducted in Russia. The concerns center on possible treatment differences between Russian patients and those in the U.S. Patients in the Medivation trial weren't taking other Alzheimer's drugs at the same time, which may have made it easier for Dimebon to show an effect. In contrast, most U.S. study patients, including those in the placebo group, are taking currently available symptomatic treatments.

Moreover, it isn't clear how the drug works to improve Alzheimer's symptoms. Unlike many of other Alzheimer's drugs in development, Dimebon doesn't work on amyloid, a sticky substance from the brain thought to be a cause of the disease. Instead, it appears to affect the mitochondria, the energy center of the cell, and potentially stimulate nerve-cell growth.

Despite the criticisms, the Russian study, which was designed as a mid-stage Phase II trial, has since been accepted as a Phase III "pivotal trial" by the U.S. Food and Drug Administration, which means the company needs only to replicate the results in order to file for drug approval. That trial is under way, with one-year results expected in 2010.

Standoff over Tata car plant appears open to resolution

BY ERIC BELLMAN

SINGUR, India—The standoff over Tata Motors Ltd.'s new car plant in the state of West Bengal showed early signs of a possible resolution when the two political parties at the center of the dispute agreed to meet Friday.

Representatives of the ruling Communist Party of India (Marxist), which supports the Tata plant, will meet with officials from the rival Trinamool Congress, which opposes it, at a meeting hosted by the state governor, Gopal Krishna Gandhi. It was unclear whether representatives from Tata would attend.

The meeting was designed to find a resolution to a standoff that has become an international embarrassment for West Bengal, and India, as it seeks to attract investment and speed industrialization.

Mumbai-based Tata has been forced to stop work on the construction of the plant and to make plans to move elsewhere because of protests by farmers, activists and others over what they view as the unfair seizure of land from farmers to build the facility. The 400-hectare site was scheduled to start manufacturing the world's

cheapest car—the \$2,500 Nano—as soon as next month. Mamata Banerjee, head of the Trinamool Congress, said her side is ready to talk. "We are progressing toward a solution," she said, but the party remains adamant that 160 hectares be returned to farmers.

So far, the federal government has declined to get involved. But it is willing to help resolve the crisis if asked, Heavy Industries Minister Sontosh Mohan Dev said Wednesday.

"If they come to us, we will intervene, help. On our own, we don't interfere in private matters," Mr. Dev told reporters on the sidelines of an industry event.

Meanwhile, pro-Tata demonstrators appeared at the site Wednesday, a day after the company said it is making plans to move. A small group of suppliers and contractors who would serve the plant called for work on the site to restart. Worried that there could be a clash between the two sides, police kept them at a distance from the complex and from protesters opposing the project.

—Santanu Choudhury in New Delhi contributed to this article.

Pernod ends distribution venture

A WSJ NEWS ROUNDUP

Pernod Ricard SA, one of the world's biggest wine and spirits companies, will take full control of the distribution of its Vin & Sprit brands, including Absolut Vodka, by ending its Maxxium distribution agreement.

France-based Pernod Ricard and domestic rival Rémy Cointreau SA said in separate statements that the four partners of Maxxium had agreed to prematurely end the distribution venture as of October.

"They're taking everyone by surprise with these transactions," Landsbanki Kepler analyst Laetitia Delaye said.

Since it bought Vin & Spirit for €5.6 billion (\$8.1 billion at today's exchange rate) in March, the French maker of Beefeater gin, Ballantine's Scotch whisky and Martell cognac has been looking to quickly inte-

grate Vin & Sprit products in its own distribution network.

For Pernod, the agreement allows it to push through synergies—estimated in March at as much as €150 million before taxes—from its takeover of former Swedish state-owned Vin & Sprit sooner than provided for. It would speed up the integration of the Absolut label and accelerate the growth of the brand, Pernod said.

As compensation, the company will pay Maxxium a fee of €59 million on Oct. 1, while Rémy will pay €224 million in March. The 25% stakes held by each Vin & Sprit and Rémy will be redeemed by Maxxium for €60.4 million on March 30.

The Maxxium contracts had provided for an exit by Vin & Sprit from distribution after two years following its acquisition by Pernod, together with the payment of a fee.

Maxxium's other shareholders, Edrington Group and Fortune Brands Inc.'s Beam Global Spirits & Wines, separately announced a new international distribution network. The alliance, which will begin at the end of March, is expected to represent annual sales of over \$1.5 billion.

Illinois-based Fortune Brands, maker of Jim Beam bourbon, also said it had decided against distributing Stolichnaya vodka because of uncertainty surrounding the brand's ownership. Stolichnaya is part of Russian company OAO Spi-Rvkv, which is looking to sell the label.

Pernod shares fell 1.9%, or €1.27, to close at €65.10 each on Euronext Paris, outperforming the CAC 40 index, which fell 2% on Wednesday. The stock has fallen 18% since the start of the year in light of the economic slowdown, notably in the U.S., and investors pondering the cost of acquiring Vin & Sprit.

CORPORATE NEWS

Probe of Spanair crash points to series of errors

Flaps didn't extend as horn failed to alert pilots of any danger

BY ANDY PASZTOR

The pilots of a Spanair jetliner that crashed in Madrid last month failed to extend the aircraft's flaps before trying to takeoff, according to people familiar with the investigation, and a suspected electrical malfunction kept them from getting a cockpit warning about the danger.

Preliminary data obtained from a pair of so-called black boxes recovered from the wreckage of the McDonnell Douglas MD-82 indicate that both engines were working properly and there was no fire before impact, these people said. But the flight-date recorder shows that the plane's flaps, movable devices at the rear of the wings that provide extra lift needed at takeoff, weren't extended, according to these people.

Usually, that would have triggered a loud horn in the cockpit alerting the pilots that the plane wasn't properly configured for takeoff. In the last few days, investigators have focused on the theory that some sort of electrical defect or problems with circuit breakers prevented the horn from sounding, these people say. According to one person familiar with the details, investigators also are looking into why the normal pre-takeoff checklist failed to pinpoint that the flaps hadn't been extended. One person familiar with the details said investigators, among other things, are looking into whether the cockpit crew was distracted or hurried through the check.

Crash investigators haven't re-

leased this accident scenario and it still could change as the probe continues. One reason the automatic cockpit warning horn didn't sound might have been because some of the airplane's logic circuits mistakenly sent signals indicating the MD-82 was already in the air. The horn is designed to give a loud warning—but it operates only when the plane's systems show the aircraft is on the ground.

Loaded with tourists headed for the Canary Islands at the height of the summer travel season, the twin-engine jet barely lifted off the runway, veered to the right and smashed its tail on the ground three times while traveling about 1,200 meters before breaking up in a fireball. The crash killed 154 people.

Investigators are looking into the role of a malfunctioning outside-temperature sensor, which mechanics apparently disabled before the tragic takeoff. The operation of the sensor itself is unlikely to have any direct impact on the plane's ability to fly, according to aviation-safety experts. But the problem with the sensor may have been a signal of related problems affecting other electrical circuits.

One retired pilot familiar with the electrical circuits of the MD-80 family of aircraft said problems with the probe could have been a sign of related electrical problems affecting other circuits.

The plane's unusually nose-high position and the rolling motion of the wings described by eyewitnesses, according to this retired pilot, is consistent with handling characteristics of a takeoff without flaps.

Spokesmen for the airline, which is owned by Scandinavian airline SAS AB, and Spanish investigators have declined to comment on the details of the investigation.

Abu Dhabi sets up company to finance moviemaking

BY STEFANIA BIANCHI

DUBAI—State-owned Abu Dhabi Media Co. said Wednesday it set up a film-financing company that will spend more than \$1 billion to fund and produce as many as 40 movies over the next five years.

Backed by the oil-rich Abu Dhabi government, the company—called imagenation abu dhabi—said it plans to make as many as eight films a year.

"We are bringing Hollywood and the international production com-

munity to Arabia," said Edward Borgerding, chief executive of Abu Dhabi Media and imagenation, in a statement.

Abu Dhabi is using bumper oil revenues to diversify its economy and position itself as a regional tourism, business and transportation hub.

The prospect of new cash may be welcome to some Hollywood studios, which are struggling to finance big-budget movies amid an economic slowdown. With the U.S. market largely flat, entertainment and media companies are looking to international ventures to expand business.

The emirate has already signed deals with some of the world's biggest entertainment and media companies. It is working with Hollywood studio Metro-Goldwyn-Mayer Inc. in an entertainment-complex project based on MGM's library of 4,100 films, which include the Pink Panther, Rocky and James Bond franchises.

Warner Brothers Entertainment, a unit of Time Warner Inc., is also planning a theme park and hotel, along with cinemas across the emirate. And the New York Film Academy will open a film school in Abu Dhabi this month.

GLOBAL BUSINESS BRIEFS

Daimler AG

Zetsche predicts Smart will make a profit this year

German car maker Daimler AG will make a profit at its Smart division this year, Chief Executive Dieter Zetsche said. The tiny two-seater has never been as successful as now, Mr. Zetsche said. After the brand posted billions of euros in losses over several years, it reported positive figures last year. To break even, Smart reduced its offering to just the Fortwo model. Daimler has sold one million of the cars since its introduction in July 1998. At the beginning of this year, the Stuttgart-based company introduced the Smart to the U.S. market, together with sales partner Penske Automotive Group. The car will be available in China by the middle of next year, and the first electric Smart car of the current generation is planned for 2010.

Signet Group PLC

U.K.-based jewelry company Signet Group PLC reported a sharp drop in second-quarter profit, battered by weak sales in its core U.S. operations. Net profit in the quarter ended Aug. 2 slumped 48% to \$19.1 million from \$36.7 million a year earlier, while total sales were down 2.4% to \$768.6 million. In stores open for at least a year, sales fell 4.5%, pulled down by a 5.8% drop in the U.S., which accounts for around 75% of Signet's total sales. The company is scheduled to make its debut on the New York Stock Exchange on Sept. 11, moving its primary listing from the London Stock Exchange. Signet operates 1,973 stores, including 1,414 in the U.S. under the retail brands Kay Jewelers and Jared the Galleria of Jewelry, as well as a number of regional stores. In the U.K., Signet operates 559 stores under the H. Samuel, Ernest Jones and Leslie Davis brands.

Bertelsmann AG

Edward Volini, 51 years old, is stepping down as deputy chairman and chief operating officer of Bertelsmann AG's Random House Inc. effective Sept. 30. Mr. Volini joined Random House's Ballantine Books imprint in 1997 in an administrative capacity. Beginning in 2001, he enjoyed a rapid climb under Peter Olson, Random House's former CEO. Mr. Olson stepped down earlier this year and was succeeded by Markus Dohle, who will assume Mr. Volini's responsibilities.

ArcelorMittal SA

The world's largest steelmaker, ArcelorMittal SA, said it would jointly develop a manganese mine in South Africa in a deal valued at \$432.5 million. The Luxembourg-based company will work with Kalahari Resources Inc. and South African state-owned Industrial Development Corp. to form Kalagadi Manganese, in a move to secure its own supplies of key raw materials. ArcelorMittal will have a 50% stake in the company, which will develop a mine and an ore-treatment complex in Northern Cape Province and a smelter complex in Eastern Cape Province. The company said the region has enough high-grade manganese ore to support the mine for more than 20 years. Manganese is added to some types of steel to make it stronger. Kalahari Resources is a majority black-owned company that forms part of a South African initiative to give local people a stake in the country's rich mineral resources.

Staples Inc.

Staples Inc. said fiscal-second-quarter profit fell 16% on weakness in North American results, and the office-supplies retailer stuck to its low-growth outlook for the year. In the three months ended Aug. 2, the U.S.-based company earned \$150.2 million, or 21 cents a share, down from \$178.8 million, or 25 cents, in the year-earlier period. Sales rose 18% to \$5.07 billion. Excluding the company's July acquisition of Corporate Express NV, Staples reported sales grew 3% to \$4.4 billion. In North America, sales were down 1% overall but same-store sales—those at outlets open at least a year—fell 7%. International sales grew 17% including the benefits of the weak U.S. dollar but just 6% in local currency. For the fiscal year, the company confirmed the estimates it gave last month when it cut its view.

Lonmin PLC

Anglo-Swiss miner Xstrata PLC has until Oct. 2 to disclose a firm intention to buy U.K.-listed platinum producer Lonmin PLC or walk away, the U.K.'s takeover panel said Wednesday, following a request from Lonmin's financial advisers, Citigroup Inc. and Greenhill & Co. Lonmin's board wants Xstrata to increase its proposed £5.6 billion (\$9.98 billion) hostile takeover proposal. Xstrata is reviewing proposals from banks for a \$15 billion loan to fund its all-cash Lonmin bid and refinance part of its own existing debt, people familiar with the situation said. An Xstrata spokeswoman said the company doesn't "expect any impediments to securing the necessary financing within the timeline agreed on with the U.K. takeover panel."

DSG International PLC

DSG International PLC reported a worse-than-expected drop in first-quarter sales, as soaring food and fuel costs and a lack of economic growth left consumers with less to spend. The British consumer-electronics retailer said like-for-like sales, or sales at stores open at least a year, fell 7% in the 16 weeks ended Aug. 23 from a year earlier. Total sales rose 4%, boosted by DSG's online operations, Dixons and Pixmania. The company said its outlook for the rest of the year was subdued as the environment continues to be challenging. The owner of PC World and Currys said it plans to cut costs by at least £25 million, or about \$45 million, this year. DSG shares fell initially, but closed 8.1% higher at 57 pence in London as analysts raised hopes that a three-year effort to turn around the company might work.

Alitalia SpA

Alitalia SpA's government-appointed administrator, Augusto Fantozzi, confirmed that he has received a preliminary offer to purchase a "significant amount" of Alitalia assets from Cia. Aerea Italiana, a group led by Piaggio SpA Chairman Roberto Colaninno. In a statement issued by Alitalia, Mr. Fantozzi said he reserved the right to examine the offer and to start negotiations. According to a rescue plan developed by bank Intesa Sanpaolo SpA, CAI will purchase assets from Alitalia and merge them with smaller rival Air One SpA. Thursday, representatives of the carrier's nine unions are scheduled to meet with government officials to discuss the proposed rescue plan and its impact on employment, the Italian labor ministry said in a statement Wednesday evening.

British Airways PLC

British Airways PLC said passenger traffic fell in August from a year earlier and that it filled fewer seats, highlighting a weakness in consumer spending. Traffic, a measure combining revenue, passenger numbers and distance flown, dropped 1.6% from a year earlier. The total number of passengers was down 3.2% to three million as a 2.2% increase in premium traffic failed to offset a 2.1% drop in non-premium traffic. With capacity up 1.9%, BA's load factor, which measures how many of the airline's available seats are filled with paying passengers, fell 2.7 percentage points to 77.3%. The carrier said market conditions remain "very difficult" in light of a stronger dollar.

OAO Gazprom

Russia's OAO Gazprom signed an agreement to set up a joint venture with Nigerian National Petroleum Corp., as the company seeks to realize its growing appetite for African oil and gas deals. The two state-controlled companies will work together on exploration, production, transportation, gas refining and construction of electric-power infrastructure in Nigeria, Gazprom said. The Nigerian government said in January that Gazprom would spend \$1 billion to \$2.5 billion developing the country's gas sector. The venture will be Gazprom's first project in the West African country. Nigeria was until recently Africa's largest oil exporter.

Prudential PLC

Prudential PLC agreed to a £1 billion (\$1.78 billion) deal to provide a bulk annuity policy to Cable & Wireless PLC, the year's biggest such deal in the U.K. Cable & Wireless agreed to buy insurance policies for all of its retired workers, who make up a third of the pension fund's membership and half of its £2.1 billion assets. To Prudential, the premium will be worth £100 million a year. Rising life expectancy and ever-tighter pension regulation has made such deals increasingly popular in the U.K. The pact is the second big pension deal for the U.K. insurer this summer, which also reinsured part of the Rank Group pension fund in a deal with Goldman Sachs.

Corning Inc.

Corning Inc. lowered its third-quarter profit and sales forecasts, citing lower-than-expected shipments of liquid-crystal-display glass as the market attempts to correct an oversupply in LCD televisions. Chairman and Chief Executive Wendell Weeks said the drop in orders had been greater than anticipated and may continue into September. He said the company "continues to see evidence of ongoing strength in the retail market for LCD TVs." The maker of LCD glass and fiber-optic equipment expects earnings of 43 cents to 45 cents a share, down from the 48 cents to 51 cents a share it predicted in July.

—Compiled from staff and wire service reports.

Personal Journal

Setting sail

More companies are getting into the megayacht business > Page 30



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ECONOMY & POLITICS

RUSSIA

Two more journalists are attacked in Caucasus



ONE journalist was shot to death and another hospitalized with a fractured skull in separate attacks in Russia's Caucasus region that are likely to further worsen Russia's reputation as a

hostile environment for the media. In the Russian province of Dagestan, television journalist Telman Alishev died Wednesday morning after he was shot in the head by two men Tuesday night.

Separately, in the North Caucasus city of Nalchik, Miloslav Bitokov, was hospitalized with a skull fracture. The latest attacks came after the owner of an opposition Website in nearby Ingushetia was shot through the head by police.

—Alan Cullison

CYPRUS

Greek and Turkish leaders seek peace agreement



CYPRUS'S rival Greek and Turkish leaders started peace talks Wednesday and said they hoped for a deal soon aimed at reuniting an island divided by war 34 years ago.

Cyprus President Demetris Christofias, right, met for two hours with Turkish Cypriot leader Mehmet Ali Talat, left, inside the U.N.-patrolled zone that separates the two communities. The leaders emerged from the talks to express confidence they will reach a settlement. They will meet again Sept. 11, U.N. officials said. Cyprus—an island of fewer than a million inhabitants—has been divided since 1974, when Turkey invaded in response to a coup aimed at uniting the island with Greece.

—The Associated Press

U.S.

Fed says strong exports support 'slow' economy



THE U.S. Federal Reserve said economic conditions remain "slow" as consumers pull back and focus on essentials, though exports continue to provide some boost to the economy.

Businesses reported that they've raised retail prices in response to the recent sharp increase in material and other input costs. However, many Fed district banks noted declining energy and commodity prices, which along with restrained wages should keep inflation from accelerating.

"The pace of economic activity has been slow in most Districts," the Fed said in its 'beige book' summary of economic activity.

—Brian Blackstone

Pakistan says U.S.-led raid has killed 20

NATO is accused of crossing border; relations deteriorate

PAKISTAN ACCUSED U.S.-led forces in Afghanistan of leading a cross-border raid into a Pakistani village that killed 20 people, including women and children, further heightening tensions between the two allies.

The alleged raid came on a chaotic day that also included a failed

By Zahid Hussain in Islamabad, Pakistan, and Yochi J. Dreazen in Washington

attack in Islamabad on the motorcade of Pakistan's prime minister, Yousaf Raza Gilani. Pakistani officials said that suspected Islamic militants fired gunshots at vehicles that had been sent to pick up Mr. Gilani at the airport. The Pakistani leader wasn't in his car at the time and was unhurt.

The two events, though hundreds of miles apart, added to the uncertainty hanging over Pakistan ahead of elections Saturday that are expected to install Asif Ali Zardari, the widower of slain former Prime Minister Benazir Bhutto, in the presidency.

Mr. Zardari is expected to win easily because his supporters dominate the electoral college that selects the president. He will replace President Pervez Musharraf, who resigned last month after a bruising, months-long political battle and under threat of impeachment charges.

Mr. Musharraf was a Bush administration favorite who had strongly supported U.S. counterterrorism operations in the region. American officials are far more wary about Mr. Zardari, whose party has talked about pursuing peace talks with the Islamic militants operating freely from bases inside Pakistan's lawless tribal regions.

The administration's relation-

ship with Pakistan's new leadership could be tested further by the purported predawn raid on the village of Musa Nikow in Pakistan's South Waziristan border area.

Maj. Gen. Athar Abbas, Pakistan's chief military spokesman, said that North Atlantic Treaty Organization forces flew into the remote village on helicopters and carried out operations that left more than a dozen people dead.

The raid, if confirmed, would mark the first time that NATO troops had crossed into Pakistani territory in search of Islamic militants.

NATO denied sending forces into Pakistan. An official with NATO's International Security Assistance Force said that ISAF troops operate only in Afghanistan and "don't operate across international borders or in the sovereign territory of other nations."

Lt. Col. Rumi Nelson-Green, a spokeswoman for the American military in Afghanistan, said she had no information about the purported raid and referred questions to the U.S. Central Command in Florida, which oversees the wars in Iraq and Afghanistan. Centcom officials also said they had no information about the alleged raid.

The attack drew fierce condemnations from regional politicians in the border area. "It is outrageous," said Owais Ahmed Ghani, governor of North West Frontier Province, in a statement. "This is a direct assault on the sovereignty of Pakistan."

Villagers said several bodies, shot through the head, lay outside homes targeted by the troops. An independent Pakistani television station, ARY TV, quoted residents saying two foreign soldiers were wounded in the exchange of fire with villagers.

The incident occurred after Pakistani authorities earlier this week suspended military operations against Islamist militants during

the Muslim holy month of Ramadan.

Pakistan is becoming increasingly concerned that U.S. military operations are becoming more aggressive in the tribal lands bordering Afghanistan as the number of missile attacks has risen.

U.S. and NATO officials say Pakistan needs to do more to police the border area, which they describe as a safe haven for al Qaeda and Taliban militants who train in Pakistan and then cross into Afghanistan to attack American and NATO forces.

Senior Bush administration and Pentagon officials are increasingly concerned about the situation in Afghanistan, which has seen a sharp increase in the number of attacks and military fatalities. More U.S. troops now die in Afghanistan each month than in Iraq.

Adm. Mike Mullen, the chairman of the Joint Chiefs of Staff, paid an unannounced visit to Pakistan in July to press Islamabad to crack down on the border areas. Last week, Adm. Mullen convened an unusual summit of top U.S. and Pakistani officials to further dis-



Asif Ali Zardari



Yousaf Raza Gilani



A Pakistani family heads home for Ramadan in the lawless tribal lands bordering Afghanistan, which are straining U.S.-Pakistan relations ahead of the election.

cuss the growing violence and instability there.

Unsure about the new Pakistani government's commitment to the counterterrorism fight, the U.S. military has been carrying out a growing number of aerial strikes on suspected militant targets inside Pakistan. Most of the strikes have involved missiles

fired from unmanned aerial drones.

In June, Pakistan said that an American airstrike along the border killed 11 Pakistani paramilitary security personnel. U.S. officials initially said that all of the dead were Islamic militants, but later agreed to a formal joint investigation into the incident.

IG Metall may seek 7% to 8% raise

By ROMAN KESSLER

FRANKFURT—Germany's powerful IG Metall union is preparing a wage claim of between 7% and 8% in upcoming talks with the country's automobile and machinery makers, arguing that rank-and-file workers expect more money to make ends meet, union officials said.

But the push for more pay will meet tough opposition from the country's employers lobby, Gesamtmetall, which argues that a gloomy economic outlook for 2009 doesn't allow for wage increases of more than 3%.

The European Central Bank, meanwhile, has often opposed wage increases that run ahead of productivity gains, and would worry that a hefty rise could trigger a wage-price spiral that would hamper its ability to hit in-

flation targets.

IG Metall Chairman Berthold Huber scheduled a press conference for Monday to announce the steering board's exact wage claim, based on proposals from the union's regions.

Representatives from three important regions said the claim will likely be between 7% and 8%, higher than the 6.5% wage demand the union asked for last year. It ultimately received 4.1% for 2007, plus an additional 1.7% as of summer 2008.

The wage deal will cover 3.6 million workers, or about 9% of the country's work force, and include companies such as Siemens AG, Daimler AG and EADS NV's Airbus.

"Expectations have risen from last year, among Airbus workers too. There is certainly no inclination to hold back," said Daniel Friedrich,

spokesman for the union's northern section.

The wage deal struck in 2007 expires Oct. 31. Workers are entitled to launch first strikes Nov. 1.

IG Metall's central German negotiating section on Wednesday announced a proposition for a wage increase of "at least 7%," the union's head of negotiations Armin Schild said.

IG Metall's section in North Rhine-Westphalia, Germany's most-populous state, said it would claim up to 8%.

But Gesamtmetall on Wednesday said it can't afford to give wage increases of more than 3% because it wants to protect the 240,000 jobs that industry has added over the past three years in the face of a looming downturn of the economy.

ECONOMY & POLITICS

U.S. stirred Tibetan revolt that still festers

History of movement is big part of tension with China today

BY PETER WONACOTT

DARJEELING, India—Chodak, an 83-year-old former monk, fled Tibet in the wake of a bloody Chinese invasion more than 50 years ago. Today, he spends his days trimming wool carpets at a refugee center perched above the tranquil tea plantations of this Indian hill town. The plight of Tibetan exiles like Chodak, and their Buddhist message of nonviolence, has drawn world-wide sympathy to their cause.

But Chodak's story has a twist. He is one of the last surviving guerrilla fighters who took up arms against the Chinese during a little-known chapter in Tibet's history. His life has been one of war, not peace.

Starting in the late 1950s, the U.S. Central Intelligence Agency trained scores of Tibetans, many of them monks, and then air-dropped them back to their country with weapons and wireless radios. The linchpin of the operation was an older brother of the Dalai Lama, the spiritual leader of 2.7 million Tibetans and today a Nobel Prize-winning symbol of peaceful resistance.

"We were fighting to protect Buddhism from those who wanted to harm it," said Chodak in an interview, his eyes now clouded with cataracts.

These days, armed with little more than his message of peace and the occasional chortle at Beijing's expense, the 73-year-old Dalai Lama enjoys the upper hand in an international public-relations war. He inspires protests that embarrass the Chinese government around the world, including during the recently concluded Beijing Olympics. He also provokes over-the-top denunciations from Chinese officials. During the unrest in March, Tibet's Communist Party secretary, Zhang Qingli, accused the Dalai Lama of sabotaging the region's stability and described the Buddhist leader as a "a wolf in monk's clothes, a devil with a human face."

The Dalai Lama deflects such accusations with dry humor, saying repeatedly that if Tibet's freedom movement ever became violent, he'd step away from politics. "Please investigate," he said of the charges that he inflamed Tibetan protests in March. "If we are really the instigator, we are awaiting punishment."

He has said that he wasn't aware of the 1950s-era armed resistance in the beginning, and that upon learning about it, he didn't encourage Tibetans to join it. He also disavows any plan to see Tibet become independent, pressing merely for China to allow Tibetans more local autonomy to preserve their customs and language.

But the history of the resistance movement—and the Dalai Lama's close family connection to it—remains very much a part of the tensions with China. It helps explain why even rudimentary reconciliation talks—the next round is expected in October—have gone nowhere.

John Kenneth Knaus, a retired CIA officer who led a covert Tibet command center from New Delhi in the 1960s, remembers the Dalai Lama as torn—personally sympathetic to his brave compatriots but unwilling publicly to support a bloody rebellion that ran counter to his Buddhist belief in protecting life.

"The Dalai Lama knew everything that was going on, but he couldn't give his blessing," says Mr. Knaus, author of the 1999 book "Orphans of the Cold War: America and the Tibetan Struggle for Survival."

Gyalo Thondup, one of the Dalai Lama's brothers and the former resistance leader, declined to be interviewed for this article. "It's a very sensitive and inopportune time to talk, from the points of view of many different parties," said one of his sons, Tempa Thondup, in a message conveyed from the elder Mr. Thondup. People who answered the door at Gyalo Thondup's residences in New Delhi and Kalimpong, India, said the 80-year-old wasn't at home.

Stories recounted by Tibetan resistance fighters, including six surviving guerrillas, demonstrate the deep involvement of Mr. Thondup in the CIA-backed operation.

Mr. Thondup came to the resistance movement with rare qualities for Tibetans of his generation—a fluency in Mandarin and an understanding of China's history. In 1949, he was studying in the wartime capital of Nanjing when the People's Liberation Army vanquished the Nationalist forces. Mr. Thondup and his Chinese wife, the daughter of a Nationalist general, eventually settled in Darjeeling, near the Indian border with Nepal.

When the CIA made contact with him in the early 1950s, Mr. Thondup had been organizing escape routes for Tibetans fleeing Chinese rule. His wife, Nancy Chu, helped establish the center where refugees learned handicrafts so they could make a living on Indian soil.

A spokesman for the CIA declined to comment on the Tibetan operation.

The refugees arrived with tales of misery and horror. Tsering Dakpa, a Tibetan farmer, says in 1954 he watched Chinese soldiers drag suspected rebels outside a village and force them to dig a trench filled with freezing water. The men were stripped, thrown into the trench and—when they didn't answer questions satisfactorily—shot, according to Mr. Dakpa.

"My heart stopped," the 77-year-old says of the execution. "I decided then I'd join the resistance."

That same year, the Dalai Lama had gone to Beijing to meet with China's leaders, including Mao Zedong, in hopes of securing more religious and political autonomy for Tibet. But back home, in the Tibetan region of Kham, an anti-China resistance had already taken root.

It was in Kham, in 1956, that one of the most violent clashes occurred, a days-long battle at the Litang Monastery. One of the Litang monks was Chodak, who now works at the refugee center in Darjeeling. He recalls a meeting in



which a Chinese general urged them to abandon their weapons. The monks carried weapons to defend themselves from bandits. Chodak says the general threatened to burn down the monastery if they didn't comply.

"The Chinese said they were protecting us, and that there was no need to carry weapons," says Nawang Datha, another monk. "We refused."

Instead, the Litang monks sneaked up at night and attacked a nearby Chinese camp, according to Mr. Datha and Chodak.

The Chinese army responded by charging the monastery in a pre-dawn raid. The Tibetans fought back with homemade pistols, antique rifles, axes and knives.

"Everybody was rushing here and there," says Chodak. "We didn't know who we were killing."

Mr. Datha's younger brother, Tenlay Tenzing, managed to flee the monastery earlier on the family's black horse. Chinese troops shot the horse, but the monk kept running. Coming upon the horse carcass later, Mr. Datha feared his younger brother had been killed—only to be reunited later at their parents' home. When bombs from Chinese airplanes were dropped on the monastery, Chodak fled to Tibet's capital, Lhasa, a weeks-long walk, but far from the fighting in Kham.

China's official history of the fighting at Litang says the monks reacted violently to Chinese efforts to abolish a "feudal serf system" and "slavery," according to the Web site of the Ganzi Tibetan Autonomous Prefecture People's Government, a part of Sichuan province that includes Litang. The government accused Tibetan rebels in the area of attacking military and government officials, damaging roads and bridges as well as raping, looting and killing. As a result, the Communist Party of China extended "important orders for the suppression of unrest," the Web site says, calling it a "war of liberation."

The events at Litang inflamed passions across Tibet and helped fuel the resistance movement. Many monks, left without a monastery, shed their robes to fight the Chinese. Warring Tibetan clans set aside grievances to unite in battle. The CIA later would gain several recruits from Litang, who wanted to match China's soldiers with modern firepower and military training of their own.

One of the Litang monks, who went by the name Lhotse and was the older brother of Messrs. Datha

and Tenzing, fled to Darjeeling, posing as a trader. When he arrived, he knocked on the door of Mr. Thondup.

The brother of the 14th Dalai Lama, Mr. Thondup was already a prominent figure among Tibetans and his political sympathies were well-known. After listening to Lhotse recount the failed uprising, Mr. Thondup responded with a proposition.

"If you want to go for training," he said, "I may have a place to send you."

The monk agreed to the secret mission, according to interviews with his two surviving brothers, whom he later told about the conversation.

In addition to Lhotse, Mr. Thondup recruited five Tibetan fighters and sent them in early 1957 for training with CIA instructors on the Pacific island of Saipan. The Tibetans learned how to operate a radio transmitter, fire modern weapons and set up ambushes.

The Dalai Lama's oldest brother, Thubten Jigme Norbu, served as a translator on Saipan. Mr. Norbu, a retired professor of Tibetan studies at Indiana University, is now in poor health and unable to respond to comment, according to his youngest brother, Tendzin Choegyul.

After six months in Saipan, Lhotse and a monk named Athar parachuted back into Tibet. Traveling with other rebels, the pair relayed radio requests for weapons and supplies and kept the CIA apprised of the resistance inside Tibet.

Mr. Knaus, the former CIA officer, testified in writing to the U.S. Congress in 1999 that the CIA made two arms drops into Tibet in July 1958 and February 1959. These included 403 Lee Enfield rifles, 60 hand grenades, 20 machine guns and 26,000 rounds of ammunition. By the late 1960s, Mr. Knaus estimates, the CIA had dropped 700,000 pounds of supplies to the rebels.

China's attempts to quell unrest around Lhasa worsened tensions. In March 1959, the Dalai Lama sneaked out of the city's Potala Palace and headed for India on horseback. The CIA-trained rebels hooked up with the Dalai Lama, sending radio updates on his whereabouts to Washington.

As Tibet's spiritual leader was about to cross safely into India, the rebels cheered and waved. The Dalai Lama waved back.

Chodak interpreted the wave as "a long-distance blessing," he says.

"Then we went back to fighting."

The Dalai Lama's aides say that at the time the Tibetan leader didn't have a good grasp of the resistance, or of how the CIA was involved. "His brother really kept him in the dark—for his own sake," says Tempa Tsering, the Dalai Lama's representative in New Delhi.

As Mr. Thondup filled out the ranks of the CIA-backed resistance, Mr. Datha and his brother Mr. Tenzing also enlisted. Mr. Tenzing recalls arriving in 1959 at a secluded training base in the Colorado Rockies called Camp Hale. He gazed at the pine forests and snow-covered peaks. "I felt I was back in Tibet," he says. Tibetans would train secretly in Colorado until 1964, according to Mr. Knaus's written testimony to Congress.

Mr. Thondup traveled extensively to publicize Tibet's plight, recruit fighters and forge links with foreign intelligence agencies. But inside Tibet, the resistance was wiling. China's superior radio communications allowed it to outmaneuver fighters. Its air power crushed Tibetan fighters. Most of the agents the CIA sent into Tibet were captured or killed.

In disarray, the rebels retreated to a mountainous base known as Mustang just beyond southern Tibet inside Nepal. So many arrived at Mustang that supplies were stretched thin. Chodak says he sold his sword and charm box—an amulet he wore around his neck—to buy provisions. The rebels raided farms inside Tibet for sheep that would provide food and wool to fend off the cold.

Infighting posed as grave a threat to the Mustang operation as the Chinese army. Several of the Tibetan fighters complained that the commander was pocketing funds, according to Mr. Tenzing. In 1968, disgusted with what had become of the resistance, Mr. Tenzing returned to Darjeeling and opened a dumpling restaurant.

For the Americans in the late 1960s, the operation was reaching the end of its usefulness. The CIA had closed training camps years earlier and was winding down supply runs. Mired in Vietnam, the U.S. government worried about getting drawn deeper into another Asian conflict. In 1972, President Richard Nixon met with Chinese leader Mao, ushering in a new era of the U.S. and China relationship.

For the Dalai Lama, a new stance toward China would take shape, too. In the early 1970s, he sought to disband the rebels and end the bloodshed. Chodak says he concluded his war with the Chinese after a tearful 1972 meeting with the Dalai Lama in Dharmasala.

Not everyone agreed to leave Mustang. Some fighters shot themselves or slit their own throats rather than disobey the Dalai Lama's orders, according to his spokesman Tenzin Taklha.

By then, the fighting with China was essentially over. In 1974, the Dalai Lama huddled with aides in a sunlit meeting room at his residence. "We made up our minds that, sooner or later, we would have to talk with the Chinese government," he said in a recent interview. "Independence was no longer relevant."

The man who would serve as the go-between with the Chinese government was someone both sides knew well. He was the Dalai Lama's older brother Gyalo Thondup.

THE MART

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ON OTHER FRONTS

Dispatch / By Gordon Fairclough and Gregory L. White

**Moscow claims U.S. Army veteran
 helped foment war in Georgia**

RUSSIAN Prime Minister Vladimir Putin has said he suspects that U.S. agents provoked last month's brief war in Georgia.

The Kremlin's Exhibit A? Russian soldiers say they found a passport belonging to Michael Lee White, a U.S. Army veteran from Texas, in an outpost used by Georgian special forces last month to attack pro-Russian separatists. On Thursday in Moscow, military spokesman Col. Gen. Anatoly Nogovitsyn brandished a blowup of the passport at a news conference and declared that Mr. White's presence on the battlefield "together with Georgian commandos is a fact."

Mr. White, it turns out, is an itinerant 41-year-old English-language teacher in this booming city in southern China. On Tuesday, he answered the door at his spartan faculty apartment at the Guangdong University of Business Studies wearing flip-flops. He says he's never been to Georgia.

"I don't know why the Russian general would say that," he said during a 90-minute interview. "I don't know who would believe it."

Russia's invasion of Georgia last month set off a wave of condemnation in the West. Since then, the Kremlin has been scrambling to play offense in the public-relations war. Mr. White's passport was portrayed on Russian state television as a "gotcha" moment akin to Nikita Khrushchev's unveiling of downed spy-plane pilot Francis Gary Powers in 1960, at the height of the Cold War.

In the world of covert action, there's no sure way to identify undercover operatives. But a look at Mr. White's recent past, as well as interviews with him and his family, turned up nothing to suggest he's a U.S. agent who helped instigate a major global crisis.

A spokeswoman for the Central Intelligence Agency said Mr. White doesn't work for the CIA. "While we do not as a rule confirm or deny employment with the agency, in this case, any suggestion that Michael Lee White is a CIA officer is wrong," said Marie Harf. A spokeswoman for the Office of the Director of National Intelligence, the umbrella organization for U.S. intelligence agencies, declined to comment.

The passport the Russians showed off last week does appear to have been Mr. White's. He says it looks to be the one he accidentally left in the seat pocket of a Moscow-New York flight in October 2005. "It seems probable that some Russian person on the flight picked it up," says Mr. White.

The U.S. State Department confirms Mr. White reported the passport missing in 2005 and that it was canceled. Mr. White was issued a new U.S. passport that year, and another in 2008, both of which he showed a reporter.

Mr. White says that, back in early August, when fighting in the Georgian province of South Ossetia intensified and Russian troops moved

into Georgia in force, he was in Austin, Texas, helping to care for his 85-year-old father, who suffered a stroke in the spring. Mr. White's brother, reached by phone in Austin, confirms that account.

Mr. White left China on July 18 and returned on Aug. 28, the day of Col. Gen. Nogovitsyn's Moscow announcement, according to the exit and entry stamps in his current passport. There was no entry stamp from U.S. authorities, who don't always mark the passports of returning Americans.

That same day, Mr. Putin told CNN and Germany's ARD network that Russia had found evidence that U.S. citizens were on the battlefield alongside Georgian troops. "We have serious grounds to think there were U.S. citizens right in the combat zone," Mr. Putin said. "If my suppositions are confirmed, then that raises the suspicion that somebody in the United States purposefully cre-



Michael Lee White, a teacher from Texas, at his faculty apartment at the Guangdong University of Business Studies, shows his new passport.

ated this conflict" with the aim of "creating an advantage" for one of the U.S. presidential candidates.

The White House dismissed Mr. Putin's statements as "patently false" and "not rational." A senior Georgian official described the allegations as "silly KGB propaganda."

That's not how many Russians see it. Since the conflict started, legislators, officials and local analysts have embraced the theory that the Bush administration encouraged Georgia, its ally, to start the war in order to precipitate an international crisis that would play up the national-security experience of Sen. John McCain, the Republican presidential candidate.

Milton Bearden, a highly decorated former CIA operative, dismissed the notion that an intelligence agent with any intelligence would carry his passport with him in the field, much less lose it. He characterized the Russian claims as "slapstick," saying that if a passport is going to be held up as evidence of U.S. meddling, "it shouldn't belong to some guy teaching English in China."

Alexei Kondaurav, a KGB veteran and critic of the Kremlin, said that "using a 'found' passport to expose the Americans seems really small-time," adding that "the Soviet Union's secret services never stooped that low."

Dmitry Peskov, a spokesman for Mr. Putin, defended the prime minister's allegations, saying Russian military and intelligence officials would release further evidence of U.S. involvement "when they are ready."

He said Mr. White's passport bore entry and exit stamps from the period after 2005, but didn't elaborate.

Mr. White says he first became aware of his role in the geopolitical drama last weekend, when he started getting email queries about it after his mother, unbeknownst to him, did a radio interview in the U.S. denying his involvement.

His family first became worried Friday after seeing news reports of the Russians' claims about Mr. White's passport. The family feared the Chinese government would hand Mr. White over to the "Russians to be tortured to get a confession out of him," Michael's brother, John, said. "It was excruciating." (Russian law forbids torture.)

Mr. White finally connected with his family by email on Saturday.

In recent days, Mr. White says, he has been trawling the Internet, trying to get a grip on what is being said about him and pondering how he can get Web sites to "stop publishing all these stupid stories."

Russian accounts highlighted his military service as a sure sign he's a government agent. Mr. White says he was in the U.S. Army from 1992 to 1997 working as a petroleum-supply specialist. He drove tank trucks and fueled helicopters during postings in Fort Campbell, Ky., Germany and Bosnia, where he served with peacekeeping forces.

The Army confirmed Mr. White's account of his military service.

After leaving the Army and finishing his bachelor's degree, Mr. White says he decided that, having seen Eastern Europe, he wanted to head to Asia for work. He got his first teaching assignment in Beijing in 1998.

Since then, he says, he has largely hopped from school to school in China, Vietnam, Japan and Kazakhstan, with occasional breaks for studying in the U.S., the U.K. and Australia. In 2005, in the midst of a separation from his Kazakh wife, he was traveling from Moscow to New York when he lost his passport, he says.

From February to July of this year, he taught English and business at a private preparatory school in the southern Chinese boomtown of Shenzhen, according to Mr. White and a teacher at the school responsible for recruiting foreign instructors.

Mr. White has a Wikipedia entry now, which includes links to an old résumé he posted online when looking for English teaching jobs, as well as one to a Web site for a book he is writing with his father, Philip L. White, an emeritus professor of history at the University of Texas in Austin.

The book, "Nationality in World History," includes a chapter called "The Evolution of the Russian National Identity," which Mr. White says he drafted himself. There is nothing in the book about Georgia, Mr. White says. Though there is a Georgian flag, among others, at the top of the book's Web site.

"I didn't even know that," he says. "I was trying to choose ones no one would recognize."

—Ellen Zhu, Andrew Higgins and Louise Radnofsky contributed to this article.