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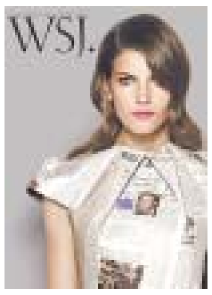


Introducing WSJ., our new lifestyle magazine

WSJ. MAGAZINE | INSIDE

Fun with fungi: hunting for mushrooms in Finland

WEEKEND JOURNAL | PAGES W10-W11

BP keeps TNK-BP stake but Russians gain clout

Agreement removes CEO Dudley, makes IPO in 2010 likely

By **Gregory L. White** *in Moscow and* **Guy Chazan** *in London*

BP PLC signed a deal to end a bitter conflict with its Russian partners in TNK-BP Ltd., loosening its grip on Russia's third-largest oil producer but retaining its 50% stake.

The framework agreement appears to end a highly public battle that had fueled fears among foreign investors about doing business in Russia and hurt BP's stock price. BP shares jumped almost 4% on the news Thursday, though they later closed at 505.50 pence ($8.99), down 0.5 pence.

Many investors had expected BP to be forced to give up some or all of its stake in TNK-BP, given that the Kremlin has in recent years been reasserting state control over major energy ventures, relegating foreigners to minority stakes. But although the joint venture remains a 50-50 partnership, Thursday's deal clearly gives the Russian shareholders more clout.

For the Kremlin, the deal appears to remove a cloud from an investment outlook that had become decidedly overcast after a highly public government crackdown on major steelmaker OAO Mechel and the surge in East-West tensions following last month's conflict in Georgia.

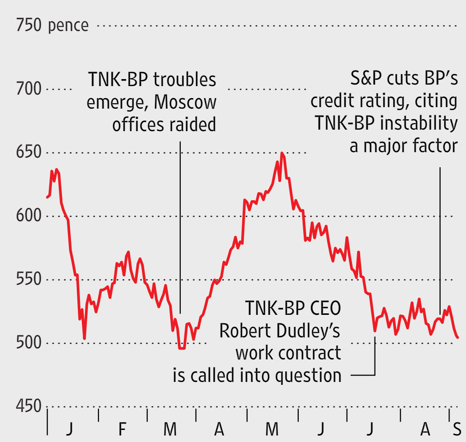
"This is a positive signal for the

Please turn to page 27

Turning point?

BP's stock has risen and fallen dramatically this year, with much of the volatility due to the instability with its Russian partners in joint venture TNK-BP.

Terms of an agreement were finally announced Friday, but BP's London-listed share price still closed down 0.1% at 505.50 pence



Sources: Thomson Reuters Datastream (share price); WSJ research

What's News—

Business & Finance

BP signed a deal to end a conflict with its Russian partners in TNK-BP, loosening its grip on the oil producer but retaining its 50% stake. The pact calls for the removal of BP-nominated CEO Robert Dudley by Dec. 1 and consideration of an initial public offering of TNK-BP shares around 2010. Page 1

■ **The Bank of England** and the ECB kept key interest rates steady as inflation concerns continue to trump mounting fears of recession. Page 2

■ **U.S stocks dropped** on worries about the health of consumers. European markets slid on growth concerns. Page 16

■ **Unilever named** Paul Polman as its new CEO, the first outsider to take the job. Page 3

■ **Natixis will offer** new shares in its $5.37 billion rights issue at a 62% discount to its Wednesday closing share price. Page 15

■ **U.S. retailers** reported weak sales for August as tropical storms hurt traffic and consumers reduced spending. Page 6

■ **Boeing's major union voted** to strike but held off for 48 hours while U.S. mediators try to prevent a shutdown of jetliner production lines. Page 5

■ **Alitalia's new rescue** plan would cut 3,250 jobs, fewer than first planned. Page 5

■ **A former Halliburton** executive pleaded guilty to orchestrating bribes to Nigerian officials. His move may aid an investigation of the case. Page 6

■ **UBS said** it has lured away a Goldman Sachs banker, Carsten Kengeter, to oversee its fixed-income operations. Page 18

■ **Telefónica will invest** about $1.16 billion for a bigger stake in two state-controlled Chinese telecommunications companies that agreed to merge. Page 2

■ **OAO Severstal**'s CEO said the Russian steelmaker is considering acquisitions, as the company reported solid second-quarter earnings. Page 3

Markets 3 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11240.59	-292.29	-2.53
Nasdaq	2269.35	-64.38	-2.76
DJ Stoxx 600	278.18	-7.40	-2.59
FTSE 100	5362.1	-137.6	-2.50
DAX	6279.57	-187.92	-2.91
CAC 40	4304.01	-143.12	-3.22
Euro	$1.4385	-0.0067	-0.46
Nymex crude	$107.89	-1.46	-1.34

Money & Investing > Page 15

World-Wide

Cheney sought to reassure Georgians of support but without rattling European allies worried about pushing back too hard against Russia. A key aim of the U.S. vice president's visits to Georgia, Ukraine and Azerbaijan this week was to underscore the U.S. commitment to protecting the ex-Soviet-bloc nations. Page 1

■ **McCain prepared** to formally accept the Republican presidential nomination, after Palin drew a rousing reception as she fired back at critics of her selection as his running mate. Pages 9, 12, 13

■ **Iraq is seeking** Washington's permission to buy dozens of advanced F-16 fighters from the U.S., a move that could significantly increase Baghdad's military capabilities. Page 1

■ **Iran is pressuring** Iraq to reject a deal with the U.S. over the terms of a continued American military presence in Iraq. Page 8

■ **A roadside bomb killed** two U.S. soldiers in Baghdad. President Bush is weighing when to resume a U.S. troop withdrawal from Iraq and at what pace.

■ **Israel is seeking** a new round of indirect peace talks with Syria, after Assad disclosed Damascus handed peace proposals to Turkish mediators.

■ **Pakistan's parliament** condemned a U.S.-led strike into a border area. Officials suspected a missile strike Thursday killed at least four people. Meanwhile, 37 militants were killed in clashes.

■ **Thai Prime Minister Samak** proposed a referendum on whether he should stay in office, in a surprise maneuver. Page 8

■ **Zimbabwe's Mugabe said** he would appoint his next cabinet if opposition leader Tsvangirai refused to sign a power-sharing deal Thursday. Page 27

■ **The U.S., South Korea, China** and Japan plan to meet in Beijing soon to discuss how to halt North Korea's steps toward restarting its Yongbyon nuclear reactor.

■ **Tropical Storm Hanna's** death toll from floods and mudslides in Haiti grew to 90, as Hurricane Ike approached the Bahamas.

■ **Over one million U.S. homes** and businesses remained without power in Hurricane Gustav's wake, but frustrated New Orleans residents began returning.

EDITORIAL & OPINION

Trade barriers

Asian countries' bilateral deals are another blow to multilateral liberalization. Page 11

Republican Convention continues

Reuters

John McCain and his running-mate **Sarah Palin** after her address to the Republican National Convention

Iraq bid to buy warplanes may enable U.S. pullback

By August Cole And Yochi J. Dreazen

WASHINGTON—The Iraqi government is seeking permission to buy dozens of advanced F-16 fighter jets from the U.S., a move that could significantly increase Baghdad's military capabilities and help clear the way for a large-scale American military withdrawal.

If it clears hurdles in Washington, the multibillion-dollar deal for 36 planes would give the Iraqi government a powerful new weapon to use against the country's Shiite and Sunni insurgents. It would also augment the capabilities of the Iraqi military, which has become more competent and confident in recent months.

The Iraqi request could help pave the way for significant numbers of American troops to leave Iraq. The Iraqi military is heavily dependent on U.S. air power, and senior American officials have long argued that Iraq would need the U.S. to keep fighters and attack helicopters deployed throughout the coun-

Please turn to page 28

Cheney vows U.S. will help Georgia heal

By John D. McKinnon

TBILISI, Georgia—In a high-profile visit to war-torn Georgia, U.S. Vice President Dick Cheney sought to reassure nervous Georgians of international support but without rattling European allies who worry about pushing back too hard against Russia.

At a joint appearance with embattled Georgian President Mikheil Saakashvili, Mr. Cheney—citing a new White House pledge of $1 billion in civilian aid—vowed that "America will help Georgia rebuild and regain its position as one of the world's fastest-growing economies."

The vice president also promised continued international support to help Georgia maintain its freedom. "It is the responsibility of the free world to rally to the side of Georgia," Mr Cheney said. "We will help your people to heal this nation's wounds...and to ensure Georgia's democracy, independence and further integration with the West."

After lunch with Mr. Saakashvili, Mr. Cheney toured a U.S. C-17 military cargo plane at Tbilisi's military airport. The plane was hauling humanitarian supplies for war refugees, a small show of American force in the face of the continued Russian threat. Within sight of the C-17 and its camouflaged command post was an aircraft factory that a U.S. Embassy official said had been bombed twice by Russian aircraft.

An important aim of Thurs-

Please turn to back page

THE WALL STREET JOURNAL.

LEADING THE NEWS

ECB holds key rate steady

Bank of England also cites inflation as reason to stay pat

By Joellen Perry

FRANKFURT—The European Central Bank and Bank of England kept their key interest rates on hold Thursday as inflation concerns continued to trump mounting risks of recession.

In a separate move, aimed at reducing the risk the central bank takes on amid unsettled markets, the ECB also tightened substantially the standards for collateral it accepts from banks in return for short-term loans. The ECB wants to curtail banks' impulses to dump at the central bank risky securities they can't sell elsewhere.

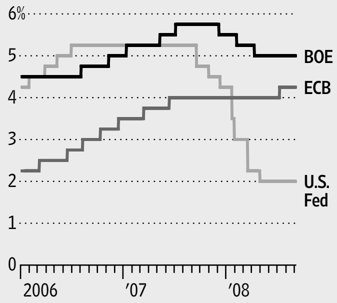
The ECB and Bank of England kept their key rates at 4.25% and 5%, respectively. In a news conference following the ECB's decision, President Jean-Claude Trichet said the 15-nation euro-zone is in the midst of an "episode of weak activity," highlighting second-quarter slumps in investment and private consumption. Meanwhile, Sweden's central bank raised its policy rate by a quarter percentage point to 4.75% to temper rising prices despite slowing growth.

Mr. Trichet said the euro zone would stage a "gradual recovery" starting in the fourth quarter of this year and stressed elevated inflation remains policy makers' prime concern. Predicting that inflation will remain above policy makers' comfort level of just less than 2% until 2010, Mr. Trichet said policy makers have "no bias" about the future course of interest rates, an indication they aren't yet considering lower interest rates despite slowing growth.

The euro continued sliding against the dollar, falling to $1.4347 late afternoon Thursday as Mr. Trichet's comments underscored mounting concerns about the health of the euro-zone economy. Economists believe the bank will keep its key rate on hold through year-end but lower it next year as slowing growth eventually pushes prices down.

On hold

Key interest rates at the European Central Bank, Bank of England and U.S. Federal Reserve



Sources: European Central Bank; Bank of England; U.S. Federal Reserve

The threats of rising prices and slowing growth continue dogging central bankers. Some Federal Reserve policy makers fret that U.S. inflation remains high amid low interest rates, but concerns about slowing global growth and the still-delicate U.S. economy and financial system are likely to keep the Fed's key rate target on hold at 2% Sept. 16.

But the U.K., which may be sliding into recession, may soon see growth anemic enough to temper rising prices, and thus clear the way, says economists for the Bank of England to cut its key rate to 4.75% in November, even as annual inflation in July hit 4.4%, more than double the bank's 2% target.

Data released Thursday highlighted the economic slowdown across Western Europe. German factory orders fell for the eighth month in a row in July, falling 1.7% from June. French unemployment held steady in the second quarter at 7.6% after a two-year decline, and many economists expect the rate to rise later this year. In the U.K., the Halifax house-price index from lender HBOS PLC fell 10.9% in August from the year before, the steepest annual drop since records began in January 1983.

Reflecting the gloom, ECB staffers revised downward their forecasts for growth this year and next.

—Sudeep Reddy contributed to this article.

Telefónica to boost place in China's phone market

By Santiago Perez And Jason Sinclair

MADRID—In a move to gain a greater foothold in the world's largest mobile market, **Telefónica** SA said Thursday that it will invest about €800 million ($1.16 billion) to build up its ownership in two state-controlled Chinese telecommunications companies that have agreed to merge.

The telecom giant said in a filing with Spanish regulators that it will own 5.5% of the company resulting from the merger of **China Netcom Group** Corp. (Hong Kong) Ltd. and **China Unicom** Ltd. Spain-based Telefónica, which has been expanding aggressively in Latin America and Europe, said that through the deal it will become the combined company's biggest private shareholder.

China Unicom, a wireless carrier, is acquiring fixed-line operator China Netcom in an all-shares deal, as part of a government-directed industry restructuring unveiled in May.

Telefónica currently holds a stake of about 5% in China Netcom and is soon expected to get clearance to raise its stake to a total holding of 7.2%.

The Spanish company will then further increase its holding in China Netcom in a two-part deal with New York-based asset-management firm **AllianceBernstein** LP.

In the first part of the deal, Telefónica will acquire 2.71% of China Netcom for about €368 million, bringing its stake in that company to 9.91%.

In the second step, it will buy shares in the new company resulting from the merger of China Netcom and China Unicom, ending up with a stake of 5.5% in the enlarged company.

CORRECTIONS & AMPLIFICATIONS

Grundy Worldwide, an insurance agency that specializes in classic and antique cars, ended its exclusive agency agreement with **Chubb** Corp. for collector car insurance in 2006. A July 31 Personal Journal article about insuring old cars incorrectly said Chubb ended the relationship earlier this year.

INDEX TO BUSINESSES

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

INDEX TO PEOPLE

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

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

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LEADING THE NEWS

Unilever picks Nestlé executive as new CEO

Paul Polman chosen as the first outsider to lead company

By Aaron O. Patrick

Consumer giant **Unilever** named an outsider as its next chief executive. Paul Polman, an industry veteran, faces a challenging task: ensuring high food prices and slowing economies don't derail the company's turnaround.

For 52-year-old Mr. Polman, the post at the maker of Hellmann's mayonnaise, Ben & Jerry's ice cream and Dove soap is a chance he has long sought: a CEO job. Mr. Polman was head of the Americas division at **Nestlé** SA, where he was passed over for the CEO position last year. He also spent 26 years at **Procter & Gamble** Co. and left in 2005 after others were promoted over his head, hurting his chances.

In an interview Thursday, Mr. Polman said he aims to "accelerate" Unilever's growth. He said he would avoid fighting for market share at any cost, a trap that can lead companies to cut prices too steeply or chase low-margin products. "We are not going to have a mentality to grow at the expense of others," he said.

Paul Polman

Unilever's shares jumped 6.1% on the news to close at £15.81 ($28.10) in London trading as investors bet he will continue the changes introduced by Unilever's departing chief executive, Patrick Cescau.

"This [appointment] basically confirms the fact that Unilever is in the final stage of its transformation," said Marco Gulpers, an analyst at ING Groep NV's broking unit.

Unilever, based in London and Rotterdam, Netherlands, had long been the basket case of the consumer-products industry, with repeated failed attempts to streamline its sprawling operations. But in his four years at the helm, Mr. Cescau overhauled Unilever's management structure, cut costs and merged its two big divisions, food and consumer products, so they could share marketing expertise and distribution networks. Profit growth became more consistent. Mr. Cescau, 59 years old, announced his plans to retire in late July. A Unilever spokesman said Mr. Cescau declined to comment.

Unilever Chairman Michael Treschow said the board initially considered interviewing only internal candidates for the CEO job but decided to look outside as well because the company was stable and had a clear strategy. Mr. Polman was one of seven candidates considered for the job, Mr. Treschow said Thursday.

Mr. Polman, the first outsider to be appointed CEO, will face the delicate personnel issue of managing executives who may have wanted his job and who may feel they deserve credit for years of painful restructuring. Among them is Manvinder Singh Banga, the president of foods, home and personal care. Analysts considered him the leading internal candidate to succeed Mr. Cescau, and he has spent his entire career at Unilever. Mr. Banga didn't return a call Thursday.

"I will do whatever I can, within reason, to ensure they stay," Mr. Polman said of the internal CEO candidates.

Mr. Polman plans to start work next month and take over from Mr. Cescau toward the end of the year, Mr. Treschow said.

His appointment means three of Unilever's top officials will have come from outside: Mr. Treschow, the former CEO of appliance-maker AB Electrolux; Chief Financial Officer James Lawrence, who was hired from General Mills Inc.; and Mr. Polman.

Mr. Polman joins at a difficult time. Prices are rising for many ingredients found in Unilever goods, including palm oil, plastics and dairy items, forcing the company to push through sharp price increases that are turning away some customers. Its second-quarter results were disappointing, with the number of items sold falling 0.5% from the year-earlier period.

Lehman Brothers issued a note Thursday warning that Unilever's large exposure to the developing world, a key part of the company's strategy, could be a drag due to slowing economic growth.

At Nestlé, Mr. Polman's departure wasn't a surprise. His name has come up as a potential candidate in other CEO searches since his failure to win Nestlé's top job, which went to longtime Nestlé executive Paul Bulcke. Many analysts, investors and industry recruiters had expected Mr. Polman to get the job.

His resignation, effective immediately, allows Mr. Bulcke to reward one of Nestlé's star performers, European head Luis Cantarell, with control of North and South America, a bigger total market. Succeeding Mr. Cantarell in Europe is Laurent Freixe, head of Spain and Portugal.

At Nestlé, Mr. Polman publicly released financial targets for the nutrition business, putting pressure on divisional managers. To boost morale among staff, he invited junior managers to join him for predawn jogs. Born in the Netherlands, he speaks English, Dutch, French, Spanish and German.

Russia's Severstal mulls international expansion

By Alexander Kolyandr

LONDON—The chief executive of OAO **Severstal** said the Russian steelmaker is considering acquisitions in the U.S. and elsewhere, as the company reported solid second-quarter earnings supported by increased production and higher steel prices.

In an interview, CEO Alexei Mordashov, who owns about 82% of Severstal, said his company is interested in international expansion despite the recent contraction of the U.S. automotive market, as the global steel market remains strong.

"Of course we see a decline of demand in the U.S., but there is still a deficit of production there," Mr. Mordashov said. He added that while Severstal will continue to supply the car industry in the U.S.—where the company is the fourth-largest steel producer by production—it has diversified its production mix, resulting in a wider consumer base.

Partly thanks to higher steel prices, Severstal's net profit for the three months ended June 30 more than doubled to $1.5 billion from $690 million a year earlier. Revenue rose 54% to $6.24 billion from $4.05 billion.

Mr. Mordashov said he expects a "more or less" stable steel price environment globally until the end of the year.

In 2009, the company plans to sustain this year's level of capital expenditure of $2.7 billion to $2.9 billion. It also plans to syndicate a loan of $1.5 billion to $2.5 billion to develop its North American assets.

Mr. Mordashov said Severstal's Sparrows Point steel mill in Maryland exported 24,000 metric tons of steel to Brazil in July, thanks to positive market conditions, a favorable exchange rate and Severstal's geographic position.

The CEO said the exports to Brazil are "a clear sign of U.S. reindustrialization, which not everyone believed would happen, but what is happening right now."

Exports to Brazil are a clear sign of U.S. reindustrialization, Severstal's CEO said.

The recent political scuffle over Georgia between Russia and the West, notably the U.S., won't affect the company's operations or plans, he said.

Mr. Mordashov said in addition to seeking further acquisitions in the U.S., it also sees further opportunities in Southeast Asia, India, and Western and Eastern Europe. Africa and South America also provide good possibilities for acquisitions, he said.

The CEO was slightly less optimistic about his home turf of Russia, where the steel market is already highly consolidated. However, he said, the company plans to build two minimills by 2011—each with a capacity of one million metric tons a year—in Russia's Saratov and Ivanovo regions.

Mr. Mordashov also said the company plans to further develop its gold-mining assets and is considering bidding for a license to develop Russia's largest gold deposit, Sukhoi Log.

Shares in Severstal closed down 2.5% at $15.70 in Moscow.

Corporate News

A new cut

U.S. designers switch their focus to Europe and the Middle East > **Page 4**

CORPORATE NEWS

TRAVEL

Airport stores consolidate further with Dufry buy

Dufry

SWISS TRAVEL retailer **Dufry** AG said it will fully take over U.S.-based competitor **Hudson Group** for $446 million, speeding up consolidation in the fast-growing and highly fragmented sector.

The deal was set up by Dufry-shareholder **Advent International** Corp., a Boston-based private equity firm. It follows Autogrill SpA's takeover of World Duty Free and Aleasa in March and closely-held Gerzon Holding BV's acquisition of Mimex Group in July. The acquisition will add some 605 million Swiss francs in annual sales to Dufry, which last year posted revenue of 1.89 billion francs.

—By Goran Mijuk and Martin Gelnar

AUTOS

U.K. new-car registrations fall 18.6% from a year ago

Associated Press

LAST MONTH, new-car registrations in the U.K. fell 18.6% from a year earlier, recording the market's weakest August since 1966.

The Society of Motor Manufacturers and Traders said there were 63,225 car registrations in August. Over the past eight years, the average for the month has been about 75,000. August is traditionally a quiet month as consumers wait for a change in registration-number plates in September before buying new cars, and it normally accounts for about 3% of annual registrations. The drop appears to reflect the strains being put on British consumer finances by the sharp decline in the domestic housing market.

— Reuters

STEEL

Novolipetsk will buy Beta, bolstering U.S. presence

NLMK

RUSSIA'S OAO **Novolipetsk Iron & Steel Works** said Thursday that it agreed to buy U.S. hot-rolled-steel producer **Beta Steel** Corp. in a $400 million deal, expanding its presence in North America.

Novolipetsk, owned by billionaire Vladimir Lisin, said it is buying Beta from a group of private shareholders to provide feed for another recent U.S. acquisition, the $3.5 billion purchase of steel-pipe maker John Maneely Co. "Novolipetsk is trying its best to make its U.S. acquisitions vertically integrated and therefore less exposed to rising raw-material-input prices," UniCredit Aton metals analyst Marat Gabitov said.

—WSJ News Roundup

U.S. designers woo sellers abroad

Soft market means buyers may scrimp after New York shows

BY VANESSA O'CONNELL AND CHERYL LU-LIEN TAN

AS DESIGNERS unveil their spring collections at New York's fashion week, which begins Friday, many are scrambling to offset anticipated cutbacks by U.S. department stores by courting overseas retailers.

Oscar de la Renta Ltd. expects buyers from 25 foreign stores to attend its runway show Wednesday, compared with three or four who have made the trip in the past, says Alex Bolen, chief executive officer of the New York fashion house. Menswear designer John Varvatos, who has presented his line in New York for nine consecutive seasons, is skipping fashion week entirely this season. Instead, he showed his line in Milan in June, as part of an effort by Greensboro, N.C.-based **VF** Corp., which owns the label, to boost business in Europe and Asia.

Designers Thakoon Panichgul and Derek Lam, meanwhile, have added longer hemlines and, in the case of Mr. Lam long sleeves, to appeal to buyers in the Middle East. Mr. Lam plans to unveil the new styles only in his showroom, not on the runway.

The designers are responding to the dismal state of consumer spending in the U.S., which has caused retailers to trim orders for even designer clothes. Stores typically place orders at showroom appointments following the shows in Manhattan's Bryant Park—roughly four to six months before the styles show up in stores.

The economic slowdown is adding urgency to the overseas push.

John Varvatos

Dan Lecca

Oscar de la Renta plans to open boutiques at Harrods in London and at Saks in Mexico City later this month, along with stores in Athens and Madrid this fall.

But with August sales continuing to sag, some U.S. retailers have been sending signals that they won't be buying as much as in years past. "We're going to be very conservative" in purchasing spring designer looks, **Saks** Inc. Chief Executive Officer Stephen Sadove told investors in late August, explaining a wobbly stock market has left wealthy Americans insecure about their finances.

In wooing foreign retailers, designers are taking advantage of the weak dollar. "The economy here is just so terrible. The dollar is horrible, which makes their buying power amazing," says Carmen Marc Valvo, who sells $600 cocktail dresses and evening gowns that retail for $1,500 to $3,000 at stores such as Saks Fifth Avenue. Although the dollar has strengthened lately, he adds: "What we offer, and the price we offer it at, makes it like candy for the Europeans." He plans to take his spring collection to a Paris showroom for the first time, after staging his usual runway show in New York, so he can reach out to retailers from Europe and the Middle East.

Another thing U.S. designers have going for them is that they deliver fresh styles more frequently than European designers. "With the Europeans, you don't get as many drops, and having newness on the floor all the time is great," says Laura Larbalestier, a buyer for **Selfridges** & Co. in London, who has gotten more comfortable in recent years with American style.

Designer Phillip Lim's clothes have sold well at the British department store chain, says Ms. Larbalestier, giving her confidence to add other U.S. designers such as Mr. Panichgul. Next week, she plans to check out U.S. labels, including Rodarte and Erin Wasson.

Going global nevertheless can be risky for U.S. designers, many of whom run small businesses without a lot of financial backing. American style doesn't always translate well, and there's no guarantee that emerging markets such as Russia or China will continue to grow. Some designers say their European sales are already softening.

"When things weren't working in New York in the '80s and '90s, people would say, 'well, there's a good business in Japan,' " notes designer Vera Wang. But then the luxury market in Japan stalled. Still, Ms. Wang began leasing a fabric warehouse outside of Hong Kong earlier this year so she could ship more quickly to some international accounts.

The economic slowdown is adding urgency to the overseas push by designers. Tracy Reese, whose U.S. sales began softening this summer, signed a London distributor last month to add customers in Italy, Spain, Ireland and Germany. She hopes that international sales, which currently contribute 15% of her business, will generate 25% of sales by the end of next year.

At Oscar de la Renta, total sales are up 25% so far this year, but international sales are stronger and now account for 30% of the total, says Mr. Bolen. The company plans to open boutiques at Harrods in London and at Saks in Mexico City later this month, along with stores in Athens and Madrid this fall. A Moscow store is also planned.

Some small labels say they have little choice but to go overseas. "We knew if we wanted to stay alive we had to," says eveningwear designer Pamella DeVos, who has dressed celebrities like Angelina Jolie in her Pamella Roland label. A number of U.S. specialty stores that sold her line have closed, and wholesale sales in the U.S. were flat in 2007, she says.

In response, she hit the road, displaying her collection at a Paris showroom earlier this year. In October, she plans a runway show and party in Dubai in conjunction with a trunk show at Saks Fifth Avenue there. She hopes overseas sales will generate 40% of her business by 2010, up from 25% now, and says sales so far this year are up a bit, due to new orders from stores in Russia, Japan and France.

Australia stands by its restrictions on airline access

BY RACHEL PANNETT

CANBERRA, Australia—Australia won't give third-party airlines access to the lucrative route between Australia and the U.S. despite undertaking a major review of the country's aviation policy, Transport Minister Anthony Albanese said Thursday.

Singapore Airlines Ltd., in its submission to the Australian government as part of the review, has called for a more liberal aviation policy on the so-called trans-Pacific route.

But the government's aviation green paper due later this month—the first step in producing a plan for the future of the aviation industry—will maintain the status quo.

The trans-Pacific route is currently dominated by Australia's **Qantas Airways** Ltd. and U.S.-based **UAL** Corp.'s United Airlines.

Australia signed an open-skies agreement with the U.S. in February, allowing Australian and U.S.-owned airlines to fly freely between the two countries. But the route is closed to outside players such as Singapore Airlines.

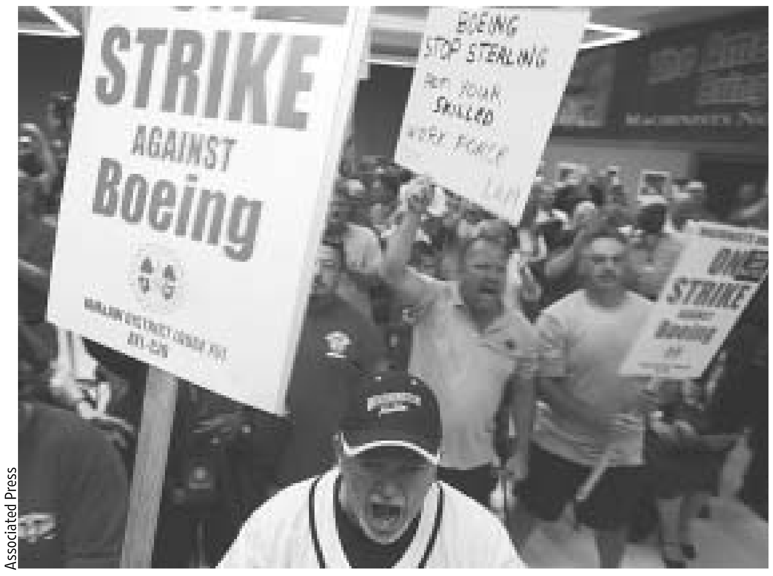
Mr. Albanese said the current policy is "appropriate at the moment while we get competition established with the Australian-based market," referring to plans by Australia's second-largest airline, **Virgin Blue Holdings** Ltd., to begin flights between Australia and the U.S. through its V Australia unit by the end of the year.

"We want that process to be able to occur in a way that creates substantial jobs here in Australia as well as substantial economic benefits," Mr. Albanese said.

He wouldn't rule out revisiting the policy at a later date, noting an international trend toward "increased liberalization of aviation" and a consolidation of airlines.

Singapore Airlines welcomed the minister's assurance that "the trans-Pacific question remains open in the future," an airline spokesman said. "We have indicated we are patient and not in a hurry to acquire the rights."

—John Jannarone in Singapore contributed to this article.



Associated Press

With Boeing's **factories running at full-tilt** to keep up with strong demand, a strike would be expected to cost the company roughly $100 million a day.

Boeing union approves a walkout but delays it

U.S. mediator wins 48-hour reprieve after pact is rejected

BY J. LYNN LUNSFORD

Boeing Co.'s largest labor union voted to strike Wednesday night, but the union agreed to postpone a walkout for 48 hours after federal mediators urged both sides to return to the bargaining table in a last-ditch effort to reach an agreement.

Officials from Boeing and the International Association of Machinists and Aerospace Workers said they were willing to try negotiating with the help of a mediator on the possibility that it might result in an agreement without a strike that would shut down Boeing's jetliner production lines.

The company's 26,800 machinists overwhelmingly rejected a proposed three-year contract that would have given members raises and bonuses totaling $34,000 over the life of the contract. Union officials said 87% of the voting members approved a strike, which would have been the union's second since 2005.

Mark Blondin, aerospace coordinator for the union, said labor officials agreed to extend the contract by 48 hours, even though many members were prepared to head to the picket lines at midnight. "They've got 48 hours to bring a deal that's acceptable to you or it's on," Mr. Blondin told a packed union hall.

The union opposed the contract, saying Boeing failed to meet demands for much higher wages and pensions, as well as greater job-security language and no increases in health-care costs. Even after the contract was rejected, Boeing officials stuck by their characterization of the contract as the best in the industry.

"Clearly, we are committed to doing our best to prevent a work stoppage and the disruption it would cause inside and outside our company," said Boeing Chairman and Chief Executive Jim McNerney, in an email message sent to employees Wednesday night. "But we will do so ever mindful of our responsibilities to protect our long-term competitiveness, maintain our ability to best serve our customers, and to ensure fairness and equity for all employee groups."

With Boeing's factories running at full-tilt to keep up with strong demand for new jetliners from airlines seeking fuel-efficient planes, a strike would be expected to cost the company roughly $100 million a day in lost revenue. Boeing's 787 Dreamliner, which is already running almost two years behind schedule, will likely slip even further, putting the company in even more hot water with customers who have ordered almost 900 of the ground-breaking jetliners as replacements for aging long-haul planes.

Union officials have been battling Boeing for more than a decade as the Chicago aerospace manufacturer seeks to streamline production and cuts costs. With each successive step, Boeing has sought to distance itself from nitty-gritty manufacturing to focus more on final assembly, which requires fewer high-wage machinist jobs at Boeing.

The company has also made a push to bring more contractors into the factory to handle jobs that once were the sole purview of the union, a constant area of friction between the two sides.

Because Boeing is under such pressure to keep up with delivery schedules, the machinists say they have enough leverage to regain some, if not all, of the ground they lost in previous talks. People familiar with the matter say Boeing is likely to resist because officials believe they need this flexibility to stay competitive.

Boeing officials had hoped that their final offer would have been strong enough to win over enough union members to avoid a strike, particularly the 6,000 or so workers who have either been recalled from layoff or newly hired since the last negotiations. As an incentive, Boeing offered each union member a $2,500 signing bonus, but only if the contract was ratified on the first vote.

The company's final contract proposal included a pay raise of 11% over the life of the pact, as well as boosting pensions 14% to $80 a month for each year of service. The union said it wanted pay raises of at least 13% and a larger pension amount.

WSJ.com
Online today
See continuing coverage of the labor negotiations at Boeing, at **WSJ.com/OnlineToday**

Alitalia unions are given deadline

BY LUCA DI LEO
AND GUGLIELMO VALIA

ROME—Italian government officials Thursday gave **Alitalia** SpA's labor unions a one-week deadline to accept deep job cuts, a key step in the turnaround of the troubled airline.

The Italian government has been touting the plan, which calls for a merger between Alitalia and smaller rival Air One SpA, as the only way to save the struggling carrier. People at a meeting with unions and government officials said Italy's labor minister, Maurizio Sacconi, outlined a plan in which a revamped Alitalia would have about 14,500 workers. The two airlines currently have a combined staff of about 20,000.

Burdened by high labor costs and strike-prone unions, the airline hasn't posted an operating profit in almost a decade. Alitalia's latest rescue plan would see the carrier split in two, with the potentially profitable assets being bought by a group of Italian investors.

Rocco Sabelli, likely to be chief executive of the slimmed-down Alitalia, said the carrier would aim to operate at break-even within two years, with revenue around €4.8 billion, or about $7 billion.

Mr. Sabelli, the right-hand man of **Piaggio** SpA Chief Executive Roberto Colaninno, who is leading the group of local businessmen taking over Alitalia, confirmed the group plans to invest around €1 billion in the carrier.

Alitalia, which filed for bankruptcy protection last week, said Wednesday that it received an offer to purchase most of its assets from Cia. **Aerea Italiana**, a company set up by Mr. Colaninno and other investors to buy the carrier.

The market share of the revamped Alitalia would rise to 55% from 30%, Mr. Sabelli said at the meeting, according to an official present, adding that the carrier would have 140 planes in 2009.

The plan also calls for the merged carrier to maintain a decentralized and crowded network of airports in cities such as Venice, Milan, Turin, Naples, Rome and Catania. For decades, Alitalia's refusal to adopt a hub-and-spoke network used by more-successful airlines left it struggling to serve a sprawling network that gave rivals ample room to open routes that cut deep into the carrier's market share.

Mr. Sabelli also said Alitalia's cargo and maintenance operations wouldn't be bought by the group of Italian investors, thus remaining under the remit of Alitalia's government-appointed bankruptcy commissioner, Augusto Fantozzi.

—Stacy Meichtry in Paris contributed to this article.

Engine icing spurs new air-safety rules

BY ANDY PASZTOR

U.S. and European air-safety regulators, concerned about potentially dangerous ice buildups in the fuel systems of certain long-distance jetliners, are about to issue new operating rules for around 220 Boeing 777 aircraft, according to people familiar with the matter.

The mandatory safety directives apply only to planes with engines manufactured by **Rolls-Royce** PLC, which account for about one-third of the Boeing 777 fleet world-wide, these people said. But under prodding from British officials, **Boeing** Co. will analyze whether similar precautionary measures should be extended to the rest of its 777 line, according to those people. The rules are expected to be released in the next few days.

The rules were prompted by the nonfatal January crash of a **British Airways** PLC Boeing 777 approaching London's Heathrow Airport. Investigators suspect the plane's fuel system became plugged from ice or slush after a flight from China.

The directives call for pilots to vary the engine-throttle settings during long flights when airborne temperatures are unusually low, these people said, and to rev up engines before starting a descent toward an airport. The aim is to boost power and prevent internal ice accumulation from plugging up fuel systems.

Bribery probe gets boost

Guilty plea entered in Halliburton case involving Nigeria

By Russell Gold

In a wide-ranging foreign-corruption investigation, fired former **Halliburton** Co. executive Albert J. "Jack" Stanley pleaded guilty to orchestrating more than $180 million in bribes to senior Nigerian government officials. The bribes were used to win a contract to build a liquefied-natural-gas plant in Nigeria.

Under a plea agreement entered Wednesday in Houston, Mr. Stanley faces seven years in prison and a $10.8 million restitution payment. His lawyer, Lee Kaplan, said, "We're hopeful the government finds his cooperation merits" a reduction in his prison sentence.

Mr. Stanley's agreement to cooperate could breathe life into the five-year federal investigation, and additional charges of executives are possible.

The guilty plea exposes the corruption that sometimes goes with enormous energy investments in Africa and other parts of the world. Bribing foreign officials subjects companies and executives to possible prosecution under the U.S. Foreign Corrupt Practices Act.

According to the plea, government prosecutors said bribes began in 1995, while Mr. Stanley worked for M.W. Kellogg, then part of a company called Dresser Industries Inc. Halliburton acquired Dresser in 1998 and merged M.W. Kellogg into an engineering and construction unit of Halliburton called Kellogg Brown & Root, or KBR.

Several of the bribes Mr. Stanley has said were paid occurred after that acquisition, during the time when Vice President Dick Cheney led Halliburton, and they continued after Mr. Cheney left. Though there was no evidence Mr. Cheney knew of the bribes, the future vice president promoted Mr. Stanley to run KBR in 1998. Mr. Stanley's guilty plea said the bribes continued until 2004, the year Halliburton fired him. Mr. Cheney's tenure as Halliburton chief executive ended in 2000.

The guilty plea thus could renew attention to Mr. Cheney's past ties to Halliburton. Mr. Cheney was traveling in the Caucasus region this week and couldn't be reached. His office in Washington said it wouldn't comment on "pending litigation."

Halliburton didn't comment on the guilty plea, but it has said in financial filings that it has produced documents for investigators and made employees available for interviews. A spokeswoman for **KBR** Inc., which Halliburton spun off last year, said it hadn't reviewed the plea and couldn't comment.

Halliburton, despite no longer owning KBR, still faces a federal criminal investigation and a probe by the Securities and Exchange Commission. In addition, governments elsewhere are looking into the matter.

According to Mr. Stanley's plea, a construction consortium that included Kellogg and later KBR paid a combined $182 million, through two agents, to bribe Nigerian officials in a scheme to win a series of contracts. Mr. Stanley, 65 years old, said he and others met with Nigerian officials to ask how the illegal payment should be handled.

Mr. Stanley also pleaded guilty to taking $10.8 million in kickbacks from an agent of the construction firms.

The liquefied-natural-gas trade was beginning to boom in 1995, when what was then M.W. Kellogg first submitted a bid, along with three other companies. Mr. Stanley was Kellogg's representative on the consortium's steering committee and helped hire agents who would later bribe Nigerian officials to win engineering and construction contracts.

Allegations that bribes had been paid first surfaced in an unrelated case in France. A French magistrate began looking into the matter in October 2003. U.S. investigators joined the hunt in January 2004, according to Halliburton SEC filings.

The plea agreement Wednesday was the first time any executive had pleaded guilty in this investigation.

—Neil King Jr. contributed to this article.

Wipro hunts deals that make good fit

By Niraj Sheth

NEW DELHI—After one of its rivals made a sizable U.K. acquisition, Indian technology-outsourcing giant **Wipro** Ltd. has acknowledged it is also on the hunt for deals.

In an interview, Girish Paranjpe, Wipro's joint chief executive, said that the company is looking for an acquisition with a strong cultural fit. That consideration, at least to some degree, overrides the price tag—which is "not a big issue," he said. "To me, if you pay 20% to 25% of a premium, that doesn't matter as much as the fit."

Flush with cash from years of economic expansion but facing slowing growth at home, India's globally minded companies increasingly are snapping up businesses overseas. Technology companies are no exception; they are striving to expand their reach with new business lines and new geographical markets.

Last week, in the largest overseas acquisition by an Indian tech company, **Infosys Technologies** Ltd., a competitor to Bangalore-based Wipro, agreed to buy U.K.-based consulting firm **Axon Group** PLC for $753.1 million in cash.

Wipro's Mr. Paranjpe said that the deal came as a surprise because Infosys doesn't have as long a track record of making acquisitions as other tech companies, but "the logic is not hard to understand."

He noted that in any services acquisition, the hard part really begins after the deal. "The goal is retaining clients and the people," Mr. Paranjpe said. "It can be a tough act to pull off."

Axon Group specializes in providing consulting for customers of business-software maker **SAP** AG, which is based in Walldorf, Germany. Its enterprise software helps large corporations keep track of their business processes.

Any acquisitions by Wipro could likely bolster its technology consulting division, which employs 1,000 people. The company's strategy has been to build some in-house capability before it goes shopping for "plug-in acquisitions" that can fulfill specialized needs, Mr. Paranjpe said.

Wipro ended its past fiscal year March 31 with about $984 million in cash reserves.

Six potential bidders interested in Digital+

By Jason Sinclair

Spain's **Promotora de Informaciones** SA received preliminary interest from six potential bidders to buy its satellite-television business Digital+, a person close to the situation said.

Prisa, as the company is known, is in talks with Spain's **Telefónica** SA, **France Télécom** SA, French entertainment and telecommunications company **Vivendi** SA, Italian broadcaster **Mediaset** SpA, **Teléfonos de México** SAB and **News Corp.**, the person said.

James Murdoch, the head of News Corp. for Europe and Asia, met with Prisa senior management in Madrid earlier this week, according to two people familiar with the matter.

Prisa has asked interested parties to submit preliminary bids by mid-September. After studying those bids, Prisa will open due diligence for a smaller group of bidders, both people said.

HSBC Holdings PLC is coordinating the potential sale, which is critical for Prisa. The company is burdened by €5 billion ($7.25 billion) in debt that analysts say is putting pressure on the company's shares, which have dropped 47% since the beginning of the year.

A sale would also allow the company to refocus its efforts on its core media, publishing and TV businesses in Spain, Portugal, Latin America and the U.S.

Prisa began preparing for the sale of Digital+ last year, when it launched a takeover for shares it didn't own in its broadcasting unit Sogecable, which includes Digital+ and Spanish TV channel Cuatro. The deal, which was completed in May, valued Sogecable slightly below €4 billion. Analysts say Digital+ could fetch as much as €3 billion.

Telefónica said earlier this week it wasn't looking at Digital+ at the moment, but when the time came it would do so and decide whether to make an offer. Vivendi and France Télécom declined to comment. Telmex wasn't immediately available to comment. A Mediaset spokeswoman said there are no negotiations with Prisa at present.

News Corp. and BSkyB, in which News Corp. owns about 39.1%, also declined to comment. Dow Jones, the publisher of The Wall Street Journal, is owned by News Corp.

—Christopher Bjork and Erica Herrero-Martinez contributed to this article.

Associated Press

The most resilient U.S. retailers in August pitched **their goods as bargains**, as consumers cut their discretionary spending. Discounters are thriving.

August sales were weak for many U.S. retailers

By Donna Kardos

U.S. retailers recorded yet another month of weak same-store sales in the crucial back-to-school month of August, as tropical storms hurt traffic and consumers continued to cut back on discretionary spending amid economic pressures.

Discounters were again the exception, continuing to benefit from consumers who traded down and shopped for bargains

With the bulk of the gains from this spring's economic-stimulus checks likely behind them, the nation's retailers had to rely on providing shoppers with compelling back-to-school merchandise while persuading them that they were getting good value.

Wal-Mart Stores Inc. beat expectations as it reported that U.S. same-store sales, excluding fuel, rose 3% last month. Namesake stores posted a 2.8% increase while warehouse chain Sam's Club reported 4.2% growth, excluding fuel. Including fuel, Sam's Club posted a 7.5% rise.

"The underlying business performance for Wal-Mart U.S. continued to show strength and the improved relative performance has resulted in market-share gains," Eduardo Castro-Wright, head of Wal-Mart's U.S. operations said in a prepared statement.

Groceries and health-related products were Wal-Mart's two strongest categories. Customers also "responded well to school and college seasonal offerings throughout the store," the company said.

Rival **Target** Corp., which hasn't been doing as well as Wal-Mart, reported a 2.1% drop in August same-store sales and projected that September's sales would be somewhere between a 1% decline and a 1% increase. Target said September's results will be subject to greater-than-normal volatility because of hurricanes and tropical storms.

On Wednesday, warehouse chain **Costco Wholesale** Corp. disappointed investors with a 9% jump in August U.S. same-store sales that, while strong, failed to meet analysts' expectations. Excluding gasoline-price inflation, its U.S. growth was 6%.

Fellow warehouse chain **BJ's Wholesale Club** Inc. on Thursday reported a 15% jump in sales on a same-store basis, though half the gain was from fuel sales.

Among department stores, heavyweight **J.C. Penney** Co. as well as **Kohl's** Corp. began posting the sector's declines Wednesday, though the results beat expectations. Still, Penney projected this month's same-store sales drop will be worse, entering the mid-to-high single digits range.

On Thursday, **Stage Stores** Inc., which was expected to report the smallest decline among department stores, disappointed investors with an 8.3% drop.

Dillard's Inc., **Bon-Ton Stores** Inc. and high-end chains **Nordstrom** Inc. and **Saks** Inc. also delivered worse-than-expected declines.

At women's retailers, which have struggled to deliver must-have merchandise to value-minded shoppers, **Chico's FAS** Inc. posted the largest same-store sales drop—10%, though that was slightly better than expected. **Limited Brands** Inc. and **Cache** Inc. posted drops of 7% and 6%, respectively.

But maternity-apparel retailer **Mothers Work** Inc. outperformed with a 7.2% jump amid its restructuring effort.

In the general-apparel sector, **Gap** Inc. reported an 8% same-store sales drop, though it beat estimates. Meanwhile, **Stein Mart** Inc. posted a worse-than-projected 9.9% drop.

Teen chains saw yet another month of mixed results. Some of the more value-priced chains saw strength amid weakness at higher-priced competitors. This shows that even teens, typically immune to economic fluctuations in their spending, are trading down as their parents feel economic pressures.

Buckle Inc. once again was the sector's brightest spot, beating analysts' already lofty expectations with a 22% jump.

Aeropostale Inc. wasn't far behind, as it posted a better-than-expected 13% increase. Both chains sell casual merchandise at a much lower price than competitors.

Many other teen chains, though, were reporting drops, with **Abercrombie & Fitch** Co. and **Wet Seal** Inc. missing expectations with declines of 11% and 8.7%, respectively. Still, some other declines—including those from **Pacific Sunwear of California** Inc., **American Eagle Outfitters** Inc. and **Hot Topic** Inc.—were not as bad as expected. **Zumiez** Inc. surprised with a 0.2% increase.

CORPORATE NEWS

Getty Images

Sony displays its new **Blu-ray recorders** in Tokyo Wednesday. The company says it will sell its Blu-ray recorders in Japan this year.

Sony's Blu-ray players aim to grab holiday sales

Firm has chance to woo customers who sat out HD war

By Yukari Iwatani Kane

TOKYO—**Sony** Corp. showed its fall lineup of Blu-ray disc players and recorders as it prepared for its first holiday season after winning a format battle against HD-DVD.

The Japanese consumer-electronics maker said it will sell two Blu-ray players world-wide and seven Blu-ray recorders in Japan this year. One of the players has been available in the U.S. since July, priced at $399. It will be available this month in Europe and in December in Japan. The other player will enter markets in early December and will be priced about $2,000 in the U.S.

Supporters of Blu-ray and HD-DVD spent much energy wooing movie studios, retailers and consumers as they fought fiercely to dominate the high-definition DVD market over the past several years. Last year's holiday season was marked by big price cuts and movie giveaways to attract consumers, who were uncertain about which format to support.

Toshiba Corp., the leading supporter of HD-DVD technology, admitted defeat in February.

This will be the first holiday season in which electronics makers can focus on selling Blu-ray players without the added burden of having to make an argument for the format. It will be an important opportunity to target consumers who are interested in watching high-definition movies but have been sitting on the sidelines.

Sony said it expects industrywide Blu-ray player and recorder sales to more than triple to about seven million units in the year that ends in March, from 2.1 million a year earlier. Of that, Sony expects to sell 3.1 million units, a 44% share. It also expects to sell 10 million PlayStation 3 videogame consoles, which can be used to watch Blu-ray movies.

The company said most of its latest models will include a new chip that it developed to show high-definition movies in better quality than before. In Japan, which makes up about 28% of global Blu-ray demand, Sony is also selling Blu-ray recorders because they are popular for taping television shows.

Sony's Blu-ray business is operating at a loss, but the company says it expects to show a profit for the fiscal second half.

Analysts are optimistic about the demand for Blu-ray products this holiday season, especially as more consumers upgrade their televisions to fully digital flat-screen models. Prices for players and movies have fallen.

But there will be challenges. The industry faces a big hurdle in persuading consumers who are satisfied with their current DVD players to switch. Blu-ray players will also compete against advanced standard-format DVD players that contain technology to improve the quality of the images. Such "upconverting" DVD players can be purchased for less than $80.

Paul Erickson, director of DVD and high-definition market research at Texas-based DisplaySearch, says he doesn't expect demand to really accelerate until next year, when prices for Blu-ray players are likely to drop to less than $200.

"Blu-ray continues to face challenges, but it will experience gradual growth, much like the DVD initially did," Mr. Erickson said, adding that this will be a "strong building year."

Microsoft cuts Xbox 360 prices

By Nick Wingfield

Microsoft Corp., in a move to court the mass market with its videogame products, is sharply cutting the price of its Xbox 360 videogame consoles—including offering its least expensive model at $199.

The price cuts, effective Friday, signal an aggressive push by the Redmond, Wash., titan to lift sales of the Xbox 360 before the crucial holiday shopping season. The cut in its low-end model, which had been priced at $279, marks the first time that the price of one of the latest generation of consoles has fallen below $200.

Aaron Greenberg, director of product management for Xbox 360 and Xbox Live, the system's online component, said three-quarters of sales for game consoles historically have occurred after hardware makers dropped the prices of their machines below the $200 mark.

The price cuts put Microsoft in a stronger competitive position against **Sony** Corp., which in recent months has outsold Xbox 360 in the U.S. with its PlayStation 3 console.

GLOBAL BUSINESS BRIEFS

Ablynx NV

Drug maker, Merck KGaA to team on cancer antibodies

Belgian pharmaceutical company **Ablynx** NV, which is using llamas to develop next-generation antibodies, has signed a deal with Germany's **Merck KGaA** to co-develop drugs against cancer and immune-system diseases. Ablynx and Merck will contribute equally in the development of so-called nanobodies against two unspecified targets and will share the resulting profit. The tie-up could be worth billions of dollars, Ablynx CEO Edwin Moses said. The Ghent-based company will receive an upfront cash payment of €10 million ($14.5 million) and can opt out of the profit-sharing deal, in which case it would be entitled to milestone payments of up to €325 million. Ablynx also has partnerships with **Novartis** AG, **Wyeth** and **Boehringer Ingelheim** GmbH.

InBev SA

Belgium-based **InBev** SA said its shareholders will vote Sept. 29 on the company's $52 billion bid for U.S. rival **Anheuser-Busch** Cos. InBev said it will also ask shareholders to back a capital increase and the issuing of new shares that would raise up to $10 billion to pay for part of the deal. The deal, expected to close by year end, would create the world's largest brewer, to be called Anheuser-Busch InBev. InBev is currently the world's second-largest beer maker, narrowly trailing SABMiller PLC. InBev promises that its foothold in emerging markets such as China and Brazil will boost sales of Anheuser-Busch's iconic Budweiser beer, generating longer-term profits as sales stall in North America and Europe.

Ryanair Holdings PLC

Budget carrier **Ryanair Holdings** PLC said it carried 19% more passengers in August than it did a year earlier, but its airplanes were less full, on average, because of increased capacity. Last month, 5.8 million passengers flew with the Irish airline, bringing the number of passengers for the year to Aug. 31 to 55.1 million. The load factor, a measure of how full an airline's planes are, slipped to 90% from 91% in August 2007. The average load factor for the 12 months to Aug. 31 was 81%. "Our rapidly growing passenger numbers come at a time when many airlines, which are facing huge losses, are raising fares and fuel surcharges in an attempt to turn these losses around," Ryanair spokesman Stephen McNamara said. "However, the reality is that this has driven their passengers to Ryanair."

Audi AG

Audi AG said global sales in August rose 2% from a year earlier. The premium brand of **Volkswagen** AG sold about 67,700 cars last month, driven by rising demand in China, the U.K., France and Italy. "Despite difficult general conditions in some European markets, we've been able to grow sales and expand our market share," executive-board member Peter Schwarzenbauer said in a statement. "Thanks to good order levels, especially for the new Audi A3, A4 and A5, we'll be able to continue this trend." For its domestic market, the German car maker posted a sales increase of 2.6% from last August to 18,537 cars, despite a slump in the overall market of more than 10%. Sales in the U.S., however, dropped 16% to 6,406 cars in a weak overall market.

KazMunaiGas

Kazakhstan's giant Kashagan field in the Caspian Sea is expected to start producing oil in 2014, instead of the previously announced launch date of October 2013, the head of an influential Kazakh energy association said. Timur Kulibayev, chairman of the KazEnergy association, said it would be impossible to start production by the original date because of severe winter weather. The consortium has faced repeated delays in the startup, initially set for 2005, because of rising costs and other difficulties. The consortium comprises Kazakh state-owned **KazMunaiGas**; European oil companies **Eni** SpA, **Total** SA and **Royal Dutch Shell** PLC; U.S.-based **Exxon Mobil** Corp. and **ConocoPhillips**; and **Inpex Holdings** Inc. of Japan. KazMunaiGas doubled its stake in the project to 16.8% last year.

Saab AB

Saab AB's shares Thursday lost almost one-fifth of their value after the company reduced its outlook for 2008, saying it has been hit by delays in order intake for major international projects and uncertainties on Swedish defense spending. The company lowered its outlook for operating margin to between 8% and 9% from 10%. The maker of the Gripen fighter jet said delays in major commercial-aircraft projects have forced it to revise the production plan for its aerostructures business. High marketing expenses for Gripen were also a factor in reducing the outlook. Over the past several months Saab has been trying to sell Gripen to countries including Norway, Brazil, Switzerland and Greece. Saab's shares closed at 128.75 kronor ($19.70), down nearly 20%.

LVMH

French luxury-goods company **LVMH Moët Hennessy Louis Vuitton** SA named Marco Gobbetti as president and managing director of its fashion brand Celine and Phoebe Philo as Celine's creative director. Mr. Gobbetti, who currently heads French label Givenchy, succeeds Serge Brunschwig, who becomes chief operating officer of Dior Couture. Ms. Philo, a British designer, cut her teeth at the French label Chloé. There, she revived the brand, in part through her focus on the leather-goods division. Ms. Philo left Chloé in 2006. Ivana Omazic, who has been Celine's creative director for three years, will leave the business. Celine was launched after World War II by Celine Vipiana. The label has since fallen on hard times, and its management has tried to turn things around by modernizing its image.

Tyco Electronics Ltd.

Tyco Electronics Ltd. plans to close three plants and consolidate production of its automotive products in Europe, in its effort to simplify its operations. About 850 employees would be affected by the changes. The Bermuda-based company expects to take charges of $115 million related to the restructuring, which is slated to be completed in 15 months. The fiscal-fourth-quarter restructuring charge is likely to be 27 cents a share, compared with the nine cents a share previously forecast. Tyco Electronics was created in June 2007 when it split from **Tyco International** Ltd. The proposed changes, which are subject to consultation with several local works councils and the European Works Council, would close three plants and restructure operations at several facilities in Spain and France.

China Power International

Power producer **China Power International Development** Ltd. swung to a first-half net loss from a net profit a year earlier because of a substantial rise in coal costs. China Power, the smallest of the five Hong Kong-listed Chinese power producers in terms of capacity, said its net loss was 249.4 million yuan ($36.4 million). The company posted a net profit of 69.6 million yuan in the first half of 2007. Revenue rose 47% to 4.04 billion yuan from 2.75 billion yuan, but coal prices in China almost doubled in the period. Power producers couldn't pass through the increased costs to customers because Beijing didn't raise tariffs until July.

James Hardie Industries Ltd.

James Hardie Industries Ltd. said the Australian securities watchdog has dropped one of the three charges it has brought against the building products company in civil proceedings relating to its 2001 restructuring and listing in the Netherlands. With court proceedings due to start on Sept. 29, the Australian Securities and Investments Commission has dropped the allegation that James Hardie contravened its duty of care and diligence in allowing a former subsidiary to cancel some partly paid shares in 2003. ASIC won't pursue the company to provide an indemnity for as much as 1.9 billion Australian dollars (US$1.6 billion), the unpaid value of the shares.

Honda Motor Co.

Honda Motor Co. aims to increase its annual domestic sales to 700,000 vehicles in three years by focusing on fuel-efficient small and gasoline-electric hybrid cars, even though the Japanese market will likely remain sluggish, a Honda executive said Thursday. This represents 9% growth from the 640,000 vehicles that the company is targeting for the fiscal year that ends in March. For the first five months of this fiscal year, Honda's domestic auto sales rose 0.8% to 233,044 on rising sales of its small fuel-economy models such as the redesigned Fit compact. Japan's second-biggest car maker in terms of sales volume plans to introduce a new hybrid next year.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

EUROPEAN UNION

IEA advocates creation of open energy markets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THE European Union should fully liberalize its electricity and natural-gas markets, pursuing a controversial goal set by its executive last year, the International Energy Agency said.

The EU's executive European Commission proposed dividing ownership of gas and electricity supply from pipelines and grids to help new market entrants and force down prices.

But EU energy ministers yielded to pressure from France and Germany at a June summit, giving giant energy companies easier alternatives to being broken up.

A European Commission statement Thursday said the IEA report supported its broad package of energy proposals unveiled during the last year. *—Reuters*

EUROPEAN UNION

Brussels hosts Parliament during Strasbourg repairs


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THE EUROPEAN Parliament decided Thursday to avoid its costly commute from Brussels to Strasbourg for the second time this month, prompting complaints from the French city that is battling to keep its position as host.

Part of the Strasbourg chamber's ceiling fell in last month. The EU Parliament met in Brussels this week while repair work was carried out and plans to stay there for the legislative session starting Sept. 22. Some members of the parliament have long requested that the assembly be based permanently in Brussels.

—The Associated Press

U.S.

Productivity soars as cost of labor drops in quarter


Peter Siu

U.S. productivity soared during the second quarter while labor costs fell, revised government figures show, reflecting a mix of employment declines and export-generated economic growth.

Meanwhile, weekly jobless claims rose, and an index tracking monthly employment fell, signaling more weakness will be revealed Friday when the government releases August nonfarm payroll data.

The productivity and labor market figures suggest U.S. Federal Reserve officials can be patient and hold interest rates steady as they assess economic and inflation risks.

—Brian Blackstone

Iran argues against Iraqi accord with U.S.

Would security deal with American forces humiliate dignity?

BY GINA CHON

AS BAGHDAD and Washington officials try to hammer out a final agreement laying out the terms of a continued American military presence in Iraq, Iranian officials have ratcheted up pressure on their Iraqi counterparts to reject a deal.

Last month, Iraqi and American negotiators agreed on a draft proposal for the continued presence of U.S. soldiers in the country, according to negotiators on both sides of the deal. The draft calls for a withdrawal of American combat troops from population centers by next summer and sets a goal for their removal from the rest of the country by the end of 2011. Tens of thousands of soldiers would likely remain to assist in training and equipping Iraqi security forces, among other duties.

Any deal still needs approval from Iraqi officials, and terms of a final agreement haven't been set. But Iran, which shares a long border and a history of conflict with Iraq, has made it clear it is unhappy over progress made so far in the talks. Iran's parliamentary speaker, Ali Larijani, earlier this week told Iraqi journalists that a security deal with the U.S. would humiliate the dignity of Iraq. On the same day, Iranian Foreign Minister Manouchehr Mottaki called for the withdrawal of U.S. troops from Iraq.

Meanwhile, behind-the-scenes opposition by Iran has also intensified, according to Iraqi officials. Some top leaders of the two main Iraqi Shiite political parties, the Islamic Dawa Party and the Islamic Supreme Council of Iraq, were sheltered in Iran for almost two decades.

Those two parties make up a strong element of the governing coalition of Prime Minister Nouri al-Maliki, who himself spent time in Iran. The two parties also received funding from Iran and training for their militias.

That makes pressure from Iran difficult for the government in Baghdad to ignore. Iraqi and U.S. officials say the pressure by Iran adds another thorny dynamic to the talks.

Iraqi government officials have told counterparts in Iran that it is up to Iraq to negotiate a deal in its best interest, according to Iraqi government spokesman Ali al-Dabbagh and other officials. Mr. Maliki has also sought to assure Iranian leaders that a deal with the U.S. wouldn't pose a security threat to Iran, according to the prime minister's office.


Associated Press

A draft agreement with Iraq has the U.S. **withdrawing combat troops** from Iraq's population centers by next summer. Above, a U.S. soldier in Baqouba, Iraq.

Still, Iranian officials are being "very, very, very tough" in their opposition to any deal with Washington, said one Iraqi official. "We cannot pretend that it doesn't affect us," this official said.

Asked if Iran was pressuring Iraq to reject a U.S. deal, a spokesman for the Iranian foreign ministry in Tehran said Iraq "does not need the advice of others."

"As their neighbor, we seek the realization of the will of the Iraqi people," the spokesman said. "Our assessment is that the people of Iraq want an end to policies that ignore and disregard their true demands."

Washington and Baghdad have been negotiating a military deal since March. Several significant obstacles remain before final approval can be expected—including the issue of immunity from prosecution under Iraqi law for American troops. Armed with a draft deal, the two sides are now working on compromises to resolve the remaining sticking points, according to Mr. Dabbagh, the government spokesman, and people familiar with the talks.

The draft agreement states there will be no permanent U.S. bases in Iraq and stipulates the U.S. can't use Iraq to launch military operations outside of the country, according to people familiar with the talks. In addition to concerns that the U.S. could use Iraq as a launching pad to attack Iran, Tehran officials are also worried that Israel could use Iraqi air space to attack Iran, according to Iraqi officials who have visited Tehran.

—Roshanak Taghavi contributed to this article.

Samak calls for referendum as Thailand crisis deepens

BY JAMES HOOKWAY

BANGKOK—Cantankerous, crude and stubborn: Thailand's Prime Minister Samak Sundaravej has been called many things by his critics. Now the 73-year-old veteran politician is trying to make a name for himself as a vigorous defender of Thailand's flawed—and increasingly fragile—democracy by proposing a referendum on whether he should stay in office.

Mr. Samak's surprise maneuver on Thursday followed a week of protests in which tens of thousands of antigovernment demonstrators have occupied the premier's office complex, sparking fears about the economic impact on this global tourism hub and major production platform for companies such as **Ford Motor** Co. and **Toyota Motor** Co.

Violent clashes between protesters and government supporters on Tuesday left one person dead and dozens badly injured and prompted Mr. Samak to declare a state of emergency in the hope that the army could resolve the crisis.

It didn't.

Instead, Mr. Samak's problems worsened when army chief Gen. Anupong Paochinda, the man charged with enforcing the emergency decree, said he wouldn't take sides in the confrontation to defend Thailand's democratically elected government, leaving Mr. Samak increasingly isolated.

Late Thursday, local media reported that police said gunmen opened fire on a group of students protesting against Mr. Samak, injuring two.

Earlier Thursday, it was Mr. Samak's turn to try to outflank his opponents by calling for a national referendum on whether his government should remain in charge of Thailand.

"I won't resign. I have to stay on to protect the democratic system," Mr. Samak said in a morning radio broadcast. He referred to his opponents, who want to end Thailand's democratic government and replace it with a parliament largely appointed by the military and other groups, as a dangerous doomsday cult.

He didn't say when the vote would be held, but urged Thailand's Senate to quickly pass a measure enabling the referendum to go ahead, although it isn't certain the Senate would agree to do so.

"The government knows it can win a referendum and it enables him to claim the constitutional high ground," said Thitinan Pongsudhirak, a political-science professor at Bangkok's Chulalongkorn University. "But it won't stop the protests. The demonstrators will claim that the whole system is flawed."

In many ways, Thailand is seeing a series of confusing role reversals that reflect the profound impact of former premier Thaksin Shinawatra, a politically savvy billionaire who was ousted in a military coup in 2006 after five years in office and is now in Britain to avoid criminal corruption charges.

Meanwhile, investors who once made Thailand one of the world's fastest-growing economies are giving it a wide berth. In a recent research report, Credit Suisse Group described the country as "at risk of becoming ungovernable."

Perhaps most unexpectedly, Mr. Samak, a vocal right-winger himself who once urged the conservative mobs to attack student protesters, resulting in scores of deaths, is reinventing himself as a guardian of democracy.

Mr. Thaksin recruited Mr. Samak out of retirement last year to lead a new political party of Thaksin supporters into new elections following the September 2006 coup. At the time, many Thais knew Mr. Samak best as the foul-mouthed host of a television cooking show called "Tasting and Complaining," where he was as likely to launch into extended rants about his pet peeves as he was to whip up a stir-fry.

But Mr. Samak also has extensive experience in national and local politics. He has served as governor of Bangkok, and has held cabinet portfolios in several governments, where he developed an uncompromisingly right-wing ideology.

McCain's bipartisan hope

If he wins, he'll need domestic-issues help in a hostile Congress

By Bob Davis
And Greg Hitt

John McCain's advisers are working on strategies for a McCain White House to avoid legislative gridlock if Democrats, as is likely, deepen their control of Congress.

Campaign strategists for the Republican candidate say a President McCain would start with issues on which he and Democrats largely see eye-to-eye, including promoting renewable energy and curbing greenhouse-gas emissions, and try to break Democratic party unity on more contentious issues. They are counting on the growing ranks of Democratic centrists, who are more fiscally conservative than mainstream Democrats, to become McCain allies on taxes.

They're also counting on the legislative calendar to force accommodation. The tax cuts signed into law by President George W. Bush are set to expire at the end of 2010, and neither party wants to revert to higher rates across the board, especially given the frail economy. The Democrats, in general, want to raise the rates of families that make more than $200,000 in taxable income. Sen. McCain wants to block any tax increases and reduce the top corporate tax rate to 25% from 35%. Neither side is likely to get its way entirely, but they can't avoid working out their differences.

"I have a record of reaching across the aisle and working with Democrats," Sen. McCain said during a teleconference with Pennsylvania voters last month.

Most polls forecast big gains for congressional Democrats, who already control the House and Senate. On foreign policy, where the president has broad powers to conduct war and diplomacy, a divided government probably wouldn't make much difference. But on economic and domestic policies, the consequences can be enormous. A President McCain would have to negotiate—and compromise—on his tax, energy, environment and health-care plans with the same Democratic lawmakers who are belittling his proposals on the campaign trail.

Some McCain priorities are likely to go nowhere in a Democratic Congress, especially free-trade pacts. Democrats have already blocked approval of such agreements with Colombia, Panama and South Korea and have denied President Bush authority in negotiating new deals. If anything, a McCain victory might stiffen Democratic opposition. That's because Sen. McCain is probably a more committed free trader than President Bush, and the number of anti-free-trade Democrats running for office is increasing.

Health-care overhaul is another issue on which Sen. McCain and Democrats sharply disagree. Sen. McCain would replace employer-funded health care with refundable tax credits of up to $5,000, which families would use to buy health insurance. Republicans argue the plan would prod consumers to demand the most cost-effective coverage and thus drive down costs. Democrats worry that it would continue to leave many millions of people without insurance and have defeated Bush-administration efforts similar to what Sen. McCain is proposing.

Douglas Holtz-Eakin, Sen. McCain's chief economic adviser, says a McCain White House could focus first on areas where the two sides agree. They include reducing costs by using information technology more effectively to track patient care, allowing the reimportation of drugs from Canada and expanding the use of generic drugs. Health-care overhaul would be marked by "steady work at doing better—incrementalism," he says.

In recent decades, Americans have shown a preference for divided government, figuring that one branch can limit the excesses of the other. Indeed, in the 28 years following Ronald Reagan's election in 1980, the same party has controlled the White House and both houses of Congress for only seven years—two years under Bill Clinton and about five years under George W. Bush.

While President Reagan was able to push through sharp income-tax reductions despite Democratic control of the House, divided government was the undoing of the first President Bush. As part of a deficit-reduction pact with Democrats, he reneged on a pledge not to raise taxes, which hurt him during his unsuccessful reelection bid in 1992.

As a 26-year congressional veteran and former Senate Commerce Committee chairman, Sen. McCain would arrive at the White House with more legislative experience than any president since Gerald Ford, a former House minority leader. But Sen. McCain has built his reputation mainly as a foreign policy expert, not as a legislative deal maker. On domestic issues, the 72-year-old lawmaker regularly opposed wasteful spending and has taken on corporate lobbyists in the broadcasting, tobacco and pharmaceutical industries.

Sen. McCain has formed alliances with some of the Senate's most liberal Democrats, pushing immigration bills with Ted Kennedy of Massachusetts and passing campaign-finance limits with Russell Feingold of Wisconsin. But his outreach to Democrats has alienated members of his own party, as did his votes against the Bush tax cuts of 2001 and 2003.

"John McCain's got a balancing act between John McCain the maverick and John McCain the president, who would want Republicans to be there to help him," says Republican Rep. Roy Blunt of Missouri, the second-ranking House Republican. "It'll be a complicated relationship."

Sen. McCain's relationship with Democrats would be no less complicated despite his past dealings. It's far from clear how far the Democratic leaders would go to make a McCain presidency a success. They might gamble that torpedoing his top initiatives would make it more likely for a Democrat to win the White House in 2012. "God forbid he wins," says Brendan Daly, spokesman for Speaker Nancy Pelosi. "But if he does, which is it? Is it maverick McCain who works across party lines? Or is the right-wing McCain" who could find stiff Democratic opposition?

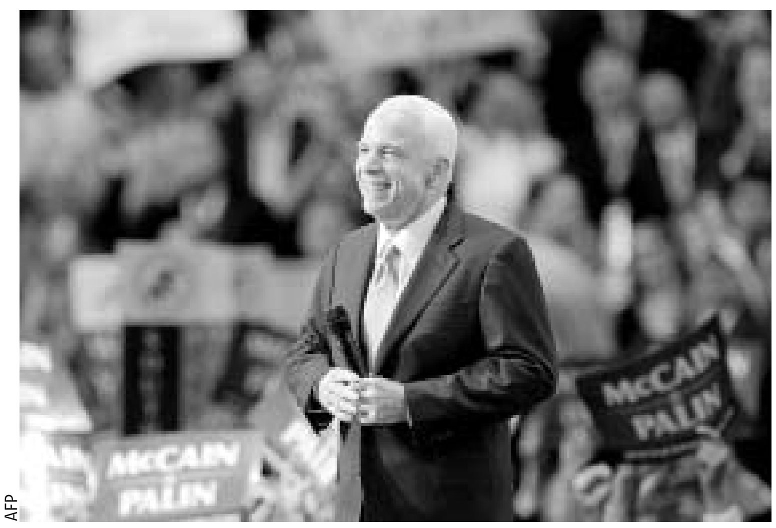
Democrats have their own agenda, including a second stimulus package to boost an economy that's forecast to be barely skirting recession in January. A Democratic plan would likely include heavy infrastructure spending, aid to cash-strapped states and assistance to the poor, such as added spending on food stamps. (Democrats are unlikely to be able to pass a stimulus package this fall because Congress is in session for just three weeks or so.)

Sen. McCain only reluctantly backed this year's $150 billion stimulus package, which many economists think helped bolster the economy, because he thought the money would be poorly targeted and add to the steep deficit. He would be skeptical of a second package, say advisers, noting that he's made a mark in Congress opposing spending on bridges, highways and other infrastructure. "People don't fully appreciate how tough McCain has been on spending," says Rep. Jeff Flake, an Arizona Republican and close McCain ally.

One possible countermove, say Republican strategists, would be to push forward the debate on the Bush tax cuts. Sen. McCain could argue that his proposals to cut corporate taxes, boost tax advantages for equipment purchases and retain existing tax rates on upper-income taxpayers would improve U.S. competitiveness long-term as well as give a short-term boost to the economy.

They note that Democratic Rep. Charles Rangel of N.Y., chairman of the Ways and Means Committee, has previously introduced legislation that would lower corporate tax rates in exchange for closing a variety of loopholes and other measures. A number of Democrats also want to keep capital-gains rates low. That could mean some cracks in potential Democratic opposition, they figure.

"The structure of our tax package has a lot of stimulus in it," says Mr. Holtz-Eakin, the McCain economic adviser. "Moving it quickly and having good solid proposals are the best things for the economy."



AFP

Sen. John McCain reluctantly backed this year's $150 billion stimulus package. He thought **the money would be poorly targeted** and add to the already steep deficit.


State of Alaska

Lieutenant Gov. Sean Parnell, Gov. Sarah Palin, and U.S. Senator Lisa Murkowski (left to right) **join Pastor Ed Kalnins** at an event in June in Alaska.

Church provides glimpse of Palin's upbringing

By Suzanne Sataline

At the Pentecostal church where Alaska Gov. Sarah Palin worshipped for more than two decades, congregants speak in tongues and are part of a faith that believes humanity is in its "end times"—the days preceding a world-ending cataclysm bringing Christian redemption and the second coming of Jesus.

The Rev. Ed Kalnins, pastor of the Pentecostal church, Wasilla Assembly of God, says he has told church members that God put President George W. Bush in office and that America is locked in a "holy war" with terrorists.

Mr. Kalnins's views and the teachings of his church provide a glimpse of the religious upbringing of Gov. Palin, 44 years old, whose Christian credentials and antiabortion views have been lauded by social conservatives. Gov. Palin hasn't discussed her personal and spiritual beliefs since she was named to Sen. John McCain's ticket on Friday, and the campaign hasn't been eager to discuss them.

"I am not going to get into that. I think talking about where she worships today and how she characterizes herself speaks for itself about where she is today on this issue," says Maria Comella, a campaign spokeswoman.

As a junior high schooler, Gov. Palin was baptized at Wasilla Assembly of God, where she attended with her family until 2002 before joining another church, which is evangelical and nondenominational, according to Mr. Kalnins, the pastor since 1999. He said the governor has continued to visit his church for meetings and conferences.

At Mr. Kalnins's invitation, Gov. Palin appeared on stage in June before a youth group at Wassila Assembly of God, where she reminisced fondly about getting baptized there, before asking the young people to pray for a proposed natural-gas pipeline in Alaska and for American soldiers.

"Pray for our military men and women who are striving to do what is right also for this country," Gov. Palin said, in a video of the talk posted on the church's Web site. Pray "that our national leaders are sending them out on a task that is from God. That's what we have to make sure we're praying for: that there is a plan and that plan is God's plan."

David Gushee, a Christian ethicist at Mercer University in Atlanta, says he is troubled that a public official might presume that government action could be God's intent. "I would never think it is appropriate to describe the actions of the United States military or the strategies of our commanders as a plan from God," Mr. Gushee says.

Mr. Gushee says Gov. Palin should explain her beliefs concerning the inevitability of a cataclysm and the end of time. "To me, it is highly relevant to someone who potentially has her hand on the nuclear button," he says. "If that is her worldview, I would want to know about that."

The McCain campaign has said Gov. Palin was baptized as an infant in the Catholic Church and that for the last seven years, she and her family have attended the Wasilla Bible Church, a nondenominational church in Wasilla. The church is evangelical, though not Pentecostal or charismatic, and believers don't speak in tongues, said its pastor, the Rev. Larry Kroon. He described the church's teachings as "so normal." Several sermons, posted on the Internet, discuss aspects of common Christian theology, such as the significance of communion.

While in Juneau, the state capital, Gov. Palin attends the Juneau Christian Center, an Assemblies of God church, while in session, said her spokeswoman, Sharon Leighow.

At the Wasilla Assembly of God, Mr. Kalnins's predecessor, the Rev. Tim McGraw, who served until 1998, says Gov. Palin attended a "discipleship class...to deepen her faith in Christ" and worshipped at the church at least twice a week.

The Wasilla Assembly of God and its parent denomination—the three-million member General Council of the Assemblies of God—espouse core beliefs not widely ascribed to by major Christian factions. Many members pray in undecipherable sounds or "tongues." The denomination's Web site says some scholars believe that the "end times" foreshadowing the end of the world was confirmed in 1948, with the founding of the state of Israel, marking the Jews' return to the Holy Land, fulfilling a Biblical prophecy. The Assemblies of God is part of a Pentecostal movement that numbers 80 million people world-wide.

The Bible, Mr. Kalnins said in an interview, foretells world events. "I don't think it's God's will to have a war," he says. But in Iraq, America is fighting an enemy that has made it a war over beliefs, he said. "I really think it is a holy war. It's a war of gods....When someone fights in the name of God, that becomes a holy war."

REVIEW & OUTLOOK

McCain, Bush and the Dollar

As John McCain moves on from the Republican convention beginning today, one of his priorities will be explaining his economic plans to a restive American middle class. He'll help his campaign, and his country, if his program includes separating himself from the Bush Administration's malign neglect of the dollar.

The real source of middle-class economic anxiety.

In debates over the Bush economic record, the dollar's decline and its companion rise in prices are the great missing links. Democrats don't mention it because they'd rather indict the Bush tax cuts as a way to justify a huge new tax increase. Wall Street and big business don't talk about it because they've been complicit in urging devaluation. And the media mostly ignore it because so few of them even think about monetary policy. The mystery is why more Republicans don't regret it because the political consequences have cost them dearly.

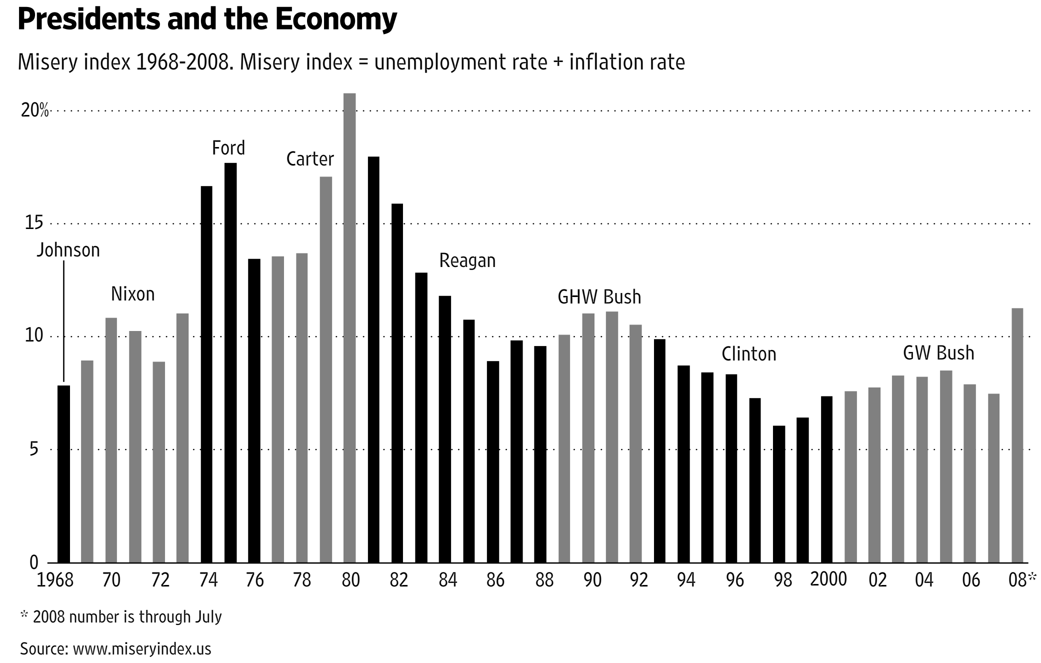
Consider the nearby chart, which chronicles the rise and fall of what the late economist Arthur Okun called the "misery index" in the late 1970s. By adding the national unemployment rate to the annual rate of inflation, the misery index offers a simple but revealing look at American economic well-being. As you can see from the chart, it's also a useful political indicator. Jimmy Carter was run out of office as the index soared above 20 in 1980, while Republicans benefited as it fell throughout the following decade. George H.W. Bush suffered as it spiked in the early 1990s, while Bill Clinton prospered through the 1990s as it fell again.

As for the political challenge that Mr. McCain faces, look no further than the "misery" spike of 2008. At 5.7% in July, the U.S. jobless rate isn't much worse than it was (5.4%) when Mr. Clinton ran for re-election in 1996. The difference is the rolling 12-month inflation rate, which at 5.6% puts the misery mark at 11.3—back to heights not seen since the early 1990s.

The opinion polls support what the misery index and common sense tell us. According to a Pew Research poll in July, no less than 45% of the American public cited rising prices as the top economic problem. That was nearly double the 24% who cited prices in February. "Nearly two-thirds (64%) now say their incomes are not keeping up with the rising cost of living," according to Pew. By marked contrast, only 5% mentioned unemployment as the main issue.

This misery spike is the direct result of the dollar plunge and soaring commodity prices that began last August. That's when the Federal Reserve responded to the credit crunch by sprinting to cut interest rates to their current level of well below the anticipated level of future inflation. In other words, much as it also experienced for most if not all of 2003-2005, the U.S. again has negative real interest rates. The price of the first episode was the credit mania and housing boom and bust. Understandably, investors responded to this second round by shorting the dollar and fleeing to other stores of value, such as oil and commodities.

Presidents and the Economy



Chairman Ben Bernanke insists the Fed has had no other choice to stave off recession, and that in any case "core inflation" (which excludes food and energy) is contained. We've tangled with those arguments many times and won't do so again today. But there's no denying that the result of the Fed's reckless easing has been a spike in consumer prices, especially in food and energy, and thus a decline in real middle-class purchasing power. American consumers—aka voters—are justifiably angry about this because they don't buy Cheerios and gasoline with "core" dollars.

As a political matter, President Bush appointed Mr. Bernanke and thus shares responsibility for this policy outcome. He also appointed Fed Governors Donald Kohn and Frederic Mishkin, the other intellectual architects of the Fed's dollar neglect. More broadly, the Bush Administration has tolerated—even encouraged—a policy of dollar decline throughout its tenure.

All three of its Treasury Secretaries have lectured us that a falling dollar is useful to help exports to reduce the trade deficit. In any case, they like to add, the dollar's price is set by a "free market"—and don't we favor free markets? They seem not to understand that a currency is not like bananas or wheat; its supply is set by a monopoly known as the central bank.

As for exports, they are the excuse used for centuries by politicians who believe nations can devalue their way to prosperity. Exports have provided an economic lift over the last two quarters or so, though that may end as the rest of the world economy slows. But the export boom has been more than offset by the harm that the commodity price spike has done to the U.S. middle-class consumer, as well as to the auto, airline and many other industries. Rising exports are best used politically as an argument for freer trade. As a justification for dollar devaluation, they are a siren song.

The good news is that the dollar has rallied in recent weeks, while commodity prices have fallen from their peaks. Markets had overshot on the upside as they often do and have since had to cover themselves. Slower growth outside the U.S. may also play a role. The widely advertised dissents from further easing inside the Fed have helped, as perhaps did Barack Obama's recent remarks that he favors a stronger dollar. When the left-wing candidate for U.S. President comes out in favor of sound money, the world notices.

* * *

Which brings us back to Mr. McCain and his challenge—and opportunity. The Arizonan needs to separate himself from the Bush economic record, and he is doing so with credibility on spending. But he can also do so by describing how this Administration has lost its way on the dollar and inflation. This would allow him to address middle-class anxiety without violating his free-market principles.

The Bush economy has been better than Democrats claim, especially given the bubble it inherited from Mr. Clinton. But its Achilles' heel has been that Republicans forgot that Reaganomics was about more than keeping taxes low. Central to its success was also sound money and low inflation. Mr. McCain can begin to help the GOP reclaim that lost half of the Reagan legacy.

An Independent Democrat

Genuine independence is a rare virtue in politics, and Joe Lieberman knew what he was risking by speaking for John McCain at the Republican convention on Tuesday. U.S. Senate Majority Leader Harry Reid said he was "very disappointed," which means look out. A Barack Obama aide, Robert Gibbs, told MSNBC, "I thought it was just too much to stomach . . . and then get up there in front up the American people and just—no offense, just lie."

We don't recall any untruths, but the idea that the Connecticut Senator is some kind of Brutus is itself false. For all intents and purposes, Democrats are the fellows who excommunicated Mr. Lieberman in 2006—and for the sole reason that as a matter of policy and conscience he refused to recant on Iraq. The antiwar left was in full rage at the time, and Greenwich millionaire Ned Lamont chose to challenge Mr. Lieberman after the Senator dared to write an op-ed in this newspaper urging that the U.S. fight to victory.

His party left Joe Lieberman.

Mr. Lamont won the primary, and that's fair enough. But rather than side with their former colleague, or at least stay neutral, nearly all of Mr. Lieberman's Senate Democratic friends then turned on him and endorsed Mr. Lamont. The list included Connecticut colleague Chris Dodd, as well as Hillary Clinton, Joe Biden—and Barack Obama.

Mr. Lieberman was a loyal party man in all other areas, and he had been on the national ticket only six years before. He was purged because he was the rare national Democrat who declined to walk away from a war that he and most of his colleagues had voted for.

Like Mr. McCain, Mr. Lieberman understood the consequences for U.S. security if the Lamont Democrats forced a withdrawal from Iraq.

He took that case to the voters as an Independent in November 2006, and to the dismay of the party elders was reelected. He has remained a pariah among his party, to say nothing of the Internet fever swamps, even though his vote to organize the Senate gave Democrats their one-vote majority. A vindictive man would have voted with the Republicans. Yet now the talk is that Democrats may strip Mr. Lieberman of his committee chairmanship if they add to their Senate majority next year.

In endorsing Mr. McCain, Mr. Lieberman was being loyal not merely to a friend but to his own principles.

On Taste

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■ **Before the 1974** "Rumble in Jungle," top acts played a three-day concert in Zaire. Jesse Drucker reviews a new documentary about the musical undercard to Ali-Foreman.

■ Plus **Pepper . . . and Salt**.