



*In a reversal, exchange fragmentation is new rage*  
HEARD ON THE STREET | PAGE 17

*Energy-focused consumers energize computer makers*  
CORPORATE NEWS | PAGE 6

## What's News—

Business & Finance

World-Wide

**Computer problems forced** the London Stock Exchange to halt trading for seven hours as the world's markets were surging, leaving undone potentially billions of dollars in trading of some of the world's largest companies. **Page 1**

■ **The U.S. government's** takeover of Fannie Mae and Freddie Mac won't change the Federal Reserve's current course for interest-rate policy. **Page 1**

■ **WaMu faces probation** by U.S. regulators, highlighting the big home lender's troubles as it replaced its CEO. **Page 17**

■ **Altria is acquiring UST** for \$10.3 billion to add smokeless tobacco brands, such as Skoal, to its cigarette line. **Page 4**

■ **German union IG Metall** demanded a pay raise of 7% to 8% for its members, likely setting up difficult talks. **Page 8**

■ **British producer prices** fell in August, which may lead the Bank of England to cut rates if inflation keeps easing. **Page 10**

■ **DHL Express foresees** 13% growth in Asia revenue this year, thanks to robust document- and package-delivery business in the region. **Page 5**

■ **CEO contender** Chris Viehbacher will leave Glaxo in December, forfeiting a \$5 million retention bonus. **Page 6**

■ **Eni agreed** to buy First Calgary in a deal valued at \$868 million as it continues a multi-billion-euro spree to boost its oil and gas reserves. **Page 6**

■ **Volkswagen's Winterkorn** tried to play down tensions between VW labor unions and Porsche, calling Porsche's takeover plan "welcome." **Page 6**

■ **Alitalia's unions** came out against the government's plan to restructure the struggling carrier. **Page 7**

■ **A U.A.E.-based fund** is in advanced talks with Banco Santander and Union Fenosa about buying their stakes in oil company Cepsa. **Page 7**

**Medvedev pledged** to pull Russian troops out of Georgian territory around South Ossetia and Abkhazia within a month, averting a conflict with the EU. The deal, reached in talks with Sarkozy, includes the deployment of 200 EU monitors. Some analysts are questioning whether the Bush administration misread Russia's angry signals ahead of the Georgia conflict. **Pages 2, 3**

■ **Georgia urged** the U.N.'s top court to order a halt to what it called ethnic cleansing by Russian and separatist forces.

■ **Bush rescinded plans** for a nuclear-cooperation agreement with Russia. Rice is trying to shore up nonproliferation initiatives with other nations. **Page 8**

■ **The U.K. trial of eight men** accused of plotting to blow up flights with liquid explosives in 2006 ended with a mixed verdict, a setback for investigators in a major terrorism case. **Page 2**

■ **Hurricane Ike** rolled across Cuba, downing power lines and destroying homes, after killing dozens in Haiti. It appeared headed for Texas or Louisiana.

■ **U.S. drones** fired missiles at a house and Islamic seminary in Pakistan linked to a Taliban leader, killing at least 20 people, including several foreign militants, Pakistani officials said.

■ **Two videos from Afghanistan** obtained by the Associated Press show several dozen bodies lined up, including children, the apparent aftermath of an Aug. 22 U.S.-led strike the Afghan government says killed 90 civilians.

■ **Ukraine Premier Tymoshenko** was summoned by prosecutors to be questioned Thursday, the latest chapter in her struggle with the president. The reason for the summons was unclear.

■ **Sri Lanka plans to bar** all foreign aid workers and many local staff from rebel areas in the north because of the civil war.

■ **Pirates off Somalia's coast** attacked Chinese, Singaporean and Thai vessels, but all three crews avoided hijackings.

■ **EU observers said** Angola's election was transparent and voters could freely choose, though the playing field was uneven. Partial results showed the ruling party with 81% of the vote.

EDITORIAL & OPINION

**Standing up to Russia**  
The EU finds a common view on dealing with Moscow's aggression. State of the Union. **Page 12**

# LSE shut out of big day by a computer problem

*Trades worth billions left uncompleted; world markets surged*

BY NEIL SHAH  
AND CARRICK MOLLENKAMP

LONDON—A system failure at the London Stock Exchange rendered investors unable to trade shares in some of the world's largest companies Monday, leaving billions of dollars in business undone on one of Europe's heaviest trading days in months.

In a blow to the 300-year-old exchange and its chief executive, Clara Furse, trading in shares of companies such as U.K.-based bank Barclays PLC and pharmaceutical giant GlaxoSmithKline PLC ground to a halt for more than seven hours as the LSE grappled with what it called a "connectivity" problem.

The failure, which began just before 9 a.m. in London, effectively shut down about a third of European trading as markets were surging on news of U.S. regulators' decision to bail out mortgage lenders Fannie Mae and Freddie Mac.

The glitch occurred at a critical time for the LSE, where Ms. Furse faces a battle to maintain market share amid growing competition from upstart trading platforms. It was the second technical failure at

*Please turn to page 31*

## Stocks take off in global cheer for U.S. rescue

Global stock markets jumped Monday, with bank shares leading the way, in an endorsement of the U.S. government's plan to take control of mortgage giants Fannie Mae and Freddie Mac.

Investors bet that the rescue will remove some of the uncertainty

By Laura Santini in Hong Kong,  
Andrea Tryphonides in London  
and Peter A. McKay in New York

that has haunted markets for months and could lower mortgage rates, aiding the troubled housing market.

In Asia, financial stocks, hit particularly hard this year in part because of concerns over the health of Fannie and Freddie debt on their books, surged. While Japan's Nikkei Stock Average of 225 companies lifted 3.4%, Mizuho Financial Group jumped 12% and Sumitomo Mitsui Financial Group soared 15%.

In Europe, France's CAC-40 Index rose 3.4% to 4340.18 and Germany's DAX Index climbed 2.2% to 6263.74. The pan-European Dow Jones Stoxx 600 Index rose 3.3% to

*Please turn to page 31*



Monday's trading glitch comes at a critical time for the London Stock Exchange and its chief executive, Clara Furse.

## Fed likely to hold steady after mortgage bailout

BY SUDEEP REDDY  
AND JON HILSEN RATH

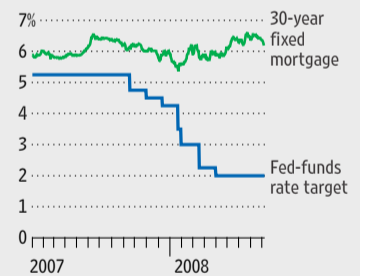
The U.S. government's takeover of Fannie Mae and Freddie Mac won't change the Federal Reserve's current course for interest-rate policy. Amid a worsening credit storm and improved inflation backdrop, the Fed looks increasingly likely to keep its benchmark interest rate unchanged at 2% well into next year.

Even before the weekend takeover of the mortgage giants, the prospect of Fed rate increases had been receding. Falling commodity prices, a rising jobless rate, a stronger dollar and a slower global economy had all taken considerable pressure off central-bank policy makers to push rates higher to fight inflation. They hold their next interest-rate-setting meeting next week.

"It seems clear that inflation risks have diminished somewhat in recent months as commodity prices have come down from their high,"

### Little Fed traction

Mortgage rates didn't fall as hoped over the past year despite deep rate cuts by the Federal Reserve



Source: WSJ Market Data Group

Janet Yellen, San Francisco Fed President and a nonvoting member of the policy-setting Federal Open Market Committee, said in a speech last week. She added that she expects "both headline and core inflation to

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## LEADING THE NEWS

# Cheney turns cautious

*After Georgia crisis, analysts wonder if U.S. overreached*

BY JOHN D. MCKINNON

ROME—Foreign-policy analysts are questioning whether the Bush administration shares a measure of responsibility for the crisis in Georgia by pushing democracy among former Soviet-bloc countries and missing Russia's angry signals in response.

Administration officials say they haven't overreached and that Moscow is the one that misread and overreacted out of an unreasonable fear of having Western-oriented democracies on its borders. In the long run, these officials say, Russia will begin to back down, unwilling to tolerate Western censure or the economic punishment that the international marketplace already is beginning to impose.

Still, administration officials, particularly Vice President Dick

Cheney, who has been traveling in the region, are being noticeably cautious in their actions and rhetoric. Their latest activities suggest they are seeking to ease fears among Western allies that the administration's inclination is to go too far in response to last month's Russian incursion into Georgia.

Notably, the Bush administration hasn't made any suggestion of short-term assistance to help Georgia rebuild its shattered military, even though it announced last week a \$1 billion to help rebuild Georgia's civilian infrastructure.

The U.S. also has avoided any broad security promises for the region. U.S. President George W. Bush's decision soon after the Russian invasion to begin a U.S. military airlift of humanitarian supplies to Tbilisi, and to send Navy warships on similar missions, were widely perceived as a show of force, but now they appear to be about U.S. face-saving as well.

Mr. Cheney, seeking to reassure Georgia and its pro-Western neighbors of continued U.S. support, also has used more moderate rhetoric

than some observers had expected, further signaling the administration's desire not to rattle allies in Western Europe or the Caucasus—or rile Russian leaders. In his public comments, Mr. Cheney has focused on the importance of holding the North Atlantic Treaty Organization together.

Officials in Moscow have been mostly silent about Mr. Cheney's visit. Mr. Cheney's moderate comments in Tbilisi on Thursday—focused on economic measures to help Georgia weather its crisis—seem to have persuaded Russia that he is being careful to avoid unnecessary short-term confrontations.

EU and U.S. officials alike are hoping their caution can help facilitate a cooling-off period that will prevent another outbreak of violence in the region, ease Russian troops out of undisputed Georgian territory and give Mikheil Saakashvili a badly needed chance to get Georgia, along with his own government, back on their feet.

A growing number of U.S. analysts see the Bush administration as at least partly to blame for the mess



Reuters

U.S. Vice President **Dick Cheney** has used more moderate rhetoric than some observers expected during his travels through the Caucasus region.

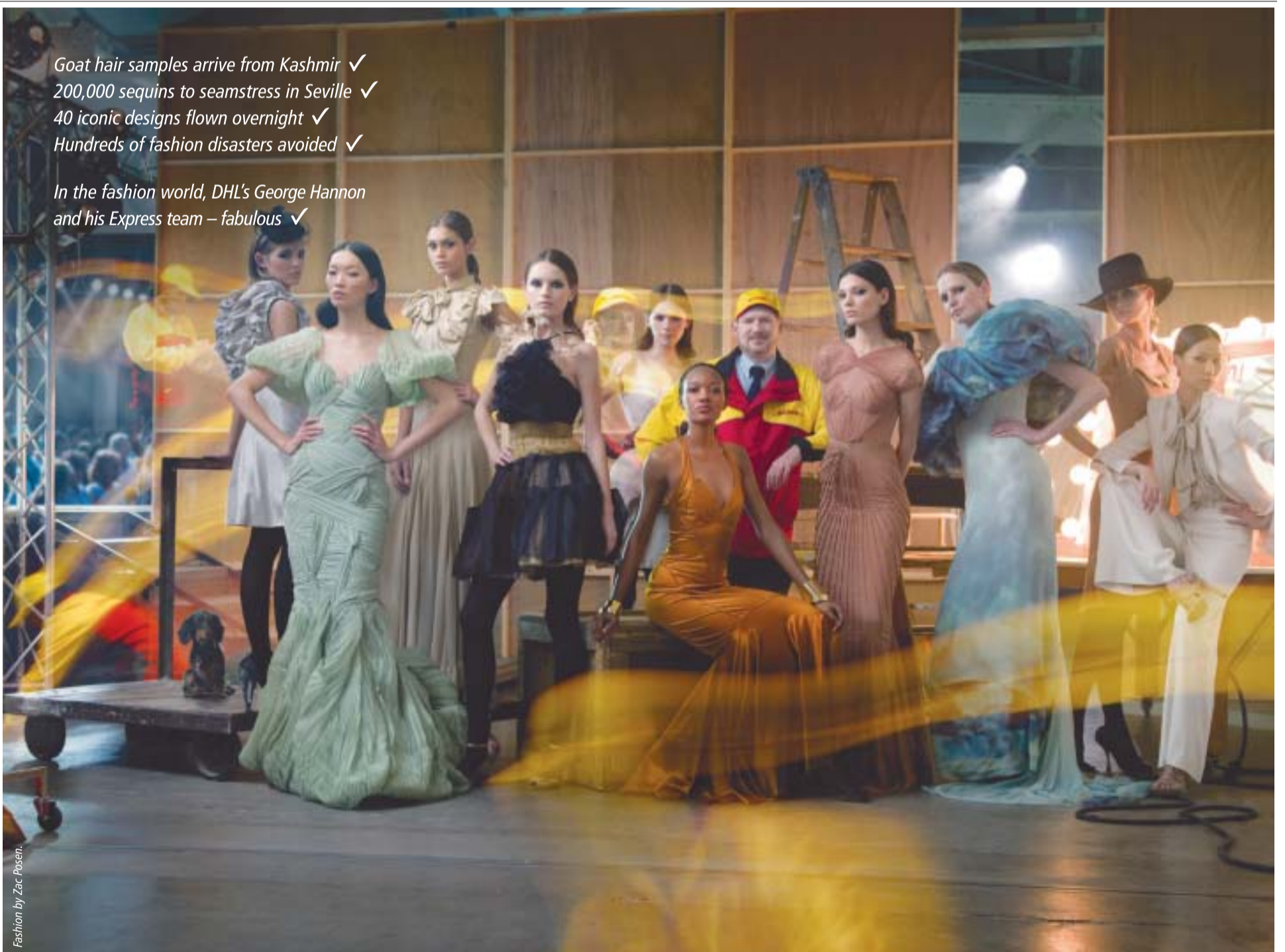
in Georgia. They cite the U.S. pressure to make Georgia and Ukraine members of NATO and to construct a missile-shield system in Eastern Europe over intense objections from former president and current Prime Minister Vladimir Putin.

A senior administration official, speaking with reporters Monday,

disputed the criticisms, saying leaders in the region believe Russia acted out of unjustified desire to block NATO membership for Georgia and Ukraine. The official said Russia's vehement opposition to the missile-shield program also was well understood by the U.S.—and was unreasonable.

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## CORPORATE NEWS

## TELECOMMUNICATIONS

## Smart-phone sales rose at slower pace in quarter



**G**ROWTH in smart-phone sales slowed in the second quarter, hurt by the weakening economy and slowing consumer demand, research firm Gartner Inc. said.

It said 32.2 million smart phones, which have capabilities like email and navigation, were sold in the quarter, up 16% from a year earlier.

However, in the 2007 quarter, smart-phone sales rose 55% from a year earlier.

Finland-based Nokia Corp. kept its top spot with a 46.5% smart-phone market share, although it is facing increased competition from rivals such as BlackBerry maker Research In Motion Ltd.

—Adam Ewing

## AUTOMOBILES

## Tata delays resumption of work on India factory



**T**ATA MOTORS Ltd. said it won't immediately restart work on its controversial factory for building the world's cheapest car, even though the group opposing the facilities has pledged to end the protests that halted

construction. Late Sunday, the state government and protesters unveiled a compromise over disputed farmland acquired for the factory site.

Under the agreement, the Communist government of West Bengal, in eastern India, will try to return some of the land that was forcibly taken from some farmers to make way for the 400-hectare facility for Tata and dozens of its suppliers. Tata plans to build the \$2,500 Nano minicar there.

—Eric Bellman

## WSJ.com

## Luxury-car sales slump brings savings for buyers



**T**HE SLOWDOWN in auto sales has begun to hit the luxury segment.

In response, brands like BMW, Mercedes-Benz, Land Rover, Lexus and Infiniti are offering surprisingly generous financing

deals in the U.S. Sales in the "lower luxury" car segment, which includes the BMW 3-Series, Acura TL, Infiniti G35 and Lexus ES and IS models, are down 10.3% for the year through Aug. 31, according to Autodata figures for the U.S. market.



Need additional information? WSJ.com subscribers can read Joseph White's Eyes on the Road column, at [WSJ.com/Autos](http://WSJ.com/Autos).

## After Spanair crash, a debate over blame

## Prosecutors consider where human error shades into crime

BY DANIEL MICHAELS

**A**S INVESTIGATORS search for clues to the crash of Spanair Flight 5022 in Madrid last month, families of the 153 victims demand to know who is to blame. Another critical question: whether the answer will be determined in civil or criminal court.

For six decades, aviation regulators have sought the causes behind and responsibility for airplane accidents. Victims' families have sued for damages through civil lawsuits.

Lately, however, public prosecutors are seeking criminal accountability for mistakes that lead to air disasters, raising a thorny legal and moral question: When does human error become a crime?

"It's a Nobel Prize question, figuring out how to coordinate civil- and criminal-law enforcement," Harvard Law School professor David Rosenberg says.

While it isn't yet clear whether the Spanair crash will prompt criminal charges, several air accidents in Europe this decade have. One of the latest cases stems from the Air France Concorde crash in 2000 that killed 113 people. French prosecutors have charged five people and Continental Airlines Inc. with voluntary manslaughter. Among the defendants are three engineers who designed and certified the supersonic plane more than 30 years earlier. Continental and two of its employees are included because a piece of metal that crash investigators believe dropped from one of its planes is suspected of initiating the crash. All the defendants deny the charges.

National justice systems draw the line between civil and criminal cases differently. The U.S. has a range of civil penalties, such as fines and punitive damages against individuals and companies, that don't exist in many European legal codes, says Anthony Sebok, a professor at the Benjamin N. Cardozo School of Law in New York.

"Most courts require much more than ordinary negligence or a slip-up," says Kenneth Simon, a professor at Boston University School of Law. The problem, says Prof. Simon, is to define a "slip-up" in medicine, aviation and other complex fields. American doctors, for various reasons, face the threat of huge financial liability in civil court but rarely face criminal prosecutions.

Few plane crashes are caused by an individual pilot, engineer or mechanic. "You're never going to get rid of human error, so the system needs to be able to deal with human fallibility," says Gerard Forlin, a British barrister who has represented both victims and accused in crash cases. "The consequences of failing to do so are sometimes the criminal responsibility of managements and boards."

Some in the aviation industry are sounding the alarm that the pursuit of punishment could prompt people to hide problems, for fear of being held responsible for them. Bill Voss, president of the Flight Safety Foundation, a global nonprofit organization based in Alexandria, Va., says gross negligence or law-breaking merits criminal investigation but that "overzealous prosecutions

## Pointing the finger

Some recent cases of criminal prosecutions in crashes and other aviation incidents

Country	Incident	Fatalities	Charges
Brazil	Gol Linhas Aereas Boeing 737 and ExcelAire Embraer business jet collided in midair, 2006	154	Prosecutors charged four Brazilian air-traffic controllers and two U.S. pilots from ExcelAire
France	Air Inter (now Air France) Airbus A320 crashed on landing approach, 1992	87	Six French aviation officials acquitted on manslaughter charges, 2006
Indonesia	Garuda Indonesia Boeing 737 crashed on landing, 2007	21	Prosecutors charged pilot with manslaughter
Japan	Two Japan Airlines planes almost collided after controllers confused them, 2001	None*	Controllers were given suspended prison terms on charges of negligence, April 2008
	Japan Airlines McDonnell Douglas MD-11 was jarred violently amid turbulence and maneuvers, 1997	1	Pilot was acquitted on charges of professional negligence, 2004

\*57 people injured

Source: WSJ research

threaten to dry up vital sources of information and jeopardize safety."

Prosecutors say the issue is one for the courts to decide and that

holding people responsible should ultimately improve safety.

Since the mid-1990s, the aviation industry in most developed

countries has followed a "no-blame" approach. Confidential reporting systems allow pilots, engineers, managers and others to anonymously flag potential safety concerns without fear of grounding or demotion. Aviation officials say the approach has helped improve air safety. There were 0.03 fatalities per million air passengers carried in North America in 2007, almost 85% fewer than the rate of 0.17 in 1997.

Some safety specialists say the aviation industry's reporting methods could serve as a model for other businesses, ranging from crane operators to nuclear-power generators.

But criminal conviction has an emotional component, too, offering victims' families both a sense of finality and hope that the forceful finding can help prevent similar disasters. For the past seven years, families of the victims of a 2001 crash at Milan's Linate Airport that killed 118 people had been awaiting a final verdict in a criminal case against officials of Italy's aviation authorities. The convictions came earlier this year. Paolo Pettinaroli, head of a group of victims' families, wrote on the association's Web site: "It is over."

## Altria to buy UST, adding smokeless tobacco

BY MATTHEW KARNITSCHNIG AND LAUREN ETTER

Altria Group Inc. agreed to buy UST Inc. for \$10.3 billion in cash, which would put two of the biggest brands in tobacco—Marlboro and Skoal—under one roof.

Altria will pay \$69.50 in cash for all UST shares outstanding. The total transaction is valued at \$11.6 billion, which includes assumption of \$1.3 billion of debt. Altria will also acquire UST's Ste. Michelle Wine Estates, a premium-wine business.

UST Chief Executive Officer Murray Kessler will stay as vice chairman of Altria, reporting directly to Altria CEO and Chairman Michael Szymanczyk.

Altria is the parent of Philip Morris USA, which makes Marlboro cigarettes and is the biggest U.S. ciga-

rette maker, with about 50% of that market. UST, based in Stamford, Conn., is known for the premium chewing-tobacco brands Copenhagen and Skoal. It had revenue of \$1.95 billion last year.

The deal would give Altria a strong foothold in smokeless tobacco, a growing area of the market where it has had difficulty making inroads against long-established brands.

In January, Altria withdrew its spit-free Taboka Tobaccopaks product from the market and replaced it with a similar, Marlboro-branded product that is in testing. During a conference call with investors Monday morning, Mr. Szymanczyk said Altria would continue testing its own Marlboro-branded smokeless product while using the new brand cache and institutional knowledge of UST to help it succeed.

Sales of UST's premium products, such as Copenhagen, have lost some strength as competitors have enticed cash-strapped consumers with cheaper products. There is a nearly \$3 price gap between Copenhagen and its main competitor, Grizzly, a popular discount product made by Conwood Co., owned by Reynolds American Inc. of Winston-Salem, N.C.

Altria and UST executives said they plan to regain strength in the market partly by delivering better value to its Copenhagen and Skoal consumers. They wouldn't say whether that meant lower prices.

The deal would also bring wine under the Altria umbrella with Ste. Michelle Wine Estates, one of the fastest-growing top-10 wineries in the U.S.

Mr. Szymanczyk said he would like to understand the wine business better before determining its fate. He said

that after the transaction closes, the company will decide "how to get the best value out of it for shareholders."

Part of the shift to smokeless products has come as smokers seek alternatives to cigarettes amid widespread smoking bans in public.

Last year, UST estimated there were about six million adult users of moist smokeless tobacco in the U.S., up from about 4.7 million in 2001. The products are particularly popular in the U.S. South and Southeast. U.S. cigarette sales have been declining about 3% to 4% a year, while smokeless-tobacco sales have been increasing about 6% to 7% a year.

Though chewing tobacco has been associated with various oral ailments, it is considered by some to be less hazardous than smoking and isn't as tightly regulated.

## CORPORATE NEWS

# DHL expects 13% growth in Asia

## Regional sales to rise despite slowdowns in U.S. and Europe

BY BRUCE STANLEY

HONG KONG—DHL Express foresees 13% growth in Asia revenue this year, thanks to robust document- and package-delivery business in the region at a time of a worsening economic slump in the U.S., Europe and Japan.

The forecast by the courier unit of Deutsche Post AG falls short of the 17% average annual increase in revenue it posted in the Asia-Pacific region from 2000 through 2007. But it marks a bright outlook given the slack demand for express deliveries in key Western and industrialized countries.

Daniel McHugh, chief executive officer for DHL Express' business in the Asia-Pacific region, attributed the upbeat regional forecast largely to a steady rise in DHL's delivery volumes in China and within Asia. In addition, DHL Express' Asian business benefits from depending on the U.S. for only about 15% of its revenue, he said in an interview Monday.

"We have, frankly, a lot more balls in play for us," he said. "And that kind of evens out the downsides of one country—albeit the largest one—going into a downturn."

He declined to give Asia-revenue figures.

Mr. McHugh said industrywide express deliveries in northern Pacific countries, including China, account now for 21% of total global deliveries by volume. Within five to seven years, the northern Pacific's share of the global total should grow to at least 33%, he said.

Intra-Asian business is one reason for that strength, Mr. McHugh said. Although this trend doesn't in itself mean that Asian economies are "decoupling" from the U.S.—a topic of much international debate—he said DHL could be seeing "some element" of proof that such a divergence is taking place.

"The Asia-to-Asia growth has not exhibited the same macroeconomic weaknesses that you're seeing in the U.S. or that you're starting to see in Europe," he said.

DHL's U.S.-based rivals—United Parcel Service Inc. of Atlanta and FedEx Corp. of Memphis, Tenn.—declined to estimate the respective shares of their Asian businesses that are generated by shipments to and from the U.S. UPS, FedEx and Dutch express-delivery firm TNT NV also declined to discuss their forecasts for growth in their Asia-wide operations.

In the second quarter, UPS posted

a year-to-year growth rate of more than 20% in delivery volume from Asia to Europe and a comparable increase in intra-Asian traffic, though it didn't provide specifics. TNT said its volumes between China and Europe rose by more than 20% in 2007. FedEx doesn't publicize details of its regional results in Asia.

TNT did provide a partial forecast for growth in Southeast Asia, where it believes the total market for day-to-day express deliveries by all carriers will double to €4 billion (\$5.6 billion) in 2011 from €2 bil-

lion in 2005. Strong increases in shipments of electronics and computer-related goods and documents are driving this growth in countries including Singapore, Thailand and Malaysia, TNT said.

Mr. McHugh spoke on the day when DHL announced the completion of work to expand its freight-handling hub at Hong Kong International Airport. The enlarged hub, in which DHL has invested a total of \$210 million, will be able to sort 70,000 packages and documents an hour, double the capacity of the original facility, DHL said.

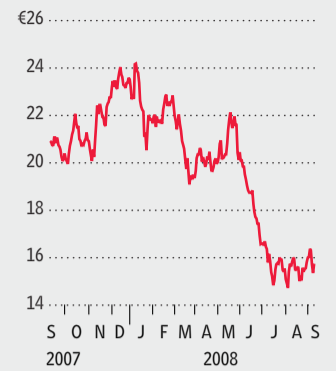
The hub, one of six that DHL has in Asia, focuses on deliveries to and from southern China's Pearl River Delta industrial region. DHL expects in 2010 to complete a seventh hub, in Shanghai—its first sorting center in mainland China.

FedEx plans to open a sorting center in the southern Chinese city of Guangzhou in December. UPS aims to begin operating an international hub in Shanghai in November and a regional hub in the southern Chinese city of Shenzhen in 2010. Both FedEx and UPS now have their Asian hubs in the Philippines.

DAILY SHARE PRICE PERFORMANCE

### Deutsche Post

Monday's close: €15.71, up 2.3%  
52-week change: down 25%



Source: Thomson Reuters



"Managing risk brings peace of mind."

**BOB TAKAI**

General Manager,  
Financial Services Division,  
Sumitomo Corporation

### Career Journal

## On the prowl

Chasing down top talent is a sport for 'rogue' recruiters > **Page 28**



Bob Takai and his team at Sumitomo Corporation manage risk with composure and ease. As one of the world's largest trading companies, Sumitomo counts on CME Group for access to the widest range of derivatives products — with unparalleled liquidity — available on any exchange. With centralized clearing and complete price transparency, CME Group ensures market integrity and virtually eliminates counterparty credit risk for investors around the world.

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## CORPORATE NEWS

# Cutting tech's energy bill

Computer makers see profits in retooling clients' data centers

BY WILLIAM M. BULKELEY

International Business Machines Corp., Hewlett-Packard Co. and other big computer makers are spotting opportunity in customers' desire to curb electricity usage in large corporate data centers, where energy use has soared in recent years.

Rising electricity prices, coupled with new computer servers that run hotter and require more power, has corporate technology buyers looking for ways to cut back. Power use in data centers—the large, climate-controlled rooms that house a company's computer servers, storage devices and communications switches—doubled from 2000 to 2006 and now accounts for about 1.5% of U.S. electricity consumption, according to the Environmental Protection Agency. A recent McKinsey & Co. report says that world-wide, the centers' carbon emissions exceed those of Argentina.

Somewhat ironically, the companies that designed and sold those computers are now able to capitalize on the higher power bills the machines rack up.

IBM surprised Wall Street this year when it said its new "Green Data-Center Services" business—which redesigns customers' data centers and sells energy-efficient products—signed \$300 million in orders in the 2007 fourth quarter. The company has declined to release figures for 2008.

IBM Chief Executive Samuel Palmisano recently told analysts that IBM expects more than 70% of the world's biggest companies "will modify their data centers significantly in the next five years" to deal with energy shortfalls and rising costs.

H-P last November bought EYP Mission Critical Facilities Inc., a 350-person engineering firm that specializes in designing data centers. EYP President Rick Einhorn says that while energy efficiency used to be an afterthought when customers requested quotes, today "every request we see has a requirement for energy-

efficient design."

Savings can be significant. EMC Corp., a Hopkinton, Mass., provider of storage systems that also has an energy-consulting business, redesigned its own computer rooms to eliminate unneeded equipment and use air-conditioning more efficiently. EMC projects that over three years it will avoid \$4 million in costs of energy and expanded floor space.

Huntington Bank—an EMC customer based in Columbus, Ohio—says it is saving \$30,000 a year in electric power costs after redesigning one of its data centers.

Some competitors wonder whether computer makers have an inherent conflict in selling services to

the Internet. The vendors say they sometimes recommend steps that don't involve new purchases—such as reconfiguring the placement of equipment to prevent hot air from one server blasting another.

Virtualization software is another big trend in power-efficient computing. In the past, companies used a separate physical server for every software application. Frequently, each ran at only 10% of its capacity, while using a full load of electricity. With virtualization, many jobs can be run on a single computer using more of its capacity, which cuts power needs.

Albert Esser, head of power and infrastructure solutions at Dell, says that advising customers how to cut power use through virtualization is an increasingly important part of Dell's \$6 billion-a-year services business. He declined to disclose specific amounts.

EMC's VMware Corp., the biggest maker of virtualization software, says that a company that virtualizes 100 servers to run on 20 physical servers can save nearly \$67,000 a year in energy costs.

Savings can also be increased by taking advantage of electric utilities' energy-savings rebates, such as those Pacific Gas & Electric Corp. offers in California, says Bogomil Balkansky Sr., a VMware marketing executive. PG&E gives rebates of \$100 to \$300 for every server retired from a data center, depending on its power consumption, according to Mark Bramfitt, pro-

gram manager for customer energy efficiency at PG&E.

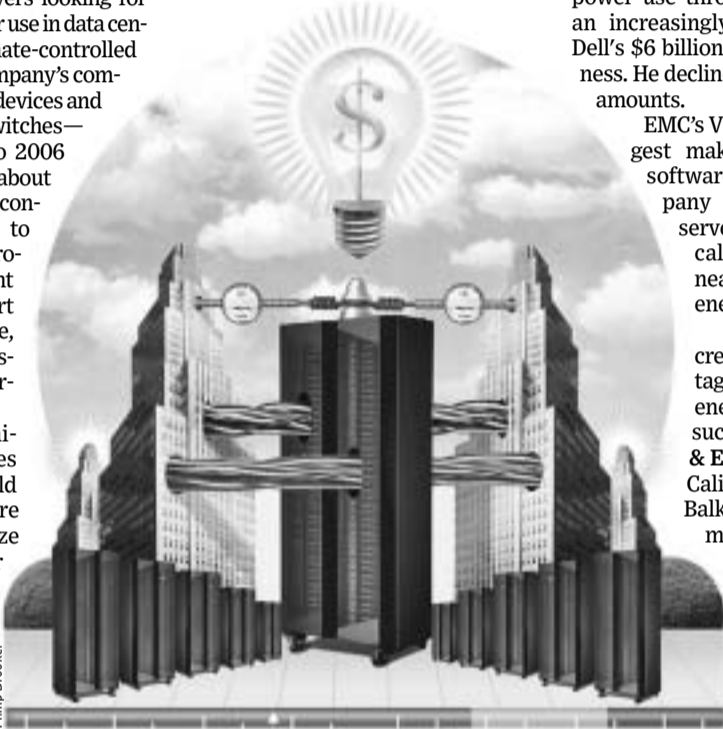
Companies also find that having a few large data centers is more energy-efficient than maintaining hundreds of smaller centers, because the larger centers are designed to minimize air-conditioning costs. H-P consolidated 80 of its own sites around the world into six data centers in Houston, Atlanta, and Austin, Texas.

Citigroup Inc. is scaling down to 14 major data centers from 52. The financial giant has been building so-called green data centers, including one in Frankfurt, Germany, with an earth-topped, green roof and exterior wall planted with sedum, a dense, succulent plant that retains cooling water in its leaves, shielding the building from the sun's rays and reducing the need for air conditioning.

curb energy usage while at the same time selling more energy-consuming hardware.

IBM and H-P have introduced water-cooled servers, renewing a technology that was abandoned years ago in favor of fans and air-conditioning. Dell Inc. makes a refrigerated server that saves energy by requiring less external air conditioning.

Hardware makers are also pushing blade computers that condense processing power into compact boxes on refrigerator-size racks. Such designs reduce the floor-space required for data centers, and the volume of air that needs to be cooled. IBM recently unveiled a blade computer called iDataPlex that it said uses 40% less power than traditional servers for huge data centers used by companies offering email and other services over



Philip Brooker

# CEO contender set to leave Glaxo

BY JEANNE WHALEN

Chris Viehbacher, a top executive at GlaxoSmithKline PLC who lost a recent race to become chief executive, will leave the company in December and forfeit a \$5 million bonus Glaxo offered to retain him.

Mr. Viehbacher, president of North American pharmaceuticals and a member of Glaxo's board, is leaving "to pursue another opportunity," the second-biggest drug company by sales said in a statement.

Mr. Viehbacher, through a Glaxo spokeswoman, declined to comment on his future employment plans. The spokeswoman said he hasn't announced his plans inter-

nally yet. Mr. Viehbacher, 48 years old, didn't return a call to his office.

Glaxo, based in Brentford, England, named Andrew Witt as its new CEO last fall. Mr. Viehbacher and another top Glaxo executive, David Stout, also competed for that job in a long and arduous horse race. Mr. Stout left the company earlier this year. To try to retain Mr. Viehbacher, Glaxo offered him a board seat and a \$5 million retention bonus. That bonus was to be paid in the form of shares in two installments, in 2009 and 2011. Mr. Viehbacher won't receive



Chris Viehbacher

the bonus now, the spokeswoman said.

Mr. Viehbacher's main duty was running Glaxo's business in the U.S., a job that grew increasingly tough in recent years as Glaxo faced stiff competition from low-cost generic drugs, as well as a safety crisis concerning its diabetes drug Avandia.

"I would like to thank Chris for his significant contribution to GSK," Mr. Witt said in the statement. "He is one of the most talented and respected executives in this industry and we wish him well in his future endeavors."

# VW's chief playing down strains over Porsche deal

BY EDWARD TAYLOR AND CHRISTOPH RAUWALD

Volkswagen AG Chief Executive Martin Winterkorn sought Monday to distance himself from a growing dispute between the company's labor unions and its largest shareholder, Porsche Automobil Holding SE, describing the sports car maker's planned takeover of VW as "welcome."

Labor leaders, who sit on VW's board, and want to prevent a dilution of their influence on a new parent company, have taken legal steps to block Porsche's proposal for a new board of directors. Labor leaders warned that tensions between the two companies were rising, fueling fears that these could roil Porsche's otherwise friendly takeover of VW.

"Porsche's investment is welcome," Mr. Winterkorn said, speaking Monday at the presentation of the new VW Golf in Iceland. He said prospects for cooperation between Porsche and Volkswagen were good. He cautioned, however, that some takeover-related issues still need to be resolved. Those include determining the combined company's leadership structure and product strategy, and determining which brands and models to build, according to a VW spokesman.

Porsche currently owns a 30.6% stake in Volkswagen and while the Stuttgart, Germany, sports car maker wants to move to just over 50%, it has run in to stiff opposition from VW's German work force.

Porsche says it is raising its stake in Volkswagen as a way to secure access to several technologies developed by Volkswagen, including aluminum construction methods and direct-injection engine technologies that help boost fuel efficiency and lower emissions. Porsche and VW currently cooperate on making the Cayenne and Touareg sport-utility vehicles, which are produced in the same factory.

Porsche has assured Volkswagen labor leaders it wants a "partnership among equals" but then proposed making VW a unit of Porsche, a move that would dilute the power of VW's German labor representatives, a spokesman for Volkswagen's labor unions said Monday. By



VW's new Golf VI model is set to be in European showrooms in October.

law in Germany, unions are represented on the boards of major companies.

The distribution of seats on the new board of a combined company is currently being negotiated. A spokesman for Porsche couldn't be reached to comment. VW labor representatives have taken Porsche to court in an attempt to block its proposals for the new board's structure, among other aspects of the takeover.

VW labor representatives are set to protest at VW's Wolfsburg headquarters on Friday, the same day as a VW supervisory board meeting at which Porsche Chief Executive Wendelin Wiedeking is expected to be in attendance. The protest actions won't result in any lost production, a spokesman for VW said.

Volkswagen also confirmed its growth targets for 2008 and beyond, at a time when some of its rivals have issued profit warnings or lowered their estimates amid lackluster demand for new cars in major markets such as U.S. and Western Europe. The company confirmed that it expects to triple U.S. sales to one million units a year by 2018, with its Audi AG premium brand accounting for 200,000 car sales.

The higher revenue that will be driven by an expected increase in vehicle sales "will help lift our operating profit for 2008 above the previous year's figure," Volkswagen Chief Financial Officer Hans Dieter Poetsch was quoted as saying in a presentation published on the company's Web site.

VW sold 6.2 million vehicles in 2007. Volkswagen posted €109 billion (\$154 billion) in revenue and €6.15 billion in operating profit in 2007.

# Eni to acquire First Calgary

BY LIAM MOLONEY

ROME—Italy's Eni SpA said it agreed to buy First Calgary Petroleum Ltd. in a deal valued at 923 million Canadian dollars (US\$868 million) as it continues to boost its oil and gas reserves.

In a bid to strengthen its portfolio, Eni has spent more than €9 billion (US\$12.8 billion) on acquisitions since 2007, acquiring assets in, among other places, Angola, the U.S., Russia and Turkmenistan.

With First Calgary, whose main asset is in Algeria, Eni said it would boost its proven and probable reserves—an estimate of what is likely to be recovered over the life of the fields—in that country by about 190 million barrels of oil equivalent.

Eni said its output startup is expected in 2011, with a plateau of its

share of daily production of about 30,000 barrels by 2012.

The price looks fair, and the acquisition of further North African reserves is a good fit with Eni's core upstream portfolio, said Neil McMahon, a London-based analyst at Sanford C. Bernstein. He said "it is particularly important in our eyes that Eni's acquisitions start to generate cash flow within a reasonable time frame."

Under the deal, Eni will pay C\$3.60 a share to First Calgary shareholders and \$108,000 plus accrued interest to holders of convertible debentures for each \$100,000 par-value bond held. The deal values the fully diluted share capital of First Calgary at about C\$923 million.

First Calgary's board said it advised investors to vote in favor of the takeover.

—Sabrina Cohen contributed to this article.

## CORPORATE NEWS



Alitalia union leaders oppose a government-backed restructuring plan in which a new company would buy parts of the airline and merge them with rival Air One.

## Alitalia unions oppose proposed restructuring

*Plan asks pilots to give up perks; a carrier on the brink*

BY STACY MEICHTRY  
AND ELISABETTA ROVIS

Alitalia SpA's unions voiced strong opposition to a government-backed plan to restructure the struggling carrier, raising the specter of a protracted battle that puts the rescue operation at risk.

Union leaders dismissed proposed changes to Alitalia labor contracts during a meeting Monday with government officials and representatives of Compagnia Aerea Italiana. CAI is a new company that plans to buy the viable parts of Alitalia and merge them with a smaller rival, Air One SpA, in a bid to relaunch the airline.

The proposed contracts demand more flight time from pilots and flight crews and more flexibility on the destinations they serve, a person familiar with the matter said. That would put an end to perks that Alitalia employees have accumulated through decades of labor unrest, which has had a crippling effect on the carrier's finances.

Massimo Notaro, head of the powerful UP pilots union, said the contract proposals put forward by CAI, the company set up by the investor group and led by Italian entrepreneur Roberto Colaninno were "unacceptable."

Union opposition has unraveled several previous attempts to rescue the carrier. Now the Italian government is betting it can bend the unions' will by driving the state-controlled airline to the brink of financial ruin. Italian Prime Minister Silvio Berlusconi recently issued a decree revising Italy's bankruptcy-protection laws—a move that paved the way for the airline to declare bankruptcy and stick Italian taxpayers with paying down most of its debt.

The group of investors led by Mr. Colaninno has pledged to spend €1 billion (\$1.4 billion) on financing the airline merger. However, Mr. Colaninno says the rescue plan can't move forward until labor contracts are renegotiated, setting the stage for a race against time to keep the airline flying.

Alitalia, which burns through €1 million to €2 million every day it flies, has only €50 million to €70 million in cash. Some suppliers have begun pressing for advance payments and deposits for fear of not getting paid.

—Gordon Sorlini  
contributed to this article.

## U.A.E. fund talking with Fenosa, Santander about Cepsa stakes

BY CHRISTOPHER BJORK  
AND SANTIAGO PEREZ

MADRID—United Arab Emirates-based International Petroleum Investment Co. is in advanced talks with Spain's Banco Santander SA and Union Fenosa SA about buying their stakes in Compania Espanola de Petroleos SA, people familiar with the matter said.

Cepsa, as the Spanish oil company is known, has a market capitalization of about \$19 billion (\$27 billion).

Santander holds a 30.7% stake in Cepsa, Spain's second-largest oil company by revenue, after Repsol YPF SA, while utility Fenosa holds 5%, according to Spanish stock-market records. IPIC, which manages global energy investments of about \$13 billion for the Abu Dhabi government, owns 9.5% of Cepsa.

Cepsa's largest shareholder is France-based oil major Total SA, with a 48.8% stake. Total and IPIC de-

clined comment.

Santander has been trying to sell its stake in Cepsa for some time.

The sale could generate capital gains of about €3.2 billion for Santander if sold close to the oil company's current market price, Portuguese bank BPI said in a research note.

Fenosa has left the negotiations on a potential sale in Santander's hands, one of the people familiar with the matter said.

—Oliver Klaus in Dubai  
contributed to this article.

## GLOBAL BUSINESS BRIEFS

## Intel Corp.

### New server chips increase performance, efficiency

Intel Corp. is expanding its line of Xeon chips for server systems with four models that boost computing performance and energy efficiency. The company said the chips—which carry list prices from \$562 to \$1,493—include a model that operates at 3.4 gigahertz, up from the prior peak speed of 3.2 gigahertz. Intel said it also reduced the average power consumption of an existing 3.2-gigahertz chip to 120 watts from 150 watts. Intel also is offering a Xeon model that draws 50 watts and operates at 2.66 gigahertz; its fastest chip at that level of power consumption had been 2.5 gigahertz.

## Mitsubishi UFJ Financial Group

Mitsubishi UFJ Financial Group Inc. aims to spend more than \$1.4 billion to raise its stake in financial company Acom Co. The move would beef up operations in what the Japan-based bank sees as a currently stifled but potentially lucrative consumer-finance sector. This is the latest in a series of realignments in Japan's fragmented consumer-finance business, squeezed between an economic slowdown and a regulatory crackdown. Despite the sector's woes, MUFG—Japan's biggest bank by assets—has identified consumer finance as a growth area. MUFG said it will increase its stake in Acom to 40.04% in terms of voting rights from the 15.77% it currently owns. Following the deal, MUFG's equity stake in Acom will be 39.42% up from 15.53% previously.

## Associated British Foods PLC

Associated British Foods PLC said it expects higher earnings for the year ending Sept. 13, with good growth at its Primark chain and its grocery and agriculture businesses more than offsetting falling profit at its sugar division. Discount clothing chain Primark, which accounts for a third of the food and retailing company's profit and has 181 stores in Britain, Ireland and Spain, said it expected second-half sales to rise 2%, showing a recovery after a largely flat third quarter. Although the U.K. retail environment was tough, prospects were better for a value retailer such as Primark, said AB Foods' Finance Director John Bason.

## Air France-KLM SA

Air France-KLM SA reported a 2.8% increase in August traffic, driven by a strong performance at its Americas network. Because the French-Dutch carrier raised capacity 4.7% from a year earlier, the airline's load factor, a measure of how full its planes are, dropped 1.6 percentage points to 83.7% despite a 1% rise in the number of passengers to 6.8 million. Air France-KLM's Americas network, its second biggest after its European services, carried 952,000 passengers in August, an increase of 5.8%, which pushed traffic up 6.6%. However, the airline's cargo business, posted a 4% decline in traffic, despite a slight rise in capacity. The traffic figure was pulled down by a 13% drop in Air France-KLM's European network and a 7.3% fall in its Asian services, which the airline attributed to the impact of the Olympic Games on China.

## Nationwide Building Society

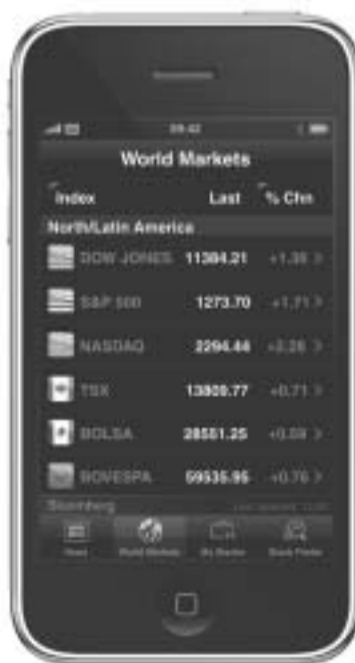
U.K. mortgage lender Nationwide Building Society said it will take the Derbyshire & Cheshire Building Societies under its wings as both struggle with rising defaults and an uncertain future in the current economic climate. Because both the smaller building societies have flagged losses for the first six months of the year, and in order to preserve capital within the enlarged lender, their total 925,000 members won't receive any compensation. They also won't get to vote on the deal. The enlarged building society will have assets of more than £191 billion (\$336.92 billion) and retail deposits of £122 billion. Nationwide denied suggestions that it had been forced into the deal by the Financial Services Authority.

## Gehl Co.

Gehl Co., a maker of light-construction equipment, agreed to be acquired by its largest shareholder, France's Manitou BF SA, in a deal that values Gehl's stock at about \$360 million. The offer of \$30 a share is more than double Gehl's Friday closing stock price of \$13.66. The stock was last at \$30 in July 2007. Manitou, which owns 14% of Gehl, is a French manufacturer and distributor of material handling equipment. Manitou Chief Executive Marcel-Claude Braud is a Gehl director but didn't participate in the negotiations, Gehl said. Gehl's light-construction products, bearing the Gehl and Mustang names, are primarily used by building contractors.

—Compiled from staff  
and wire service reports.

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# ECONOMY & POLITICS

## RUSSIA

### Russia, Venezuela plan a joint military exercise



**R**USSIA said it will send a naval squadron and long-range patrol planes to Venezuela this year for a joint military exercise in the Caribbean. Russia's announcement was made at a time of increasingly tense relations with the U.S.

The move follows the U.S. deployment of warships to deliver aid to the former Soviet nation of Georgia. Russia's

Foreign Ministry spokesman said the decision was made before Russia's war with Georgia. But the move was unveiled just a week after Prime Minister Vladimir Putin, above, warned that Russia would mount an unspecified response to the U.S. aid shipments to Georgia.

—Associated Press

## U.S.

### Ham takes command of Army force in Europe



**G**EN. CARTER F. Ham assumed formal command Monday of U.S. Army Europe, taking over as the military reshapes its footprint on the Continent.

Gen. Ham was the U.S. commander in

northern Iraq from 2004 to 2005 and most recently served as director of operations for the Joint Chiefs of Staff. He takes over from acting commander Lt. Gen. Gary D. Speer. Gen. Ham arrives as the U.S. aims to reduce its troops in Germany from 68,000 in 2001 to 28,000 by 2012—part of an initiative to transform the military into a leaner, more cost-effective force.

—Associated Press

## U.S.

### Consumer borrowing rises at slowest pace in 7 months



**C**ONSUMER borrowing rose at the slowest pace in seven months in July, a sign that consumer spending is running out of gas as credit conditions tighten.

The Federal Reserve reported that total outstanding consumer credit rose by a seasonally adjusted \$4.6 billion—half as much as expected—in July to \$2.587 trillion. The increase was the smallest since December and followed an \$11 billion rise in June.

Credit-card borrowing, known as revolving credit, grew by \$3.9 billion, less than expected. Many companies have tightened their standards in recent months, pulling back on new lending.

—Kelly Evans

# Bush makes final push on nonproliferation

## Effort may influence future U.S. approach; foreign-policy legacy

BY JAY SOLOMON  
Washington

**U**.S. SECRETARY of State Condoleezza Rice, entering her final months in office, is seeking to shore up key nuclear-nonproliferation initiatives with countries ranging from India to North Korea.

Whether she succeeds could help shape the Bush administration's foreign-policy legacy. The result also is likely to affect the policies of the next U.S. administration, diplomats and strategists said.

The inconclusive outcome of the Bush administration's counterproliferation campaign has come into focus in the past week, as it has scored some significant successes, and some failures—most recently, with President George W. Bush's decision Monday to rescind plans for a nuclear-cooperation agreement with Russia.

The White House had been pursuing the deal, which aimed to lift Cold War-era restrictions on nuclear trade with Russia, but suspended the initiative this month after Moscow's military action in Georgia.

"Unfortunately, given the current environment, the time is not right for this agreement," Ms. Rice said in a statement.

The move followed a more-successful effort to rein in Libya's nuclear program. On Friday, Ms. Rice met with Libyan leader Moammar Gadhafi in Tripoli and cemented a diplomatic rapprochement several years in the making. Under the deal, Tripoli scrapped its nuclear- and chemical-weapons programs in exchange for closer ties with the U.S. and other Western countries and an end to financial sanctions.

The State Department's 11th-hour push is sharpening debate over whether diplomacy or the threat of force and financial sanctions is most effective in inducing countries to relinquish their nuclear ambitions.

Some American officials said they believe Libya agreed to a deal in 2003 after Col. Gadhafi saw the U.S. overthrow Iraqi leader Saddam Hussein for allegedly pursuing nuclear weapons. That year, U.S. intelligence agencies also interdicted a ship headed to Libya that was carrying centrifuge equipment supplied by the nuclear-arms network run by the rogue Pakistani scientist A.Q. Khan.

Proponents of the hard-line view, who include John Bolton, the Bush administration's former nonproliferation czar, argue that countries such as North Korea and Iran are unlikely to follow in Libya's path unless Washington maintains a credible threat regarding the use of force and imposes broad financial sanctions.

They point to Tehran's rejection last month of the Bush administration's offer to hold direct talks over Iran's nuclear program. They also

cite North Korea's moves in recent days to begin reassembling its Yongbyon reactor after having pledged to Washington to shut it down in exchange for the end of financial sanctions and full diplomatic relations.

Ms. Rice, however, stressed the use of diplomacy over force during her North African trip and expressed hope that Tehran and Pyongyang would follow Tripoli's lead. The Libya deal "demonstrates that if countries are prepared to make strategic changes in direction, the United States is prepared to respond," she said.

The Bush administration registered another diplomatic coup last week when the international body overseeing nuclear trade agreed to remove India from its blacklist after three decades.

The Vienna-based Nuclear Suppliers Group's decision came after lobbying by the State Department,

which is pushing to complete a nuclear-cooperation agreement with New Delhi.

Ms. Rice and others argue that the deal will aid global counterproliferation efforts, as India has agreed to greater oversight of its nuclear facilities by the United Nations atomic watchdog, the International Atomic Energy Agency. In return, India would be able to purchase nuclear fuels and technologies from the U.S. and others. New Delhi never signed the U.N.'s Nuclear Nonproliferation Treaty.

The India deal has been part of a wider effort by the Bush administration to offer nuclear cooperation with foreign countries in a bid to better manage the global flow of fissile materials.

The Bush administration also has been exploring nuclear-cooperation agreements with Saudi Arabia, Bahrain and the United Arab Emirates, in hopes that they seek peaceful nuclear-energy supplies from international bodies such as the U.N., rather than developing their own indepen-

dent nuclear-fuel cycles. The latter, U.S. officials said, can be easily converted into a military program.

It remains to be seen whether the U.S. Congress will support the nuclear agreement with India or other countries. Several prominent lawmakers have vowed to block the India nuclear deal. "This agreement effectively blows a hole in the global nonproliferation regime," said Rep. Edward Markey (D., Mass.), a member of the House Committee on Energy and Commerce.

Ms. Rice said she believes the Bush administration will end with a strong record on controlling the spread of nuclear weapons, including breaking up the A.Q. Khan network and dismantling Libya's nuclear program. She said President Bush has put into place the diplomatic frameworks to eventually force Iran and North Korea to give up their nuclear programs.

"We have left this situation or this issue in far better shape than we found it," she told reporters on Sunday in Morocco.



Condoleezza Rice

# German union IG Metall seeks 7%-8% raises

BY MARCUS WALKER  
AND ROMAN KESSLER

**B**ERLIN—Germany's powerful industrial union IG Metall demanded a pay raise of 7% to 8% for its members, setting the scene for tough wage talks in Europe's biggest economy.

The pay demand is the highest in percentage terms in 16 years by IG Metall, which represents about 3.6 million workers in key German industries, including engineering and auto manufacturing.

Analysts expect a compromise, but say that finding common ground could be tough. "The rule of thumb in normal times is that the final deal is about half as high as the initial wage demand," says Dirk Schumacher, economist at Goldman Sachs in Frankfurt.

These might not be normal times, however. Workers want to be compensated for their wage restraint in recent years, while employers are

worried about a recession. Germany's economy shrank by 0.5% in the second quarter and many forecasters expect another contraction in the third quarter.

Early last year, IG Metall staged a series of short strikes in support of its 6.5% pay demand. In the end, its members got a 4.1% raise in mid-2007, followed by a 1.7% raise this summer. That deal runs out in November, allowing IG Metall members to strike in support of higher pay once again.

Another relatively high increase like the 2007 deal is unlikely to lead to job losses in the short term, economists say. Many German employers are still highly profitable and the country has a shortage of skilled labor. But over time, higher wage growth could undo German industry's successful effort in recent years to keep its costs down and boost its international competitiveness.

German manufacturers' new orders have been sinking for months as

a result of the global economic slowdown and the strength of the euro, raising the threat of a marked industrial contraction. But German employees' wages haven't kept up with the rising cost of living and unions are pushing for pay increases to com-

## The union says a substantial pay raise would aid flagging consumer spending.

mand is hitting German exports. The targeted raise of 7% to 8% "considers both the overall economic situation and the workers' expectations," said Berthold Huber, IG Metall's chairman. "It also takes into account the need to buttress domestic demand next year."

Employers have warned unions that steep pay increases could hurt employment. Gesamtmetall head Martin Kannegiesser said the union was too optimistic about the industry's prospects in the year ahead. "To make the highest demand of the last 16 years right now is unreasonable and jeopardizes acceptance of our wage-setting system," Mr. Kannegiesser said.

The European Central Bank has also repeatedly warned against high union-wage settlements, saying these could add to inflation pressures. Inflation in the euro area reached 4% in June and July this year, above the central bank's preferred zone of just under 2%.



## U.S. PRESIDENTIAL ELECTION 2008

**'Change' is key message**

*Obama emphasizes reversal of Bush; McCain bucks party*

BY LAURA MECKLER

ALBUQUERQUE, N.M.—Heading into the final stretch of the U.S. presidential campaign, John McCain and Barack Obama both are embracing the slogan of “change”—but making their cases quite differently.

Sen. Obama is focusing, in rallies and interviews, on his proposals to reverse the policies of the unpopular President George W. Bush. Sen. McCain is emphasizing his history of challenging his own party, saying he is better able to transform Washington.

Sen. Obama has long run on a promise of change in a year when many voters are clamoring for it. While Sen. McCain has always cast himself as a different kind of politician, only since his convention has he embraced the word “change.” Now he and his running mate, Alaska Gov. Sarah Palin, regularly talk about change on the stump.

In doing so, both invoke her career to underscore the point: Gov. Palin won her job by defeating an incumbent Republican governor in a primary challenge, and also has challenged the party while in office.

It was clear from raucous post-convention rallies in four battleground states—each drawing thousands of cheering fans—that Gov. Palin has brought an enthusiasm to the Republican ticket that wasn't there before her selection.

“I actually came to see Sarah,” said Ronnie Madden, 67 years old, of Los Akos, N.M., one of at least 6,000 people jammed into a rally here Saturday. Ms. Madden, who was wearing a “You Go Girl!” Palin pin, said she has voted for Democrats in the past several presidential elections, and had planned to vote for Sen. Obama before Gov. Palin was selected. She said she now favors Sen. McCain. “She tipped me right over,” she said.

In interviews, voters seemed drawn to Gov. Palin's persona, not necessarily her experience or views. “She's a mom and a down-to-earth person. I can relate to her,” said Doris Turcotte, 43, of Albuquerque, N.M., who has two children.

Gov. Palin initially was expected to break off and campaign on her own this week, but she is now sticking with Sen. McCain for a few days. With Gov. Palin in tow, the McCain campaign replaced a company tour scheduled for Columbia, Mo., on Monday with a rally in Lee's Summit, Mo., outside Kansas City.

On the trail, Gov. Palin has embraced a record that opponents have attacked as weak on experience, proudly calling herself a former small-town mayor and referencing life with five children.

And she has proven to be the pit bull that she compared herself to in her convention speech. In sometimes sarcastic and often tough tones, she slices into her opponents each time she speaks. Saturday, she went after Democratic vice-presidential candidate Joe Biden as the Republican ticket tries to claim the mantle of change.

“Sen. Biden can claim many chairmanships across many, many years, and certainly many friends in the Washington establishment, but even those admirers would not be



U.S. Democratic presidential candidate **Barack Obama**, top, at a town-hall meeting in Terre Haute, Ind., and his Republican rival **John McCain**, bottom, at a campaign event in Albuquerque, N.M., both on Saturday. Both candidates have promised different forms of ‘change’ in postconvention rallies and interviews.

able to call him an agent of change,” she said.

Sunday, Sen. McCain suggested that change will be a key part of his strategy.

“I have to make a strong case that we're going to bring about that change, and it's the right kind of change,” the senator said on CBS's “Face the Nation.” He promised that if elected, he would include more than one token Democrat in his cabinet.

Sen. McCain argued that Sen. Obama can't be trusted to change things when he hasn't taken on his own party. “I've taken them on a lot,” he said.

It isn't clear that bucking one's party is a key to the presidency. Asked who the last candidate of either party was to do so, a senior McCain adviser suggested Teddy Roosevelt. But it is a key piece of Sen. McCain's story, and his campaign is putting it at the center of its message.

Democrats challenge the notion that Republicans can bring change

to Washington when the party has held the White House for the past eight years. “If you believe that George Bush has run this economy into the ground and mismanaged our foreign policy, who's more likely to change those policies?” Sen. Obama asked on ABC's “This Week.” “I don't think there's any dispute that that would be me.”

Also Sunday, Sen. Obama said that if the nation were in a recession if he were elected, he wouldn't necessarily go through with his proposed tax increases right away. But, he said, he would push for promised tax cuts.

“I think we've got to take a look and see where the economy is. I mean, the economy is weak right now,” he said. “I want to accelerate those tax cuts through a second stimulus package, get more money into the pockets of ordinary Americans, see if we can stabilize the housing market. And then we're going to have to re-evaluate at the beginning of the year to see what kind of hole we're in.”

**McCain adviser had Russia ties**

BY GLENN R. SIMPSON

A top adviser to John McCain's campaign, former lobbyist Charlie Black, previously represented a Moscow think tank run by former Russian Telecommunications Minister Leonid Reiman.

BKSH Associates Inc. received \$50,000 in 2005 for lobbying the U.S. National Security Council and other government agencies on behalf of the nonprofit think tank headed by Mr. Reiman, lobby filings show. Mr. Black founded the firm and served as chairman until he quit in March. The filings don't make clear what the lobbying effort sought.

Mr. Reiman, who has long been a

close associate of Russian Prime Minister Vladimir Putin, is now an adviser to President Dmitry Medvedev.

Advisers inside the McCain campaign have faced criticism over their lobbying ties, given the candidate's frequent complaints about lobbyists' influence. Russia's invasion last month of its southern neighbor, Georgia, has complicated the equation, as top McCain advisers have lobbying ties to both sides.

A spokesman for Sen. McCain said that the former lobbying efforts of the candidate's advisers don't mean their advice to the Republican standard-bearer is compromised.

## CAPITAL JOURNAL ■ GERALD F. SEIB

**Obama, McCain tackle refining kitchen-table economics message**

BY GERALD F. SEIB

WE LEARNED a lot about the U.S. presidential campaign at the two parties' national conventions—that Barack Obama can fill a stadium, that Sarah Palin can give a better speech than her new boss, that it is possible to say “change” a hundred times a night—but above all we learned this: Both campaigns think the most important issue in the next 56 days is middle-class economic anxiety.

And that means John McCain has a problem. His pitch to the middle class—my policies will produce a better economy, which in turn will produce lasting jobs, which in turn will help you—is a lot harder to sell than the pitch of Sen. Obama. The Obama message to the middle class is, simply: I'll give you a tax cut and a health plan.

It's possible Sen. McCain has the sounder plan, but who's got the better bumper sticker?

Republicans recognize the difficulty. In a conversation near the end of the Republican convention in St. Paul, Minn., one senior McCain adviser agreed that the campaign's economic message hasn't “punched through.” Similarly, President George W. Bush's political maestro, Karl Rove, said the campaign's top need was to put forth “a domestic reform agenda on kitchen-table issues.”

Intriguingly, the economic message conundrum is in many ways the reverse of the two candidates' positions on rising gas prices during the summer. Then it was Sen. McCain who found the simple formula: I'll suspend the federal tax on gas and allow drilling offshore for more oil.

It was Sen. Obama who tried to sell the nuanced, long-term plan, arguing against going after easy and gimmicky short-term fixes, contending that there isn't all that much more oil to be found offshore, urging a focus on conservation and alternative energy, and so forth. He may well have had the better policy position, but Sen. McCain got the better of the politics.

ON MIDDLE-CLASS economics, the McCain position is, essentially, that his policy of preserving the existing Bush tax cuts for all taxpayers while keeping capital-gains rates low, cutting corporate taxes and keeping government spending down will produce an economy that creates lasting jobs for the middle class. He offers one bit of help specifically for middle-income families: a doubling of the personal exemption for dependents to \$7,000. He also promises to give individuals help in buying their own health-insurance policies, so they can carry them from job to job.

By contrast, the McCain camp argues, the Obama formula of raising taxes on upper-income households and businesses, while also increasing capital-gains taxes and adding health-care mandates for small businesses, will produce a job-killing machine.

But the difficulty in transmit-

ting that Republican message was encapsulated by the acceptance speeches at the two conventions.

Sen. McCain said this: “My tax cuts will create jobs. His tax increases will eliminate them. My health-care plan will make it easier for more Americans to find and keep good health-care insurance. His plan will force small businesses to cut jobs, reduce wages, and force families into a government-run health-care system where a bureaucrat stands between you and your doctor.... Keeping taxes low helps small businesses grow and create new jobs.”

Among other things, that sounds on the surface like more of the same policies that voters have gotten in two Bush terms, not necessarily a good thing in a year of “change.”

By contrast, Sen. Obama said in his speech: “I will cut taxes—cut taxes—for 95% of all working families. Because in an economy like this, the last thing we should do is raise taxes on the middle class.”

Never mind that nobody actually is proposing to raise taxes on the middle class; it's hard to beat that message for simplicity and punch.

FOR BOTH candidates, the fine print of their economic plans presents some messiness they'd prefer to avoid talking about. Sen. Obama's middle-class tax cut would take the form of a tax credit of as much as \$1,000 per family, which his campaign says would eliminate income taxes for 10 million Americans. He'd also launch a potentially expensive new government health-insurance plan, continuing to rely on employer-provided insurance but providing a big government safety net.

To pay for what amounts to a tax cut on top of the existing Bush tax cut for middle-income families, Sen. Obama would raise taxes on households earning more than \$250,000, eliminate some corporate tax breaks and raise capital-gains taxes. He'd also keep the alternative minimum tax in place for many taxpayers.

Sen. McCain, meanwhile, wants to make all the Bush tax cuts permanent, while cutting the corporate tax rate and phasing out the alternative minimum tax—the latter an expensive proposition indeed. In substantive terms, the question is how to pay for what amounts to a very aggressive low-tax plan.

In political terms, the question is much different. It is how Sen. McCain—not exceptionally adept at talking kitchen-table economics—can persuade middle-income Americans of his basic argument that a sound economy is more important than specific government help aimed directly at them.

One Republican hope is that Gov. Palin, who exudes middle-class sensibilities, can help make the case. One possibility is to tinker with the formula to add benefits specifically for the middle class, maybe through a new stimulus plan.

## ECONOMY &amp; POLITICS

# British producer prices tumbled in August

*Drop could pave way for interest-rate cut; economy still slowing*

BY NICK WINNING  
AND LAURENCE NORMAN

LONDON—British factory-gate prices fell in August at the fastest rate since records began in 1986, providing the first sign that inflationary pressures may be set to ease.

If such results continue, they may pave the way for a cut in the Bank of England's key interest rate later this year or early next. But it may be too late to stave off a recession, with new surveys showing that the housing market and con-

sumer spending remain weak, while the jobs market is also set to worsen.

The Office for National Statistics said prices of goods leaving Britain's factory gates fell 0.6% from July, but were 9.7% higher than last August.

The August monthly decline was the first for nearly two years and followed a 0.5% increase in July. It suggested that lower oil prices also may help ease price pressures in other leading economies. Economists expect a drop in U.S. producer prices when that report is released Friday.

"This would be a massive boost for the Bank of England's [Monetary Policy Committee] as it struggles to balance the needs of a sickening economy against a still worsening consumer price inflation outlook,"

said David Page, an economist at Investec Securities.

The British central bank has been unable to cut its Base Rate—currently 5%—because of rising food, energy and utility costs. It expects the annual rate of inflation to peak at around 5% later this year.

In the absence of any boost from lower interest rates, the British economy continues to slow, new data showed.

The Royal Institution of Chartered Surveyors said its monthly survey showed the number of home sales fell again in August as the credit crunch continued to affect the availability and cost of mortgages. Its measure of the average number of transactions per surveyor was the lowest since records began in 1978.

Meanwhile, the British Retail

Consortium said retail sales fell 1% from August 2007, although that partly reflected unusually heavy rainfall.

"Miserable weather washed out hopes of a summer boost for retailers, already suffering the slowdown," said Stephen Robertson, the BRC's director general.

Consumer spending also looks set to weaken further as the job market deteriorates. According to a survey by employment services group Manpower Inc., businesses don't plan to add to their payrolls in the final three months of the year—the weakest outlook since 1992.

Separately, the British government and the six major U.K. natural-gas and electricity suppliers have agreed to provide an additional £600 million during the next three years to pay for energy-efficiency

improvements to poor households, according to a person familiar with the matter.

The extra money, to be announced later this week, will come from a 20% increase in the companies' contributions to the Carbon Emissions Reductions Target program, which pays for items such as new insulation for poor households, the person said.

The funds will be the latest in a package by Prime Minister Gordon Brown's government aimed at cushioning people from the impact of rising prices and sharply slowing growth.

—Emma Charlton, Joe Parkinson  
and James Herron  
contributed to this article.

## Alaska officials weigh subpoenas in Palin probe

BY MICHAEL M. PHILLIPS

An Alaska state investigation into Gov. Sarah Palin's firing of her public safety commissioner is turning into a power struggle between the state's executive and legislative branches.

While Gov. Palin, Republican presidential nominee John McCain's running mate, hits the campaign trail, lawmakers in Alaska are scheduled to meet Friday to decide whether to issue subpoenas to at least seven Palin administration officials.

All of the officials had previously agreed to meet with the independent investigator looking into Gov. Palin's firing of Commissioner Walt Monegan in July. Her critics say she did so because he refused to fire a state trooper who was involved in a bitter divorce with Gov. Palin's sister. But the state officials canceled shortly before the depositions, just after Sen. McCain picked the governor as his running mate, which gave a national profile to what had been a local controversy.

Now the governor's lawyer has forbidden her staff from any direct contact with the investigator, forcing the lawmakers to consider subpoenas, according to a news release issued Friday by the bipartisan leadership of the state House and Senate Judiciary committees. A Palin spokesman said that was a "routine" letter requiring the investigator to go through the lawyer. The spokesman, Taylor Griffin, was unable to identify any Palin aide who had talked to the investigator since the lawyer had issued the gag order.

"This was such an orderly process prior to this unique honor of Gov. Palin being selected as candidate for vice president," House Judiciary Chairman Jay Ramras, a Republican, said Sunday. "We're just trying to discharge our duty, which is to share in the oversight in addressing this issue without trying to politically charge it."

Mr. Griffin blasted Senate Judiciary Chairman Hollis French, a Democrat, for earlier comments that suggested the investigation could turn into a blow to the McCain-Palin ticket. "What was supposed to be a nonpartisan inquiry has been hijacked and converted into a political circus," Mr. Griffin said. He had no comment on the fact that leaders of both parties are supporting the subpoena hearing. Mr. Monegan couldn't be reached for comment on Sunday. Mr. Branchflower's report is due Oct. 10.

—Jim Carlton  
contributed to this article.



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