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## What's News

After Turkey and Armenia signed a historic pact aimed at opening their borders and normalizing relations soured by a dispute over genocide, Turkey made it clear significant hurdles remain to getting the deal implemented. **Page 3**

■ **Lufthansa will unveil plans** to provide passengers with an extensive array of cellphone and Web services, in partnership with Panasonic. **Page 6**

■ **Trade is starting to pick up** after a steep decline during the financial crisis, in another sign the global economy is recovering. **Page 11**

■ **The U.K. is expected to announce plans** to cut \$25.4 billion from its debt by selling a portfolio of state-owned assets. **Page 25**

■ **Turkey called off an international military drill** because it opposed Israel's participation, Israeli officials said.

■ **Russians cast their votes** in local elections that the opposition said were unfair.

■ **Zimbabwe said it froze Nestlé's local accounts** and ordered an audit after Nestlé stopped buying milk from a farm owned by Mugabe's wife.

■ **Shell's pension fund plans** to put hundreds of millions of pounds in alternative investments, possibly including hedge funds. **Page 27**

■ **Pfizer halted enrollment** of new patients in a lung-cancer drug trial, citing an association with a higher rate of adverse events. **Page 7**

■ **Obama's Peace Prize** provoked global surprise, delight and scorn, with some of the sharpest attacks coming from U.S. Republicans. **Pages 18-19**

■ **The head of the U.N. mission** in Afghanistan said there was widespread fraud during the election. **Page 4**

■ **An attack on Pakistan's military headquarters** that left 19 people dead is likely to accelerate a military assault on the area where the Pakistan Taliban are based. **Page 10**

■ **Roman Polanski's lawyers** met with U.S. officials to make their case against extraditing the fugitive film director from Switzerland.

■ **The pope canonized five new saints**, including Father Damien, a 19th century priest who worked with leprosy patients on a Hawaiian island.

### EDITORIAL OPINION

**Down on the dollar** Washington is encouraging a run on the greenback. **Page 13**

Breaking news at europe.WSJ.com

## 'Special relationship' between U.K., U.S. celebrated



**CLOSE TIES:** Gordon Brown greets Hillary Clinton on Sunday, a day after the U.S. secretary of state and Swiss Foreign Minister Micheline Calmy-Rey signed a diplomatic pact between Turkey and Armenia.

## Dollar's slide is set to continue this week

The dollar is likely to continue declining this week, reflecting the appetite for non-U.S. assets and signs of apparent official resignation at the dollar's slide.

By *Paul Evans, Robert Flint, Jon Hilsenrath and Mark Gongloff*

Faith in an economic recovery has reduced the dollar's haven appeal, while global interest-rate dynamics have fostered its use as a funding currency for riskier investments.

The lip-service paid to the dollar's decline in recent statements by some international monetary officials doesn't pose much of an obstacle to the U.S. currency's fall, either. Moreover, if companies con-

tinue to report encouraging results in the slew of corporate earnings reports on tap this week, the euro and other higher-yielding currencies should gain ground.

Given the list of negatives, currency strategists at Barclays Capital said that "it is surprising that the dollar is not even weaker."

Against this background, analysts expect the euro to trade between \$1.47 and \$1.50 this week, while the U.S. currency fluctuates between 87.50 yen and 91 yen.

Late Friday in New York, the euro was at \$1.4709 from \$1.4780 late Thursday. The dollar was at 89.78 yen from 88.48 yen. The euro was at 132.06 yen from 130.77 yen.

Please turn to page 35

## Stock bulls make a case for Europe

BY DAVE KANSAS

LONDON—Since confronting fears of complete calamity back in early March, stock markets around the world have recovered smartly.

While some indexes have fallen back from recent peaks and the sturdiness of the bull run has come under intensifying scrutiny, global investors remain remarkably upbeat. Many believe that stocks will continue to rise and that Europe in particular may be the region best positioned to benefit from a rebound in share prices over the next 12 to 24 months. Its economy is expected to slowly recover, corporate earnings are projected to rise, and monetary policy—very low interest rates—will remain favorable.

"We back global economic recovery, a robust corporate-profit recovery and improving demand for U.K. and European equities to drive 20-25% returns" over the next year to 18 months, Citigroup analysts said in a recent report.

The case for European stock markets is fairly straightforward. Even though prices have risen sharply since March, valuations aren't stretched. Average price-to-earnings ratios in Europe, on a trailing 12-month basis, are about 16, up from seven back in March, according to Citigroup. In the early

1990s, similar measures were in the low 20s. On a price-to-book ratio, stocks are trading about 15% below their long-term average, and dividend yields compared to government bond yields are historically still very attractive.

Also supporting European stocks is a shifting climate in earnings forecasts. They stopped falling in the second quarter and rose by 6% through the third quarter. Even with that increase, analysts at Citigroup Global Markets believe that a recovery isn't priced into stocks. An HSBC analysis shows that earnings forecasts for Europe, for a 25% increase in 2010, are slightly higher than 2010 forecasts for the U.S., for growth of 23%.

Investors have begun putting more cash into Europe. According to Bank of America, while fund flows to Japan and the U.S. remained negative on a net basis over the past four weeks, meaning that investors are taking more money out than they are putting in, flows into Europe exceeded outflows by \$2.1 billion over the same period.

Major European markets are up sharply from their March lows, although still below record levels. The U.K.'s FTSE 100 has risen 46% from its closing low in early March. Germany's DAX is up 55%

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### Inside



#### Drug policy

Glaxo makes a big bet on battling pandemics  
**News in Depth**, pages 16-17

### Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9864.94	+0.80
Nasdaq	2139.28	+0.72
DJ Stoxx 600	242.73	-0.29
FTSE 100	5161.87	+0.14
DAX	5711.88	-0.08
CAC 40	3799.61	-0.19
Euro	\$1.4755	-0.06
Nymex crude	\$71.77	+0.11



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LEADING THE NEWS

# Mixed mantra: shop more—and save more

**What's deemed good for U.S. economy now could be harmful later**

BY MARK WHITEHOUSE

With the holiday-shopping season approaching, many retailers, investors and politicians are hoping American consumers' animal spirits will return in force. They should be careful what they wish for.

Americans have good reason to be confused about what they should be doing to help the economy. On one hand, the Obama administration is crafting policies designed to make them save more and be more responsible about their finances. On the other, the same government is offering them incentives to spend, such as tax rebates and the "cash for clunkers" program.

To a large extent, the mixed signals reflect a conflict between the stimulus the economy needs now and what's good for it in the longer term. As Mark Iwry, a senior adviser to U.S. Treasury Secretary Timothy Geithner puts it: "If you suffer a heart attack, your doctor's advice will probably include getting lots of regular exercise in the future—but first you've got to get back on your feet."

In recent months, Americans have been recovering pretty well. In

August, consumer spending logged its biggest one-month jump in nearly eight years, and last week many retailers reported better-than-expected sales for September. That helps bolster optimism among businesses, and it also benefits China, Germany and other major exporters, for which U.S. consumers are a crucial source of demand.

But there's a rub: Unless a resurgence in jobs or wages boosts people's income, any sustained rebound in spending will require them to cut back on savings at a time when they're still struggling with a massive debt burden. That, in turn, could revive the profligate pattern of U.S. borrowing from abroad that helped get the world in such trouble in the first place.

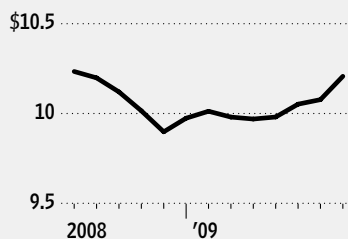
Economists have long fretted about the dangers inherent in the large gap between what the U.S. spends and what it earns. Known as the current-account deficit, the gap requires the U.S. to make ends meet by borrowing large amounts of money from abroad, typically from big exporters such as China. The flow of money encourages bubbles in financial markets, while the rising debts put downward pressure on the dollar.

U.S. policy makers recognize the need to close the gap. The administration of President Barack Obama has proposed expanding a tax credit for low-income savers, as well as a requirement that employers who don't offer 401(k) or similar programs au-

## U.S. spending strains

As consumers open their wallets...

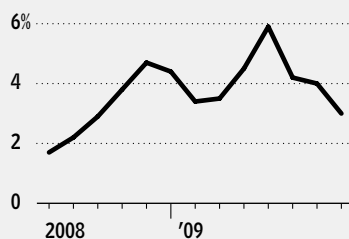
Consumer spending, annualized, in trillions



Source: U.S. Bureau of Economic Analysis

...they are saving less.

Household savings as a percentage of total disposable income



tomatically put a share of their workers' paychecks into individual retirement accounts. The Group of 20 developed nations has called for policies that would stimulate consumer spending in places such as China, while encouraging more saving in big consumers like the U.S.

So far, though, nothing has been implemented. As a result, if U.S. consumers return to their borrow-and-spend ways, they could easily reverse a trend that has seen the imbalances shrink in recent months. That would be particularly dangerous now, as the U.S. government's vast budget deficit is already adding to jitters about the dollar.

"We are more vulnerable, which of course means the world is more vulnerable, too," says Catherine Mann, a professor at Brandeis University's International Business School who specializes in international trade and finance. A devaluation of the U.S. currency, for example, would not only hit the massive dollar-denominated investments of China and other exporters but make their products less competitive in their most important export market.

The recent evidence on the direction of U.S. household saving and the current-account deficit is mixed. After peaking at 5.9% of disposable income in May, the U.S. household-savings rate fell to 3% in August—well above the 0.8%

low hit in April 2008 but not enough to make a big dent in household debt, which stood at about 125% of disposable income as of June. The U.S. current-account deficit shrank to 2.8% of gross domestic product in the second quarter from a peak of 6.5% in late 2005. But in a sign that it could be expanding again, the U.S. trade deficit was widening in the third quarter, the latest data suggest.

Some economists believe American consumers will be able to save and spend at the same time, buoyed

by a new wave of hiring as companies gear up for a recovery. Stephen Stanley, chief U.S. economist at Royal Bank of Scotland, estimates that American consumer spending will grow an inflation-adjusted 3% in 2010, while the savings rate will rise as high as 6% and unemployment will fall to about 9%, from 9.8% as of September.

If, however, hiring proves as slow as it has been in the two previous U.S. recoveries, there will be little income growth to support consumer spending. Many economists see a bleak job outlook, together with tight credit, as reason to believe the recent rise in spending will prove short-lived. In one sign that borrowing isn't getting any easier, the Federal Reserve reported last week that U.S. consumers' outstanding credit dropped for the seventh straight month in August.

In many ways, a period of meager growth as people hunker down and put their finances back into order would be the best possible outcome—particularly if businesses use the savings to make the kinds of investments that would boost their productivity and make the economy stronger in the future. Putting off the pain will only make it worse.

## CORRECTIONS & AMPLIFICATIONS

**Hu Jintao** is China's president. An Economy & Politics article in the Friday-Sunday edition on Japanese Prime Minister Yukio Hatoyama's planned visit to Beijing Saturday incorrectly called him China's prime minister.

The edition of Microsoft's Windows 7 operating system aimed at business users is called Windows 7

Professional. The Personal Technology column Thursday incorrectly said it was named Business.

The review of Alexander McQueen's runway show was written by Christina Passariello. An item that ran in the Heard on the Runway roundup of Paris's fashion week Thursday incorrectly said it was written by Christina Binkley.

tomatically put a share of their workers' paychecks into individual retirement accounts. The Group of 20 developed nations has called for policies that would stimulate consumer spending in places such as China, while encouraging more saving in big consumers like the U.S.

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## China urges talks with North Korea

BEIJING—Chinese Premier Wen Jiabao on Saturday called on the U.S. and North Korea to engage in "serious, constructive dialogue" to pave the way for resuming multination negotiations aimed at ending Pyongyang's nuclear-weapons program.

By Terence Poon, J.R. Wu and Gordon Fairclough

Mr. Wen, who met last week with North Korean leader Kim Jong Il during a visit to Pyongyang, said the U.S., China and other nations should move quickly to take advantage of what he said was Pyongyang's newly expressed openness to both bilateral and multilateral talks.

"The opportunities may be fleeting and could vanish in the blink of an eye," Mr. Wen said, after a three-way summit with Japanese Prime Minister Yukio Hatoyama and South Korean President Lee Myung-bak.

The three leaders, who met Saturday morning in Beijing's Great Hall of the People, called in a joint communique for an "early resumption" of six-nation talks that have sought to

induce North Korea to disarm in exchange for economic assistance.

During the summit, Mr. Wen briefed Messrs. Hatoyama and Lee on the details of his discussions with Mr. Kim, which he said totaled about 10 hours. Mr. Wen said North Korea wants to improve its relations not only with the U.S., but also with Japan and South Korea.

Mr. Kim said North Korea could reverse its earlier refusal to return to the six-party talks—which include Russia, China, Japan and South Korea—if progress is made in two-way negotiations with Washington, according to North Korean state media.

The U.S. hasn't publicly responded to the overture. But Mr. Hatoyama said, in answer to a reporter's question Saturday, there could be talks between Washington and Pyongyang "in the not-too-distant future."

South Korea President Lee said the three leaders should "coordinate and cooperate" to bring about change in North Korea. He said the goal isn't just to bring Pyongyang back to the bargaining table, but to rid the country of its nuclear-weapons program.

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## LEADING THE NEWS

# Turkey-Armenia accord

## Pact faces hurdles on both sides on way to ratification votes

Just a day after Turkey and Armenia signed a historic accord aimed at opening their borders and normalizing relations soured for generations by a dispute over genocide, Turkey made it clear that significant hurdles remain to getting the deal implemented.

By **Samantha Shields** in Yerevan, Armenia,  
**Nicholas Birch** in Bursa, Turkey,  
and **Marc Champion** in Brussels

Saturday's long-awaited signing in Switzerland almost didn't happen due to disagreements over what each side would say at the ceremony. U.S. Secretary of State Hillary Clinton and Russia Foreign Minister Sergei Lavrov intervened with dramatic last-minute mediation. The signing in Zurich went ahead three hours late. Diplomats said the compromise to get the accord approved was that neither side made any statement.

### The Turkey-Armenia accord

- Confirm the mutual recognition of the existing border between the two countries as defined by the relevant treaties of international law.
- Agree to open the common border within two months after the entry into force of this protocol.
- Agree to conduct regular political consultations between the Ministries of Foreign Affairs of the two countries.
- Implement a dialogue in the historical dimension with the aim to restore mutual confidence between the two nations, including an impartial scientific examination of the historical records and archives to define existing problems and formulate recommendations.

But suspicions in Armenia were strong Sunday that Turkey had wanted to make clear a linkage between implementing the accord and movement from Armenia to resolve a territorial conflict with its neighbor, Turkic-speaking Azerbaijan.

On Sunday, Turkey's prime minister, Recep Tayyip Erdogan, confirmed the linkage, though he remained vague on what Armenia would have to do.

"We want all the borders to be opened ... but as long as Armenia has not withdrawn from Azerbaijani territory that it is occupying, Turkey cannot have a positive attitude on this subject," Mr. Erdogan told members of his ruling Justice and Development party, according to news agency reports.

Mr. Erdogan underlined that the agreement still needs to be ratified by the parliaments of Armenia and Turkey to take effect. He said Turkish ratification was more likely if it became clear that Armenia and Azerbaijan had begun "to look for a resolution to their problems."

Armenia has controlled Azeri territory in and around Azerbaijan's mainly ethnic-Armenian enclave of Nagorno-Karabakh since a war in the early 1990s. Turkey closed its border with Armenia in 1993, in protest at what it viewed as an Arme-

nian occupation of Azeri territory.

Mr. Erdogan faces significant pressure from Azerbaijan and at home over the deal. "This issue is very sensitive for Armenian society, but on the Turkish side you have opposition not just in society but inside the state apparatus," said Alexander Iskandaryan, a Yerevan-based political analyst.

"Surrender to the Armenians," read the headline in Turkey's nationalist Yeni Cag newspaper, though pro-government dailies were more supportive. The foreign ministry of Azerbaijan said in a statement the deal "casts a shadow over the spirit of brotherly relations between Azerbaijan and Turkey."

David Babayan, an adviser to Nagorno-Karabakh's de facto president, said people in the enclave were worried Turkey would link the

accord to a deal on Karabakh that could weaken the position of the Armenian community there. "Officially there is no mention of Karabakh in the protocols, but some people think a covert deal has been done," he said in a telephone interview from Stepanakert, the capital of Nagorno-Karabakh.

Armenian President Serge Sarkisian reiterated in a televised address to the nation before the protocols were signed Saturday his position that the Nagorno-Karabakh conflict was unrelated to the Turkey accord.

Both sides stand to gain if the border opens. For Armenia, it could reduce the landlocked nation's economic isolation, and bring new trade and trade routes. For that reason, the border opening deal has considerable popular support. For Turkey, it could remove an irritant in re-



lations with the U.S. and in its accession talks with the European Union.

But Saturday's accord also is highly sensitive in Armenia and among the large Armenian diaspora, because it would establish a joint history commission to look at the issue

of up to 1.5 million ethnic Armenians massacred around 1915 in what was then the Ottoman Empire.

The accord also would affirm the current border between Turkey and Armenia, one set in a 1921 treaty between Turkey and Russia.

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DRIVE THE CHANGE





## LEADING THE NEWS

# Opposition grows to Iraq poll plan

Lawmakers to decide on 'closed list' ballot showing candidates' affiliations, not names

BY GINA CHON

BAGHDAD—Iraqi legislators face a Thursday deadline to approve an election law for January's parliamentary polls, while opposition grows against plans for a so-called closed-list ballot.

The election, slated for Jan. 16, is being closely watched by the U.S. as a barometer of the country's stability amid a drawdown of American forces. Overall security has improved, but high-profile attacks continue.

Underscoring how fragile security is, three explosions rocked Ramadi, in western Anbar province, on Sunday, killing at least 19 people and wounding dozens of others, according to a Ministry of Interior official.

Despite the recent attacks, U.S. officials have said a smooth election in January could trigger an accelerated withdrawal. Key to getting the election right is passing an election law.

Lawmakers have been wrangling for weeks on passing legislation to establish rules about how the race will be run and what the ballot will look like. Issues over how voting will be held in the contested northern oil city of Kirkuk—claimed by Kurds, Arabs and Turkomen—have held up the legislation.

A new, potential hang-up is growing opposition—including from the country's most revered religious figure—to plans to run the election based on closed lists. Essentially, that means the names of parties, coalitions and electoral lists will appear on the ballot, but not the names of the candidates themselves. After the elections, victorious parties will nominate individual politicians to occupy the seats they win.

The system strengthens the hand of well-organized political groups at the expense of individual politicians. Critics say the system helped sow sectarian tensions that nearly plunged the country into civil war following the last parliamen-



Women protested in Baghdad on Saturday, calling for an election ballot that lists individual names and for improved services.

tary vote, which adopted a closed-list system.

Under intense international pressure to hold its 2005 vote on time, Iraq's government at the time opted for the closed system because of its simplicity. It also kept individual candidates from becoming targets of violence.

Last January, Iraq allowed for an open-list race during provincial elections across the country. But parliamentarians last week appeared to be leaning toward keeping the closed format for the parliamentary vote next year. In a private meeting for political-bloc leaders in parliament on Oct. 4, party bosses agreed to adopt a closed-list

provision in the current elections-law draft, according to people familiar with the matter.

That has triggered a backlash. On Saturday, hundreds of protesters demonstrated in Baghdad, Kirkuk and the oil-rich city of Basra in southern Iraq against the possibility a closed list. Some demonstrators in Baghdad held signs that said "Closed Lists Strengthen Sectarianism and Ethnic Divides."

"An open list is better for us because we want to choose whom we want," said Najim Mahmood, a Baghdad resident and civil servant. "A closed list system means everything stays the same."

On Tuesday, Shiite religious

leader Grand Ayatollah Ali al-Sistani weighed in, publicly advocating an open list. Sheikh Abdul al-Karbalai, a Sistani representative, also warned during Friday prayers last week that a closed list meant voter turnout would be low and "the elections would fail."

The condemnation means parliament, made up largely of Shiite lawmakers, would have to openly defy Mr. Sistani to move forward with the closed-list system. Some lawmakers now say there could be a way to have a mix of both systems. Such a hybrid might have some candidate names on the ballot but have victorious parties choose the rest of the seats.

## U.K. legislators to get results of expense probe

BY ALISTAIR MACDONALD

In the latest fallout from last spring's scandal involving Parliamentary expense claims, members of Parliament on Monday will be notified of the results of a provisional audit into their expense spending.

MPs could be told they may have to repay some of the cash that they claimed, or told to provide further details justifying the expenses, such as receipts and information about claims.

British politicians last spring were hit by a series of explosive revelations in which they were found to have sought reimbursement for a wide range of questionable expenses. The embarrassing claims ranged from the trivial, such as cat food and a toilet seat, to bigger reimbursements that appeared to break existing expense rules or laws; in some, for example, members claimed payment for mortgages that no longer existed.

The revelations led to the early end of more than a dozen parliamentary careers. About 175 MPs have already repaid expenses totaling nearly £300,000 (\$475,000).

In the wake of the scandal, Prime Minister Gordon Brown and the Houses of Parliament announced a series of reforms, including hiring former civil servant Sir Thomas Legg to complete an audit on expenses. The preliminary results of that audit will be sent in individual, internal letters to each MP on Monday morning, giving them three weeks to respond.

Sir Thomas is also looking at setting new guidelines. If MPs are found in retrospect to have broken such rules, they could be forced to pay back some money.

According to the British Broadcasting Corp., Mr. Brown will be asked to pay back some money for some of his claims. A spokesman for Mr. Brown said he hasn't seen his letter. "He is supportive of the review and of reform of the discredited expenses system," he said.

# U.N. head of Afghan mission claims 'widespread' vote fraud

BY ANAND GOPAL

KABUL—The head of the United Nations mission in Afghanistan, who has faced sharp criticism from his former deputy for not moving aggressively to expose vote-rigging in the August presidential elections, said Sunday there was "widespread fraud" during the poll.

"The elections have been marred by so many problems," said Kai Eide, the U.N. secretary-general's special representative for Afghanistan.

Mr. Eide appeared before reporters in part to damp a controversy that has dogged him in the weeks since his former deputy, American diplomat Peter Galbraith, was dismissed after the two clashed over how to handle the accusations of fraud in the Aug. 20 vote.

Mr. Galbraith subsequently charged that Mr. Eide had avoided releasing what the U.N. knew about the fraud because he feared further destabilizing Afghanistan's weak government, a charge Mr. Eide denies.

Mr. Eide on Sunday became the latest international figure to acknowledge what local and foreign observers and Afghanistan's opposition have said since the vote—that ballots were

stuffed and fake votes were recorded. Mr. Eide didn't specify the extent of the fraud or whether it was on a scale large enough to potentially affect the outcome of the vote, adding that he was awaiting the results of a recount, which are expected this week.

Much of the disagreement between Messrs. Eide and Galbraith stemmed from the U.N.'s inadequately defined mission in Afghanistan. U.N. officials have said repeatedly that the U.N. wasn't monitoring the election, as it has in other places around the world, but simply supporting Afghan election authorities.

Mr. Eide was careful on Sunday not to cast blame on any of the electoral candidates. "It is true that in a number of polling stations in the south and the southeast there was significant fraud, but not only there," he said.

The south and east are the heartland of President Hamid Karzai's Pashtun ethnic group, Afghanistan's largest, and where much of the ballot stuffing on his behalf is alleged to have taken place.

The president's chief rival, former Foreign Minister Abdullah Abdullah, drew much of his support in the ethnic Tajik areas of the north, where his mother came from. Fraud is also alleged to have taken place

there, although not on as large a scale as in the south and east.

Both candidates deny their campaign had any direct role in the fraud, although they do acknowledge some irregularities took place.

According to preliminary results released last month, Mr. Karzai garnered 54% of the vote, enough to avoid a runoff against Dr. Abdullah. But the tally is subject to a recount of suspicious ballots, which amounts to nearly 12% of all votes cast. If enough votes are disqualified to push Mr. Karzai's vote share under 50%, a runoff will take place between him and Dr. Abdullah.

An independent, U.N.-backed commission, called the Afghan Electoral Complaints Commission, is overseeing the recount; Mr. Eide appointed three of the five commissioners.

The U.N.'s specific mandate in Afghanistan was at the heart of the Galbraith-Eide dispute. U.N. officials have said it was against the rules of the U.N. mandate to share any information about electoral fraud with the ECC, something Mr. Galbraith argued the U.N. should in fact have done.

Having first denied that he had done so, Mr. Eide on Sunday admitted he had turned over some evidence of fraud to the ECC. He withheld evidence he couldn't verify, he said.

Mr. Eide appeared Sunday alongside the U.S., French and British ambassadors. His comments came amid mounting concern that the fraud allegations could undermine the legitimacy of the Afghan government and its Western backers, who helped to organize the vote. A government seen as illegitimate could make the fight against the Taliban practically unwinnable, say Afghan and Western officials.

Mr. Eide, 59 years old and an understated Norwegian career diplomat, is an unlikely character to be at the center of controversy. He has lived his working life behind the scenes in some of the world's most recognized bureaucracies, serving in key posts at the North Atlantic Treaty Organization and the U.N. in the Balkans. He also served on the Mitchell Commission, which analyzed the causes of the Palestinian uprising in 1999. He started his political career as an activist for the Norwegian Conservative Party.

In the spring of 2008, Mr. Eide was tapped to run the U.N. mission here, an operation involving dozens of agencies and thousands of employees.

One of his main initiatives upon assuming his new position was to coordinate international efforts in aid and reconstruction. He worked more

closely with the Afghan government than previous envoys, winning praise from some Afghan officials. "He works very hard to put the Afghan government at the center of everything," said Moyin Mrastial, a lawmaker and adviser to Mr. Karzai.

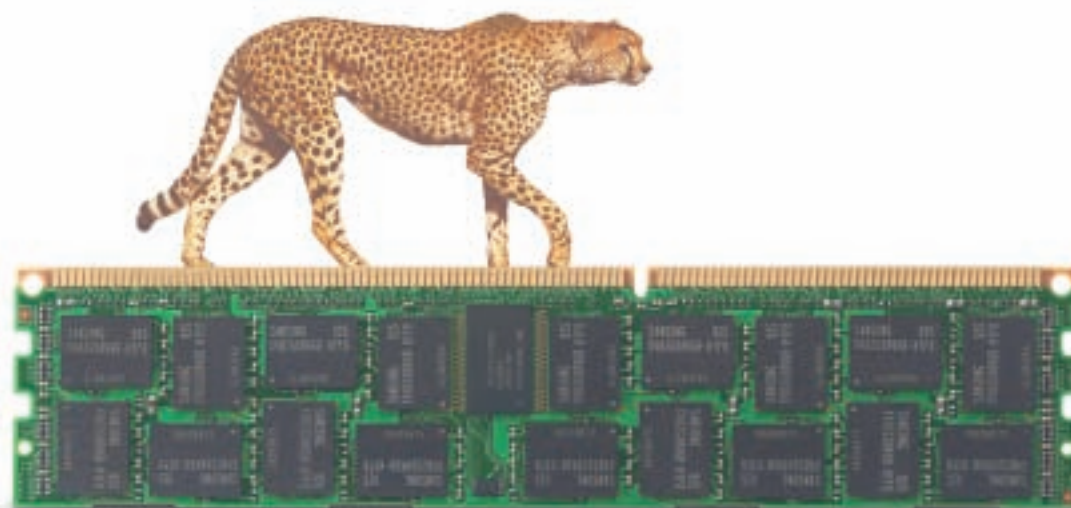
But Mr. Eide's outspoken disapproval of the international military raids that kill civilians angered many in Washington and the U.S. military. The most serious criticisms emerged in the run-up and aftermath of this year's presidential elections, where he was accused of covering up fraud and other problems in the electoral process. For instance, one current and two former U.N. officials accuse Mr. Eide of censoring a U.N. report in order to remove information that was unfavorable to the country's Independent Elections Commission, which conducted the polls. Mr. Eide declined to comment for this article.

Mr. Eide conceded Sunday that allegations of the U.N.'s role in the electoral fraud may have hurt the organization's credibility. "We have suffered from [the allegations]," Mr. Eide said. "It has affected the election process and contributed to heightening the temperature."

—Joe Lauria in New York contributed to this article.

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## CORPORATE NEWS

## Lufthansa makes onboard wireless push

*Extensive cellphone and Web services to be offered on long-haul flights, surpassing other airlines*

BY DANIEL MICHAELS  
AND ANDY PASZTOR

Deutsche Lufthansa AG, which stumbled badly with previous efforts at onboard communications connectivity, on Monday is expected to unveil plans to provide long-distance passengers with the most extensive array of cellphone and Internet services available on any airline, according to people familiar with the matter.

In partnership with Japanese electronics powerhouse Panasonic Corp., these people said, the German carrier's goal is to leapfrog rivals by allowing passengers on international flights not only to make calls and send emails from 40,000 feet, but also to surf the Web and download videos at faster speeds than currently possible. Starting with routes between the U.S. and Europe in the next few months—and eventually expanding to its entire fleet of more than 120 long-haul jetliners—Lufthansa hopes to gain an advantage in the increasingly competitive in-flight-communications field by becoming the first carrier to offer connections for the full range of handheld and Wi-Fi devices.

Three years after being forced to jettison an earlier, unprofitable broadband-in-the-cabin system deployed in conjunction with Boeing Co., Lufthansa is relying on innovative onboard technology and lower-cost satellite capacity to make connectivity easier and more affordable. Industry officials, citing Lufthansa's role as a leader of the 24-airline Star Alliance global marketing group, said the German airline's decision is likely to spur other carriers to speed up plans to offer Internet and handheld services.

Lufthansa and Panasonic officials declined to go into details about the service, dubbed FlyNet, before their joint announcement Monday. Panasonic also is expected to announce arrangements for business jets. The connectivity Lufthansa promises to deliver is faster and applies to more devices than options available elsewhere. Other airlines currently focus on voice and text messaging.

At least four companies besides



Inflight wireless connectivity is being offered more widely. Alaska Airlines recently tested Row 44's Wi-Fi system, above.

Panasonic offer airlines more-limited inflight connectivity. More than a dozen carriers have installed such equipment, or have announced plans to do so, as they try to woo premium business passengers and generate revenue through extra charges amid the aviation industry's slump.

Lufthansa's initiative is "good news for the industry," said Benoît Debains, chief executive of OnAir, a service provider that isn't involved in Lufthansa's plans.

Industry officials said Lufthansa is committed to investing tens of millions of dollars to make the launch of FlyNet a success, and the company appears willing to subsidize future operations. For Panasonic, a supplier of seat-back entertainment systems to airlines, the move is designed to ensure a big role in a growing market.

The technology is advanced, but industry officials say the real challenge for inflight voice-and-data services is financial. Installing antennas and other required equipment costs at least \$100,000 an airplane, with some versions costing close to \$250,000.

The effort comes at a time when

### Cloud surfing

Competition among providers heats up for onboard connections

Services/Owner	Type	Major airlines	Coverage began	Service began
AeroMobile Telenor (Norway)	Cellphone and handheld	Emirates, Qantas, Malaysia Airlines	Global (outside U.S.)	March 2008
Gogo Aircell (U.S.)	Broadband WiFi	American Airlines, Delta Air Lines, United Airlines	North America	Aug. 2008
OnAir SITA (International) EADS (France, Germany)	Cellphone and handheld	British Airways, Ryanair, Qatar	Global (outside U.S.)	Dec. 2007
Row 44 Independent (U.S.)	Broadband WiFi	Alaska Airlines, Southwest Airlines	Global	Feb. 2009*

\*Test

Source: the companies

some of Panasonic's rivals face an uphill battle to raise funds, and skeptics continue to wonder whether fliers will use the burgeoning services enough to pay for the advanced systems. "The biggest issue remains sustainability," said Tim Farrar, a satellite-industry consultant in Menlo Park, Calif. "You still can't expect passenger revenue to cover all the costs."

Lufthansa's previous foray into the arena turned into a financial and public-relations misstep when the carrier in 2006 turned off the system—marketed by Boeing as Connexion—after an ad blitz and a generally good response from frequent travelers. Boeing shut Connexion in 2006 after investing at least \$1 billion over almost six years.

Calls on Lufthansa's replacement

service are expected to cost passengers at least \$3 a minute. Internet connections are likely to cost \$12 an hour or \$22 for a full day of airborne connectivity—roughly 30% less than Lufthansa previously charged, industry officials said. But that is almost twice the cost for using less-capable systems being deployed on some U.S. carriers.

Lufthansa's initial effort focused on premium business travelers with laptops who wanted extensive use of Internet connections. Now, the airline has expanded its sights to serve text messaging and other handheld options. "People increasingly want to be connected in such ways, so that means the market [for Lufthansa] has grown that much larger," said Max Engel, an Austin, Texas, consultant specializing in broadband and mobile services.

In the U.S., Aircell LLC unit Gogo offers Wi-Fi connections and predicts its system will soon be deployed on some 800 jetliners, including those of Delta Air Lines Inc. and AMR Corp.'s American Airlines. Newcomer Row 44 Inc., which so far has installed equipment on only a handful of planes, recently signed up Southwest Airlines Co. and Alaska Air Group Inc. Internationally, OnAir, established in part by Airbus, and rival AeroMobile have won customers in most parts of the world, ranging from Irish budget carrier Ryanair Holdings PLC to Dubai's upscale Emirates Airline.

But in some instances, passenger use has fallen below optimistic early projections. "It's a premium service, it's not people having a chat," said Ryanair spokesman Stephen McNamara. Ryanair began offering voice calls and text messages using OnAir in February.

Mr. McNamara said Ryanair is looking to add gambling, shopping and advertisements that could offset connection costs.

OnAir was created in 2005 by Airbus, a unit of European Aeronautic Defence & Space Co., and SITA, a data-services provider owned by airlines and airports. It offers connections for cellphones and handhelds, and recently began testing broadband systems.

## Comcast, NBC together would add muscle in sports

BY SAM SCHECHNER

Jeff Shell, president of Comcast Corp.'s cable networks, told an industry conference in June that expanding the sports business at his cable networks was the "top of our list over the next five years."

If Comcast's bid to control NBC Universal succeeds, it would advance Mr. Shell's goal overnight, creating a potential new rival to Walt Disney Co.'s ESPN.

As the cable-TV giant and NBC Universal's parent, General Electric Co., work through details of a deal that would merge Comcast's cable networks with GE's NBC Universal, people close to the negotiations say the two companies see the creation of a combined sports business as a key benefit of a partnership.

The new company would marry Comcast's Versus and Golf Channel cable-sports networks and multiple

regional sports networks with NBC Universal's broadcast-sports operation and rights to major sports events, including a Super Bowl and two Olympic games.

The talks seek to create a TV and movie company that would be 51% owned by Comcast, with GE holding 49%. NBC Universal's current minority owner, Vivendi SA, would have its 20% stake bought out. Negotiations could still fall apart, but the merger appears to be the most likely outcome for NBC Universal, say people familiar with the matter.

Paired up with NBC, Comcast could get a bigger slice of a large sports TV market. Advertisers spent an estimated \$10.6 billion for commercials in sports programming across U.S. broadcast networks, cable networks and local TV stations in 2008, out of total TV ad spending of about \$68.4 billion, according to TNS Media Intelligence. Cable-

sports channels raked in more than \$9.2 billion of about \$22.9 billion in basic-cable TV subscription fees for the year, according to estimates from SNL Kagan.

The expanded NBC Universal would combine both companies' rights to college football, hockey and golf. It would have NBC's rights to the Olympics in 2010 and 2012 and National Football League games through 2013.

A deal could also give NBC Sports access to cable subscription fees, which would put it in a better position to keep up with growing sports-rights costs. Comcast's Versus and Golf Channel already receive about \$400 million in yearly subscription fees, according to industry estimates. In addition, Comcast could try to push paid distribution for NBC's fledgling Universal Sports channel. Among the possibilities for the combined company would be for

Comcast to air football games simultaneously on multiple channels, with each offering different camera angles, said a person familiar with the matter. Comcast could also put large swaths of Olympics footage in its video-on-demand service, the person added.

"If this merger goes through, they become a much, much stronger competitor to ESPN. And they threaten to dominate CBS and Fox," says Neal H. Pilson, a sports-media consultant and former president of CBS Sports.

Spokesmen for ESPN and CBS declined to comment. A spokesman for Fox said the company "has a big event sports strategy nationally, and we don't see that changing." Fox Sports and The Wall Street Journal are owned by News Corp.

ESPN would be hard for Comcast to match, even with NBC Universal. Owned 80% by Disney and 20% by

Hearst Corp., ESPN and its sister operation ABC Sports span seven TV outlets in the U.S. and hold the rights to air many baseball, football and basketball games.

While ESPN's ad revenue suffered in the recession, subscription-TV providers such as Comcast will pay about \$5.8 billion to carry ESPN's U.S. networks in 2009, according to estimates by researcher SNL Kagan. If Comcast succeeds in strengthening its sports business, the company and other cable operators might gain better leverage when negotiating fees they pay ESPN.

Versus is in 75 million homes and averaged 125,000 viewers this year through Oct. 4, up 17% from the year-earlier period, according to Nielsen Co. estimates. Still, that viewer average is less than a seventh of ESPN's, and just over a third of that on ESPN2.



## CORPORATE NEWS

# Pfizer halts new enrollments in drug trial

*Lung-cancer therapy in late-stage clinical tests shows high rate of complications, including death*

By PETER LOFTUS

Pfizer Inc. temporarily halted enrollment of new patients in a clinical trial of an experimental lung-cancer drug, saying the drug was associated with a higher rate of adverse events, including fatalities, than for patients who didn't get the drug.

The drug, figitumumab, was in a Phase III, or late-stage, trial in patients with a form of the disease known as nonadenocarcinoma, nonsmall-cell lung cancer.

The trial began around March of last year and was projected to have about 820 patients before ending in 2011, according to a U.S. government clinical-trial database. Some of the patients were given figitumumab, also known as CP-751,871, in

addition to paclitaxel and carboplatin, while others received paclitaxel and carboplatin only.

Pfizer said Friday that an independent committee monitoring drug safety found there were more serious adverse events in people who received figitumumab. Pfizer, based in New York, didn't immediately disclose the number of such events.

It was the latest research setback for Pfizer, which has struggled to bring successful new drugs to market to offset lost revenue from patent expirations. Pfizer, maker of blockbuster cholesterol drug Lipitor and erectile-dysfunction drug Viagra, is in the process of acquiring Wyeth partly to beef up its research efforts.

Pfizer is temporarily halting new

enrollment of patients in the figitumumab trial, but currently enrolled patients may continue their treatment in accordance with the trial design and in consultation with their doctors. The company will work with the drug-safety committee to analyze the data before issuing further guidance.

A separate study, which tests figitumumab with the drug Tarceva, continues to enroll new patients, Pfizer said.

Tarceva is co-promoted by OSI Pharmaceuticals Inc. and Roche Holding AG.

Figitumumab belongs to a class of drugs known as IGF-1R inhibitors, which block a substance in the body known as insulin-like growth factor.

The halt of the Pfizer enroll-

ments was reported by CNBC.

Several companies, including Merck & Co., Eli Lilly & Co. and Biogen Idec Inc., are developing drugs with similar mechanisms. Most are biologics, which means they are developed using living cells, rather than traditional chemicals.

If they are successful, the IGF-1R drugs could be lucrative. Research firm Leerink Swann has estimated that Pfizer's compound, which is among the furthest along in patient trials, could generate peak annual sales exceeding \$1 billion.

But even before the safety issue emerged in the Pfizer trial, there was a known theoretical risk to IGF-1R drugs: Just as giving insulin therapy to diabetics can help control blood sugar, blocking the effects of

insulin or similar substances in cancer patients could lead to excess blood sugar, a marker of diabetes.

An earlier-stage study of figitumumab showed associations with higher rates of hyperglycemia than for patients not taking the drug. Still, some doctors think this is a manageable side effect, with noninsulin drugs such as metformin able to control high blood sugar.

It wasn't immediately known whether hyperglycemia or related conditions were a factor in the adverse events or deaths in the halted Pfizer trial. It also isn't clear whether the safety issues with the Pfizer drug are specific to the drug itself or represent a "class effect" that would spell trouble for other companies' drugs.

## Kimberly to buy I-Flow in bid to expand

By KERRY GRACE BENN

Kimberly-Clark Corp. agreed Friday to buy I-Flow Corp. for \$276 million, in the paper-product company's second purchase in the week of a pain-management company.

Kimberly-Clark said acquiring the maker of pain-management and drug-delivery technology would increase its medical-device sales by more than half and is part of the company's strategy to move into higher-growth, higher-margin medical devices.

Sales of Kimberly-Clark's core brands—which include Huggies diapers, Scott paper towels and Kleenex tissues—have been under pressure as consumers increasingly look to purchase lower-priced products from private-label makers during the recession.

Earlier this week, the company bought privately held Baylis Medical Co. for an undisclosed price.

"The question is: Are these smaller acquisitions enough to dilute the negative effects of its core consumer tissue and diaper business?" Sanford C. Bernstein analyst Ali Dibadj said.

Kimberly-Clark's strategy contrasts with that of rival Procter & Gamble Co., which is selling its prescription-drug business and shifting focus to lower-priced offerings to boost its sagging market share as consumers shun pricier goods.

The deal has a total value of \$324 million, including acquired cash, and valued I-Flow at \$12.65 a share, 7.6% above its closing price Thursday and a 31% premium to its 60-day average share price.

Both companies' boards have approved the deal, expected to close in the fourth quarter, and Kimberly-Clark expects the acquisition to add to earnings in 2011.

Caris & Co. noted the business offers potentially attractive margins if Kimberly-Clark can cut costs.

Kimberly-Clark's health-care segment, which had \$1.22 billion in sales last year, includes products for digestive health, airway management and pain management.

Medical-device sales represent 20% of the company's total health-care revenue, a Kimberly-Clark spokeswoman said.



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## CORPORATE NEWS

# For Carrefour CEO, it's all about the price

Retailing executive says hypermarkets remain valid format but specialty stores alter the landscape

BY ELLEN BYRON  
AND CHRISTINA PASSARIELLO

Lars Olofsson joined Carrefour SA as chief executive in January, assuming one of the most difficult assignments in retailing. The supercenter format Carrefour pioneered nearly 50 years ago—selling goods ranging from food to clothes to bikes under one roof—is threatened as shoppers pick specialized stores.

The French retailer, the world's second largest by sales after Wal-Mart Stores Inc., has battled for years to restore a low-price reputation. Mr. Olofsson's new efforts, following years of declining market share, come at a critical moment: French consumers, fretting over dwindling purchasing power and high unemployment, are hunting for bargains and increasingly shopping at discount chains.

The Swedish executive, formerly of Nestlé SA, needs to get Carrefour back on track quickly. Its biggest shareholder—a partnership between LVMH chief Bernard Arnault and private-equity firm Colony Capital LLC—has lost about €1 billion (\$1.46 billion) on its investment. Last week, the company denied plans to sell its Asian or South American businesses, a move that would deprive it of its biggest growth markets.

Mr. Olofsson spent hundreds of millions of euros in the first half of the year to reposition Carrefour, driving its bottom line into the red for the first time since the 1998 merger that created the grocery giant. He has cribbed tactics from other retailers to stress Carrefour's low prices. Yet to fix the supercenter model, experts say, he must reinvent it.

In an interview, Mr. Olofsson talked about his belief in a strong future for hypermarkets, his rela-



'The only part of the world where they are still dancing the samba is Latin America,' says Carrefour CEO Lars Olofsson.

tionship with Mr. Arnault and who does the shopping in his household. Excerpts:

**WSJ:** How did Carrefour lose its way?

**Mr. Olofsson:** If Carrefour had some difficulties in the last 10 years or so, it is because they lost focus on the consumer. Not everywhere—in my view, we're best-in-class internationally—but in Western Europe. Then new laws in France basically forbade retailers to compete by price. So Carrefour went for quality, which I think was good for the image of the company but negative in terms of its price reputation.

The pricing laws have loosened, but Carrefour from then on wasn't the

most competitive.

**WSJ:** What would you have done differently?

**Mr. Olofsson:** Carrefour wasn't consistent in the execution of its strategy. There has been this ambiguity between going for the bottom line or for the top line, and that means the whole organization hasn't been aligned in one clear direction....If I were to recommend something to the former management, it would be to decide on a strategy and stick to it, execute it. This is what we're trying to do now.

**WSJ:** You've put a lot of money into price cuts and promotions. Is it working?

**Mr. Olofsson:** In Western Europe, consumers are buying more of our own Carrefour brand, which is lower in price than our supplier brands. We are maintaining our sales and seeing a slight increase in volume. In the first six months of this year, we had a market-share gain of 0.3%, which was the first time in two and a half years that we had a market share gain over a six-month period.

**WSJ:** How is your relationship with Mr. Arnault? Is he happy with the progress so far?

**Mr. Olofsson:** He is very close to the business. For me, he's a good partner, good shareholder and a demanding board member. Once a month, at least, we get together.

**WSJ:** He probably isn't pleased with the share price?

**Mr. Olofsson:** He's not happy with it; I don't think anybody is. I'm the first one who's not happy with it, because I think there's a lot more value to it than what the market is showing today. But I have presented my strategic plan, and the whole board gave me full support.

**WSJ:** Do you see any signs the economy is improving?

**Mr. Olofsson:** I don't see any significant signs of an immediate change. The only part of the world where they are still dancing the samba is Latin America.

**WSJ:** Is the hypermarket model still valid today?

**Mr. Olofsson:** It has to change its reason to be. In the 1960s, hypermarkets were food-oriented, and then we complemented food purchases with nonfood products. But in the last 15 years, category killers, or specialty stores, came in, so now we have to find another reason to be in nonfood products. In France, we have about one million people per day flowing through our hypermarkets. People still have an interest in them.

**WSJ:** What will you change?

**Mr. Olofsson:** I'm not sure we can really be competitive with teenage clothes, that we are best equipped to permanently fight against stores like Zara and H&M. But we're the clear leader in kids and baby clothing, and I don't see any reason why we shouldn't do better.

**WSJ:** Do you do the shopping in your household?

**Mr. Olofsson:** I do some shopping every once in a while. I choose a Carrefour store, and it takes only a half an hour before employees find me.

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## Murdoch Urges China To Open Up to Media

BY SKY CANAVES

BEIJING—News Corp. Chief Executive Rupert Murdoch urged China's government to allow its media companies to take advantage of the opportunities in new media by addressing copyright piracy and a lack of competition in the domestic market that he said could impede their expansion.

"The digital renaissance offers China an opportunity to exercise leadership," Mr. Murdoch told the World Media Summit in Beijing, hosted by the state-run Xinhua news agency. Alluding to China's "open door" policy that ushered in economic changes in the late 1970s, Mr. Murdoch said that the government now has a chance to open China's "digital door."

Addressing the same forum, Chinese President Hu Jintao pledged to "continue to make government affairs public, enhance information distribution, safeguard the legitimate rights and interests of foreign news organizations and reporters, and facilitate foreign media coverage of China in accordance with China's laws and regulations."

The three-day World Media Summit, attended by senior officials from several international media organizations, is part of a broader push by China's state-run media to exert a greater global influence.

Some foreign human-rights groups and media advocates have criticized China's role in hosting the forum, given its history of censoring the domestic media and sometimes limiting the ability of foreign journalists to report in China.

Mr. Murdoch noted that China will be the subject of increasing criticism as it becomes more important globally. "The people in this hall will sometimes be doing the critiquing. My personal advice is not to take it personally," he said.

He sketched a promising future for China's media and entertainment companies, but he said that authorities also will have to tackle some major obstacles to realize the goal of expanding China's media reach.

"The embrace of the digital is as vital to China today as its decision 30 years ago to take its place in the global economy," he said. News Corp. owns Dow Jones & Co., which publishes The Wall Street Journal.



## CORPORATE NEWS

# GM seals pact for Hummer sale

Purchase of truck brand marks first Chinese foray into U.S. auto market

BY SHARON TERLEP

**General Motors Co.** on Friday completed an agreement to sell its Hummer truck brand to a Chinese machinery manufacturer, marking a Chinese company's first major entry into the U.S. auto market.

Sichuan Tengzhong Heavy Industrial Machinery Co. bought Hummer in a \$150 million transaction, according to several people familiar with the deal. GM will continue to manufacture the vehicles until no later than 2012, when Tengzhong will take over production.

With Hummer, Tengzhong hopes to create a stable of trucks that are more fuel-efficient and environmentally friendly than the current lineup, which had become synonymous with America's addiction to gas-guzzling sport-utility vehicles. The company is working to develop a diesel powered Hummer to sell outside North America.

Tengzhong will buy the Hummer brand, trademark and intellectual-property rights, and Hummer dealers will continue to operate under the contracts they had in place with GM.

The deal, which needed the blessing of China's government, is a Chinese company's first full-fledged acquisition of a troubled auto brand in the wake of the global economic crisis.

India's Tata Motors Ltd. last year bought Ford Motor Co.'s premium Jaguar and Land Rover brands. China's Geely Automotive is interested in buying Ford's remaining international brand, Volvo Cars.

Such potential deals highlight Chinese companies' global ambitions, but a question remains as to whether companies like Tengzhong will be able to revitalize troubled auto brands, especially given executives' limited experience running global operations.



A Hummer attracted onlookers at a Beijing auto show last month. The GM brand is being sold to a Chinese company.

The Hummer brand is an offshoot of a military vehicle known as the Humvee. The civilian nameplate was created in 1998 as Americans were flocking to ever-larger sport-utility vehicles. Hummer's first civilian model, the H2, dwarfed most other cars and for a time fit the national mood, with fuel prices low and Americans benefiting from the high-tech-stock boom.

GM fell into financial trouble in 2005 and shortly thereafter was urged to sell Hummer and other niche brands by board member Jerome B. York. Instead, GM held on to Hummer and saw its sales plunge when gasoline prices spiked to \$4 a gallon.

Hummer's turnaround will likely

prove a challenge, especially in the U.S., where the market for SUVs has fallen in recent years. Hummer sales are down 64% so far this year, compared with the same period a year ago, and GM in September sold just 426 of the vehicles nationwide.

Jim Lynch, owner of Lynch Hummer in St. Louis, said the sale at least provides clarity to customers. "There were people who were considering purchasing a Hummer but waiting because they didn't know if the brand would be around or not," Mr. Lynch said.

Tengzhong plans to leave the bulk of Hummer's operations in the U.S. Hummer LLC will set up a new headquarters in Detroit or in a suburb north of the city and has com-

mitted to spending \$9.4 million on the facility.

Tengzhong is buying 80% of Hummer, with local tycoon Li Yan acquiring the rest through **Lumena Resources Corp.** The 46-year-old is chairman of LumenaSichuan-based, which he founded and listed on the Hong Kong Stock Exchange in June., one of the world's biggest makers of sodium sulphate, a raw material which is used in detergents, glass and pharmaceutical products.

Sealing the sale of Hummer comes little more than a week after GM's planned sale of the Saturn brand to Penske Automotive Group Inc. fell through.

—Norihiko Shirouzu and Jeff Bennett contributed to this article.

## FCC probes Google's phone-management service

BY FAWN JOHNSON

WASHINGTON—The Federal Communications Commission opened an inquiry Friday into whether **Google Inc.**'s phone-management service is restricting calls.

The service, dubbed Google Voice, lets people link all of their phones to a common number and to manage calls and messages through a single Web site. It can also be used to send and receive calls and text messages.

Google has reserved the right to restrict outgoing calls to some phone numbers, including adult

chat lines and conference-call centers, which charge higher access fees to carriers. Blocking such calls reduces Google's expenses for the service.

In a letter to the Internet company, the FCC asked how Google Voice identifies phone numbers that are restricted and how it notifies customers of those restrictions.

Richard Whitt, Google's Washington telecom and media counsel, said in a blog post Friday that Google restricts calls to certain local phone numbers because "they charge exorbitant termination

rates" and "partner with adult sex chat lines and 'free' conference calling centers to drive high volumes of traffic."

AT&T Inc. has said Google is violating rules designed to ensure that phone companies connect all calls. Earlier this week, lawmakers asked the FCC for an investigation, saying the practice could hurt rural customers.

Google says its phone-management service isn't subject to common-carrier telephone rules because consumers can use it only if they have a traditional telephone line. "Google Voice is a free Web

application, one intended to supplement and enhance existing phone lines, not replace them," Mr. Whitt said.

The FCC asked Google to explain how Google Voice fits within current telecommunications law and whether the service competes with other telecommunications services.

The inquiry into Google Voice illustrates the challenge the FCC faces in regulating new-media products. Google Voice uses a mix of traditional phone-line services and Web connections, which are subject to different rules.

## Telstra assails Australia's planned telecom changes

BY LYNDAL MCFARLAND

MELBOURNE, Australia—**Telstra Corp.** said the Australian government's planned reforms to telecommunications legislation would destroy shareholder value and create uncertainties over Canberra's planned 43 billion Australian dollar (US\$38.87 billion) national broadband network.

In a submission to a Senate inquiry into the planned reforms, Tel-

stra said the plans could "potentially destroy value for the 1.4 million Australian shareholders who purchased Telstra shares from the government over the past 12 years and have a significant detrimental impact on our employees."

Last month, the Australian government unveiled proposed amendments to telecommunications laws that would see Telstra either voluntarily split its retail and wholesale networks or face tighter regulations,

create the potential for forced asset sales, and be barred from buying new mobile spectrum, which is a key growth area.

Communications Minister Stephen Conroy has said the changes are aimed at improving competition in the fixed-line broadband sector ahead of the rollout of Canberra's planned NBN.

Mr. Conroy wants Telstra—a former government monopoly—to make a decision by year-end.

"Telstra has no choice but to oppose the passage of the bill in its current form," Telstra Chief Executive David Thodey said.

The planned high-speed broadband network—a key policy objective for Prime Minister Kevin Rudd and his government—will leave large parts of Telstra's existing fixed-line network redundant and many analysts expect the company will sell parts of the network into the NBN.

## GLOBAL BUSINESS BRIEFS

### Telefónica SA

Telefónica raises dividend but lowers revenue forecast

**Telefónica SA** pledged to increase shareholder returns with higher dividends but lowered its forecast through 2012 amid falling revenue in mature European markets. "Two years ago when we met, no one would have expected the most profound economic downturn in decades," Telefónica's Chairman César Alierta said in the company's biannual Investors Day. The Madrid-based company, Europe's largest telecommunications company by market value, on Friday pledged to pay a €1.40 (\$2.07) dividend for next year, up 22% from this year, and that its 2012 dividend would be at least €1.75 a share. The company said its revenue compound annual growth rate until 2012 would increase between 1% and 4%. Two years ago, Telefónica had forecast a rate of between 5% and 8% for 2006 to 2010.

### Infosys Technologies

**Infosys Technologies Ltd.**, one of India's biggest software exporters by revenue, posted a 7.5% increase in quarterly profit and raised its full-year outlook, a sign that information-technology spending is starting to rebound globally. Infosys Chief Executive S. Gopalakrishnan said tech spending is beginning to stabilize. Among the big deals for Infosys in the quarter was a slice of the software-outsourcing work awarded by U.K. oil giant BP PLC. Mr. Gopalakrishnan said such vendor consolidation, as well as major mergers in the U.S. and U.K. financial sectors, are creating growth opportunities for Indian outsourcing firms. For its fiscal second quarter ended Sept. 30, the company posted 15.4 billion rupees (\$328 million), up from 14.32 billion rupees a year earlier. Revenue rose 3.1% to 55.85 billion rupees from a year earlier and 2.1% from the previous quarter.

### Yohji Yamamoto Inc.

Japanese fashion design firm **Yohji Yamamoto Inc.** said it filed for bankruptcy protection Friday, marking the latest setback for high-end brands in Japan. The firm listed debts totaling six billion yen (\$67.8 million), according to a spokeswoman in Tokyo. The firm, which cited the soft global economy, said it will continue to operate while under bankruptcy protection. Integral Corp., an investment firm based in Tokyo, said it will acquire the business out of bankruptcy. Integral said the restructured company will seek to strengthen Yohji Yamamoto's channels for retail and wholesale distribution.

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## ECONOMY &amp; POLITICS

## Attack adds to pressure on Pakistan

Weekend violence at army headquarters leaves 19 dead as government prepares assault on Mehsud Taliban

BY MATTHEW ROSENBERG  
AND ZAHID HUSSAIN

ISLAMABAD—The brazen weekend attack on Pakistan's military headquarters that left 19 people dead and ended Sunday with the release of 39 hostages is likely to accelerate the military's assault on the area where the Pakistan Taliban are based.

But there are signs the assault, which Pakistan has been preparing for months, may be narrower than the broad campaign that the U.S. and other Western nations had hoped Pakistan would launch against an arc of militant havens stretching along the mountains of the country's northwest.

Instead, Pakistan's government is seeking to renew truces with two Taliban factions and is focusing its sights on what it considers the most deadly: a branch of the Taliban in the South Waziristan tribal area, drawn from the Mehsud tribe, that is allied with al Qaeda and jihadis from elsewhere in the country.

This faction claimed responsibility for the weekend attack in Rawalpindi, outside Islamabad, in which 10 gunmen disguised as soldiers infiltrated army headquarters. The result was a 45-minute gun battle followed by a 22-hour standoff that left at least 19 people dead. On Sunday morning, after a battle between the militants and commandoes, 39 hostages held by the militants were freed.

Gen. Ashfaq Kayani, the army chief of staff, wasn't in his office at the headquarters when the attack happened.

The militants' infiltration of the highly sensitive area was a huge embarrassment to the military, and raised questions about the security of the important military installations.

"The militants have humiliated the army," said retired Brig. Javed Hussain.

Intelligence services had warned



Associated Press

Pakistani soldiers guard army headquarters on Sunday in Rawalpindi, outside Islamabad, site of a Taliban attack over the weekend.

last week that militants were planning an attack on the headquarters, police said Saturday. Pakistani intelligence agencies had intercepted the attack plan from a computer disc recovered from a militant killed by police in the southern Punjab town of Dera Ghazi Khan last month, police and intelligence officials said Sunday.

The attackers were led by Mohammed Aqeel, also known as Dr. Usman, who was captured at the weekend after he was injured in the attack. In his mid-30s, he also is believed responsible for masterminding a March attack on the visiting Sri Lankan cricket team in Lahore, in which six

police officers were killed. Security officials say he is a key member of Lashkar-e-Jhangvi, a banned militant outfit with strong links to the Taliban and al Qaeda.

U.S. Secretary of State Hillary Rodham Clinton said Sunday in London that the attack showed extremists were "increasingly threatening the authority of the state, but we see no evidence that they are going to take over the state."

Pakistani officials indicated the attack would likely accelerate plans to invade South Waziristan and wipe out the Taliban faction responsible. "We are going to come heavy on you,"

Interior Minister Rehman Malik warned in televised remarks following the start of the attack Saturday.

Pakistan's military has bombarded South Waziristan for months with aircraft and artillery and has warned that a ground invasion was coming. That has been welcomed by U.S. and other Western officials, who say the area is a springboard for attacks inside Pakistan's major cities and against U.S. and allied forces across the border in Afghanistan.

To improve the army's chances of a successful assault, Pakistan is renewing peace deals with other factions of the Pakistan Taliban—a loose confed-

eration—in an effort to keep them on the sidelines as the army tackles the Taliban's Mehsud faction, say officials and tribal elders involved in the negotiations. The peace deals reflect Pakistan's narrow focus on Taliban factions it sees as posing a direct threat. Despite a series of past failed peace deals with a number of Taliban factions, many Pakistani officials still say they can co-opt some elements of the Pakistan Taliban.

U.S. officials in Islamabad didn't respond Sunday to a request to comment on the peace deals with Pakistan Taliban factions. But a Western diplomat called the deals worrying. "Letting these guys run parts of the tribal areas is the problem. We don't see the distinction between good Taliban and bad Taliban. They're all Taliban," the diplomat said.

One faction negotiating with the military is based in the adjacent North Waziristan tribal area and run by Hafiz Gul Bahadur, who has struck two previous peace deals with the government, say officials and tribal elders with ties to the Taliban. The other faction that is negotiating is based in South Waziristan and run by Maulvi Nazir.

A senior Pakistani government official overseeing the tribal areas, Habibullah Khan, insisted the government has made no formal deals with the groups, just "understandings."

However, Gul Khan, a tribal elder who is close to Mr. Bahadur and other elders, said in recent interviews that proper deals were being struck by both Messrs. Bahadur and Nazir. Among the terms: not to allow other Taliban groups to use their territory to launch attacks against Pakistan.

The Mehsud Taliban has orchestrated the majority of attacks against Pakistan in the past two years, officials say. It appears to have regrouped since the death of its chief in an August missile strike by a U.S. drone.

—Rehmat Mehsud in Rawalpindi contributed to this article.

## As demonstrations mounted, leaders weighed reforms

As we approach the 20th anniversary on Nov. 9, we will chronicle the events that precipitated the fall of the Berlin Wall as they played out in the pages of *The Wall Street Journal*.

By mid-October 1989, mixed signals were flying about East Germany's future course.

East and West  
As the Berlin Wall Fell

East German church leaders and Communist Party moderates held unprecedented meetings to discuss demands for democratic freedoms, just days after 70,000 people had marched peacefully through Leipzig. While officials hinted at a possible compromise, hard-line Communist rulers in East Berlin renewed their criticism of street demonstrations. At the same time, leader Erich Honecker said China's Tiananmen Square massacre should serve as a warning to East German demonstrators.

The country's Communist leadership reaffirmed the nation's commitment to socialism, but said demands for the types of changes sweeping much of Eastern Europe "are open to

discussions." According to party sources, the ruling body also warned of possible labor unrest and demanded a report on the nation's "critical situation" from Mr. Honecker.

The Times of London reported that a trickle of East German refugees were returning home. "I would be ashamed to be here and not out on the streets with my friends," said one 25-year-old arriving in Leipzig, East Germany.

In its Washington Wire column, the Journal wrote of the tricky foreign-policy test the East German turmoil posed for U.S. leaders. Senior national-security aides conceded they were surprised at the mass exodus by East Germans. West German officials advised the U.S. of dangers no matter the outcome. "East Berlin may violently suppress demonstrations while NATO stands by helplessly. Or it may let people leave, swamping Bonn's ability to absorb them," the Journal wrote.

The West German government said it was prepared to aid East Berlin if economic and political reforms were made. But aiding East Germany made U.S. officials uneasy. "We don't think of them the way we do Hungary or Poland," one U.S. official said.



Associated Press

At left, East German demonstrators march through Leipzig. At right, a Wall Street Journal Washington Wire item from Oct. 13, 1989.

## Washington Wire

A Special Weekly Report From  
The Wall Street Journal's  
Capital Bureau

**EAST GERMAN TURMOIL** poses a tricky foreign-policy test for the U.S.

Senior national-security aides concede they were surprised at the mass exodus by East Germans. West German officials, including visiting Defense Minister Stoltenberg, advise the U.S. of dangers no matter what happens. East Berlin may violently suppress demonstrations while NATO stands by helplessly. Or it may let people leave, swamping Bonn's ability to absorb them.

Officials estimate that as many as 10% of East Germany's 18 million people could flee. To discourage vast new emigration, Bonn is prepared to aid East Berlin if economic and political reforms are made. But aiding East Germany makes U.S. officials uneasy. "We don't think of them the way we do Hungary or Poland," one U.S. official says.