

THE WALL STREET JOURNAL

VOL. XXVII NO. 174

THURSDAY, OCTOBER 8, 2009

EUROPE

europe.WSJ.com

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What's News

Euro-zone GDP contracted amid warnings by the EU to coordinate economic policies and get widening budget deficits under control. Revised data showed the economy shrank 0.2% in the second quarter from the first and fell 4.8% from a year earlier. **Page 4**

U.K. opposition leader Cameron will try to turn the mood to optimism in a speech to his Conservative Party convention Thursday. **Page 2**

U.S. stocks were weighed down by telecom firms as traders awaited an earnings report after the close. Europe shares slipped amid worries about a weak dollar. **Page 20**

IPO investors warmed to Verisk Analytics but turned cold to Santander Brasil, two of the world's largest new listings this year. **Page 21**

Ireland's Aer Lingus said it will reduce annual operating costs by about \$140 million by the end of 2011, including cutting 17% of staff. **Page 6**

Gianni Versace closed its boutiques in Japan, a sign of how one big luxury market is starting to lose its luster with some luxury brands. **Page 5**

French retail conglomerate PPR plans to list its African distribution division on the stock market. **Page 19**

The European Commission fined six European and Japanese firms a total of \$99.5 million for colluding in the power-transformers market. **Page 5**

Amazon trimmed \$40 off the price of its Kindle e-reader and introduced a version of the device with international wireless service. **Page 6**

GM said it hasn't met several goals it planned to reach by year's end, including workforce reductions and the sale of failing brands. **Page 8**

Julius Baer Group will buy ING's Swiss private-bank operations for \$506.4 million in an effort to strengthen its core business. **Page 22**

Protesters in Istanbul hurled firebombs at banks and police in a second day of protests against the IMF.

An Egyptian cleric allegedly kidnapped in Milan in 2003 as part of a CIA rendition program asked for \$15 million in damages from the defendants charged in his abduction.

Hilary Mantel's novel "Wolf Hall" won the Man Booker prize for fiction.

EDITORIAL OPINION

Sultan Atatürk
The Kemalist republic is the fulfillment of the Ottoman dream. **Page 13**

Breaking news at europe.WSJ.com



Silvio Berlusconi arrives to greet Palestinian President Mahmoud Abbas on Tuesday in Rome, before a court stripped Italy's prime minister of immunity from prosecution on pending corruption charges.

Italian court deals a blow to Berlusconi

BY STACY MEICHTRY

ROME—Italy's Constitutional Court struck down a controversial immunity law that protected Italian Prime Minister Silvio Berlusconi and other top state officials from criminal prosecution, dealing a major blow to Italy's billionaire premier who has two suspended corruption trials pending against him related to his media empire.

Soon after the 15-person court delivered its verdict, Mr. Berlusconi's spokesman said the premier had no intention of calling early elections or of resigning—as some of his political opponents urged—as a result of the ruling. Mr. Berlusconi, who has long denied all of the criminal charges leveled against him, also has deep support among Italian voters.

"We're moving on," Mr. Berlusconi told TV cameras as he walked, smilingly, into an art exhibit. Passersby greeted him with a round of applause.

Still, the ruling—which can't be appealed and allows prosecutors to restart criminal trials against the premier right away—could further destabilize an administration already troubled and distracted by embarrassing disclosures over Mr. Berlusconi's personal life.

The decision raises the specter that Mr. Berlusconi could become distracted with legal hearings, just as Italy is struggling with its deepest recession since World War II. International organizations such as the International Monetary Fund have been urging Italy to pass long-needed overhauls to its pension and social-security system.

"The Berlusconi government has the duty to carry out its agenda ... especially in this delicate phase for the economy," Industry Minister Claudio Scajola said in a statement released after the ruling.

In its decision, the Constitutional Court ruled that the immunity law—passed by Parliament in July 2008—unfairly placed Mr. Berlusconi above the law, according to a six-line statement issued by the court late Wednesday. The court also ruled that Italy's Parliament, where Mr. Berlusconi's center-right coalition holds a majority of votes, overstepped its powers in passing the law because a constitutional amendment should have been sought.

The legal proceedings that had been brought against Mr. Berlusconi—and had later been suspended under the immunity law—include two criminal trials for alleged corruption.

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Telefónica unit tops Vivendi bid for GVT

By JASON SINCLAIR AND MAX COLCHESTER

MADRID—Spanish telecommunications operator Telefónica SA's Brazilian unit made an all-cash bid for GVT Holding SA that values the Brazilian telecommunications company at \$3.7 billion—trumping an earlier offer from France's Vivendi SA.

In a filing to the Spanish market regulator Wednesday, Telefónica said its Telesp unit would offer 48 Brazilian reais (\$27.20) a share for GVT, topping the offer of 42 Brazilian reais a share made by Vivendi last month. Vivendi had no immediate comment on the offer.

Telefónica said its offer was contingent on it acquiring 51% of GVT's shares and

the Brazilian regulator approving the deal. "GVT would expand our footprint in Brazil and is complimentary to our existing operations," a Telefónica spokesman said.

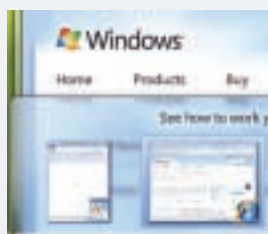
A spokesman for GVT declined to comment.

Telefónica's bid comes as Vivendi hurries to conclude the purchase of GVT. The French company's bid sparked a turf war in Brazil, where Telefónica is already heavily present through its Telesp subsidiary, which is the second-biggest fixed-line operator in the country.

Last week, a spokesman for Vivendi said the company was in the final stages of its due diligence and would recommend its board approve

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Bright vision

Walter S. Mossberg sees good things in Windows 7 Personal Technology, page 29

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FTSE 100	5108.90	-0.57	
DAX	5640.75	-0.30	
CAC 40	3756.41	-0.37	
Euro	\$1.4682	-0.45	
Nymex crude	\$69.57	-1.85	

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LEADING THE NEWS

Cameron aims for an upbeat, austere note

Conservatives try to balance spending cuts with a new progressive image and an optimistic vision of the future

BY LAURENCE NORMAN

MANCHESTER—U.K. opposition leader David Cameron will warn that “painful” cuts in spending will be needed to get Britain through the next few years in a key speech to his Conservative Party annual convention Thursday.

But Mr. Cameron will also seek to turn the mood of a fairly sober party conference so far—the last before an election due by mid-2010—to one of optimism. “So yes, there is a steep climb ahead. But I tell you this: the view from the summit will be worth it,” he is due to say. “Ask me what a Conservative government stands for and the answer is this ... we will reward those who take responsibility and care for those who can’t.”

Senior party officials don’t expect the speech to contain major new proposals. Instead, Mr. Cameron will try to show his party has more to offer than an “age of austerity.” His finance-policy spokesman, George Osborne, had laid out cuts suited to the age on Tuesday: an early increase in the retirement age, a public-sector salary freeze in 2011, cuts to middle-class tax benefits, and an end to large salaries for senior bureaucrats.

Mr. Cameron plans to warn that

he and his party would be “tested” if it returns to power next year, as it seeks to drive down a debt burden that is expected to reach some 80% of gross domestic product by the middle of the next decade.

“If we win this election, it is going to be tough,” Mr. Cameron will say, according to extracts of the speech made available. “There will have to be cutbacks in public spending and that will be painful.”

In the wake of the Irish approval of the European Union’s Lisbon Treaty, Mr. Cameron is expected to briefly mention Europe but make no change to his party’s official policy that it will promise a referendum only if all other member states haven’t already ratified the treaty. The party’s old divisions on Europe have surfaced this week with some members calling on Mr. Cameron to hold a vote even if all other countries have signed on.

Mr. Cameron, who turns 43 on Friday, will be speaking on the final day of the Conservative Party conference in the northern English city of Manchester. He took over as party leader four years ago in the wake of the party’s third straight election thumping by the Labour Party—the fourth leader since 1997.

His party came into this week’s



Shadow secretary of state for work and pensions Theresa May speaks Wednesday at the Conservative Party conference in Manchester, England.

conference buoyed by polls showing they have a real chance of returning to office in the election, which must be held by June 3.

However much of that success has been due to a slump in support for Prime Minister Gordon Brown’s Labour government, which has faced a deep recession, a parliamen-

tary expenses scandal and a tough war in Afghanistan.

Party officials said Mr. Cameron is expected to repeat his party’s pitch that it has become the “progressive” force in U.K. politics—one that would protect public services, work to reduce poverty and social exclusion, and look

after the environment.

On welfare, the party has allied its threat to cut welfare checks for some of the 2.6 million Britons on incapacity benefit with a promise to spend big on bringing in private sector or charity providers to offer personalized help for people to find work and a guarantee to offer employment to young people who have been jobless for six months. Likewise, Mr. Osborne’s proposed pay freeze exempted the poorest-paid tranche of employees.

On Wednesday, Mr. Cameron’s close ally Michael Gove, promised a Conservative government would move rapidly to turn around the country’s worst-performing schools by sacking ineffective leadership and creating academies run by nongovernment bodies.

In a statement Wednesday, Labour’s Schools Minister Vernon Coaker said Mr. Gove’s plans for academies were less ambitious than the government’s own academy program.

“George Osborne has made clear that he wants to cut schools spending from next year,” he said. “Michael Gove needs to come clean on the scale of their cuts to schools, teachers and teaching assistants.”

U.K. Conservatives tap Gen. Dannatt as defense adviser

BY ALISTAIR MACDONALD

Britain’s opposition Conservative Party plans to announce Thursday that it will appoint retired army Gen. Sir Richard Dannatt as a defense adviser, a person familiar with the matter said, in a move that could cause discomfort

for the ruling Labour government, which clashed with Gen. Dannatt over Afghanistan.

Conservative leader David Cameron also will say that the party is recommending Gen. Dannatt to the government for a peerage, this person said.

A spokesman for the Conserva-

tives said there will be an announcement on Gen. Dannatt, but declined to offer further details.

Gen. Dannatt, who has led British forces in Afghanistan and Iraq, has in the past voiced criticisms of the government’s military policy, including what he has described as a shortage of equipment.

He retired in August, and in recent days he has said that he asked the government for more troops than he was given for Afghanistan, appearing to contradict a government claim that it had agreed to all of the requests for troop numbers made by the army.

A spokesman for U.K. Prime Minister Gordon Brown declined to discuss details of internal government discussions on troop numbers, but noted that troop counts in Afghanistan had risen from 7,800 in the summer of 2007 to more than 9,000 now, mostly in the southern province of Helmand.

“Any suggestion that the prime minister was unwilling to deploy more troops or provide the neces-

sary resources was wrong,” he said.

Labour Party politicians have complained in the past that Gen. Dannatt was close to the Conservatives. As British casualties rise and public opinion turns more strongly against the war, the issue of Afghanistan has become increasingly important to politicians.

Vartan Oksanian is a former Armenian foreign minister. A Leading the News article Wednesday incorrectly identified him as a member of the nationalist Dashnak party.

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THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
 Boulevard Brand Whittlock 87, 1200 Brussels, Belgium
 Telephone: 32 2 741 1211 Fax: 32 2 741 1600
 SUBSCRIPTIONS, inquiries and address changes to:
 Telephone: +44 (0) 207 309 7799
 Calling time from 8am to 5.30pm GMT
 Website: www.services.wsje.com
 E-mail: WSJUK@dowjones.com
 Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
 Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Teletampa Centro Italia s.r.l. Printed in Spain by Belmont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basinevi.
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 Editeur responsable: Patience Wheatcroft M-17936-2003

LEADING THE NEWS

Health-care fight simmers

FDP seeks to dump fund as conservatives defend the status quo

BY PATRICK MCGROARTY AND ANDREA THOMAS

BERLIN—German Chancellor Angela Merkel's incoming center-right government is already at odds over how to deal with Germany's health-care system, whose funding is coming under increasing strain following the economic downturn.

The pro-business Free Democratic Party, Ms. Merkel's partner in a new governing coalition, is calling for a radical reorganization of Germany's health-care system. But Ms. Merkel's conservatives are defending the status quo.

Germany's state-backed health insurers warned this week they face a financial shortfall of €7.45 billion (\$10.96 billion) next year as rising unemployment leads to lower health-insurance contributions.

The GKV association for public

health insurers said Tuesday that spending discipline alone can't compensate for a "dramatic loss in revenue," and that the new government, which is expected to take office in a few weeks, will have to raise insurance premiums or subsidize the system more heavily from taxes.

Ms. Merkel's conservative Christian Democratic Union and its Bavarian sister party, the Christian Social Union, began talks this week with the FDP to hammer out common policies, after the parties jointly won a parliamentary majority in Germany's Sept. 27 election.

Ms. Merkel's conservatives and the FDP have clashed in recent days over Germany's health fund, which pools fixed-rate health-insurance payments from employers and workers.

The fixed insurance premiums, currently set at 14.9% of workers' gross pay, replaced a previous system under which health insurers set their own rates. The change was an attempt to create a fairer balance between insurers with poorer clients and those with richer clients.

A 2007 health overhaul by Ms. Merkel's previous coalition with the left-leaning Social Democrats, which created the health fund, was an attempt to slow the rising cost of health insurance.

Currently, insurers can demand extra payments from individuals if the insurers' costs resulting from medical treatment exceed their intake from the health fund, but those extra contributions are capped at 1% of an individual's income. Rising health-care costs and falling employment are likely to mean that many health insurers can't make ends meet, analysts say.

Ms. Merkel made clear after the election that she wouldn't accept fundamental changes to the health fund.

The FDP, however, is pushing to abolish the health fund and instead allow more competition and a greater role for private health insurers.

"I think the health working group has some of the most difficult work," said Daniel Bahr, an FDP lawmaker and the party's spokesman on health issues, add-



German Chancellor Angela Merkel, left, and Foreign Minister Frank-Walter Steinmeier arrive for a cabinet meeting on Wednesday.

ing that he hoped Ms. Merkel's conservatives "will make a shift in direction away from state-run medicine." Mr. Bahr added that "the current financial figures have showed us that the health-care fund doesn't work."

Germany's state-supported health-insurance system covers nine in 10 Germans at an annual cost of around €170 billion. Most

other Germans have private health insurance.

Health-care costs are set to jump in coming years partly because of the country's aging population. That threatens to push up labor costs for German business and to shrink workers' take-home pay, since health insurance contributions are traditionally split between employers and employees.



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LEADING THE NEWS

Latvia's woes rise as auction fails

Central bank warns of 'wave of distrust' limiting a recovery

BY CHARLES FORELLE

Slow progress on budget cuts and a government suggestion to let homeowners get out of mortgages more easily are causing "another wave of distrust" to roll over Latvia that could have worrying consequences, the Baltic nation's central bank warned Wednesday.

The criticism came as a government bond auction failed to attract buyers, and worries about the economy weighed on the currencies of Sweden, whose banks are Latvia's major lenders, as well as other countries in the region.

Latvia's woes again spurred market speculation that the country could try to ease its troubles by devaluing its currency, the lat. Such a move could trigger devaluations in the region as Latvia's neighbors come under pressure from nervous markets, analysts said.

"There is a most urgent need for fixing the budget, by setting state expenditures at levels that are sustainable in the long run," the central bank said. The bank warned that otherwise, "future prospects

will worsen not just for the economy as a whole but also for each of its participants."

Of the 27 European Union countries, Latvia has been the worst-hit by the economic crisis. The nation of 2.2 million people is being kept afloat by a €7.5 billion (\$11.04 billion) package of loans from the EU, the International Monetary Fund, Sweden and other countries. In return, the lenders want Latvia to trim a wide budget gap. The IMF forecasts gross domestic product in Latvia will plunge by 18% this year.

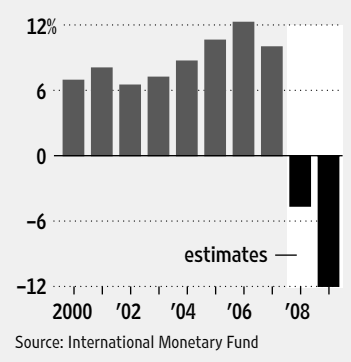
Cutting the budget has proved hard, with the government wrangling over the issue for months.

This week, the government said it could come up with 325 million lats (\$670 million) in cuts, below the 500 million lats it had agreed to with the IMF and other international lenders. That prompted a rebuke Tuesday from the Swedish finance minister, who said international lenders were losing patience, and that further payments to Latvia from the package could be delayed.

Wednesday, Latvia Prime Minister Valdis Dombrovskis said on state radio that he would find a way to make more cuts. "If it comes to a choice between a bad scenario and an even worse scenario, where the bad scenario is the goal of these 500 million lats and the worse scenario is that this international program is

Deep cuts

Latvia's gross domestic product, annual change



stopped...of course we will go more for this bad scenario," he said, according to Reuters. The prime minister has long resisted devaluation.

Neil Shearing, emerging-markets economist with Capital Economics in London, said speculation has been building over the past few days that Latvia's government is on the verge of giving up on a central tenet of its austerity program by allowing a devaluation. That could goose the economy by making exports more attractive, and it would eliminate the expensive process of buying lats to maintain the currency's peg against the euro.

Devaluation would have serious

consequences. The Swedish banks that made euro-denominated mortgages would see a sharp jump in foreclosures as fewer borrowers would be able to make payments. Latvia also would likely lose any chance of being allowed into the euro zone in the near future.

"Basically, there's a lot of speculation that the ground is being prepared for a devaluation," Mr. Shearing said.

The government also floated this week the idea of a law that would limit borrowers' liability to the value of the property. In other words, they could give the keys to the bank and walk away.

The central bank said the idea of loan modifications would "diminish confidence in the Latvian financial sector and Latvia's chances for restoring its economic health."

Mr. Shearing said Estonia and Lithuania could follow suit with devaluations if Latvia led the way. Hungary, Romania and Ukraine are also vulnerable to contagion, he said.

How far Latvia's troubles would spread if it devalues its currency is an open question. Worries about devaluation have persisted for months—another bond auction failed this summer—and financial markets and banks have had time to prepare.

—Alan Cullison, Katie Marin and Emily Barrett contributed to this article.

Telefónica unit trumps Vivendi in bid for GVT

Continued from first page
the deal when it convenes in mid-October. People close to the matter said GVT's two main shareholders—who own around 30% of GVT—were eager to conclude the deal.

For either of the two offers to go through, GVT shareholders would still need to waive a bylaw that states that all bids need to offer a 25% premium on GVT's closing share price a day before the offer. Vivendi's cash offer represented a 15.8% premium to GVT's closing share price on Sept. 8, the day before the deal was announced. Telefónica's offer is a 16.4% increase on the average share price over the past 30 days, the company said.

The bid also needs to be approved by the Brazilian telecom regulator and GVT's board.

"It is hard to imagine the shareholders are going to be pleased to leave a 15% increased bid on the table," said Claudio Aspesi, an analyst at Sanford C. Bernstein. "Furthermore, Telefónica could justify the synergies coming from such an acquisition," he added.

Should Vivendi's offer fail, it would be a blow for the telecom and entertainment conglomerate whose recent strategy has focused on buying companies in developing markets, as revenues from its telecom operations in Europe stagnate due to increased competition and greater regulatory pressure.

Vivendi owns a controlling stake in Maroc Telecom and has been searching for other acquisitions. Earlier this year, Vivendi looked into buying the African telecommunications activities of Mobile Telecommunications Co., known as Zain Group, but pulled out because it was too expensive.

Telefónica already operates fixed-line and broadband provider Telesp, but its presence is limited to the state of São Paulo. GVT started business in 2000 and operates in Brazil's midwest and southern regions, as well as some northern states. Telefónica has relied increasingly on the strong revenue growth in its Latin American markets as an economic downturn hits its mature markets in Europe, especially in Spain.

Euro-zone output reflects economic fragility

BY ADAM COHEN AND NICHOLAS WINNING

BRUSSELS—New output figures confirmed the euro zone's economic fragility, underscoring calls Wednesday for the 16-nation bloc to better coordinate economic policies, and for many European countries to cut budget deficits.

The European Union statistics agency revised its measure of euro-zone gross domestic product for the second quarter to show a contraction of 0.2% from the first three months of the year and a 4.8% contraction from the second quarter of 2008. The new findings were downgrades from earlier readings of 0.1% and 4.7% contractions, respectively.

Economists warn that the financial sector has been slow in ramping up lending to households and businesses. Governments, meanwhile, are under pressure to consider withdrawing economic-stimulus measures and tighten fiscal policy to tackle budget deficits.

"We suspect that euro-zone economic recovery will be prone to relapses for some time to come, particularly when any stimulus is withdrawn," Howard Archer, chief European and U.K. economist at Global Insight, wrote in a note, adding, "Any loss of momentum in global growth would have significant adverse repercussions for euro-zone recovery prospects, especially given the current strength of the euro."

On Wednesday, the European Commission issued warnings to nine countries—including Germany and Italy—about excessive budget deficits.

Under European Union rules, countries must keep their budget deficits below 3% of gross domestic product. According to the commission, the EU's executive arm, 20 of the EU's 27 member countries are on track to break that limit this year.

The commission blamed falling

tax revenue coupled with exceptional state spending to help the unemployed, prop up ailing banks and stimulate an economic recovery.

In addition to Germany and Italy, the commission warned Austria, Belgium, the Czech Republic, the Netherlands, Portugal, Slovakia and Slovenia about budget deficits.

Nine other countries were warned earlier this year. Last fall, before the economic crisis deepened, the U.K. and Hungary were cited for excessive budget deficits.

European Commissioner for Economic and Monetary Affairs Joaquin Almunia has previously said he will give governments some leeway to expand their spending, but added that any deficits above the 3% limit should be close to that level and should be temporary.

The commission said in a statement, "Although the deficit levels are exceptional in nature, resulting primarily from a severe economic downturn or recession of an unforeseeable scale, they are neither close to [3% of GDP] nor temporary." The commission also called on euro-zone countries to more closely coordinate economic policies.

Coordinated withdrawal of euro-zone governments' support for the economic recovery would improve the outlook for price stability and make the European Central Bank's monetary-policy decisions easier.

"Coordination should essentially take the form of common understandings on the appropriate timing, pace and sequencing" of a return to normal government policies, the commission said.

The U.S., meanwhile, is increasing pressure on Europe to pump up domestic demand to help balance the global recovery.

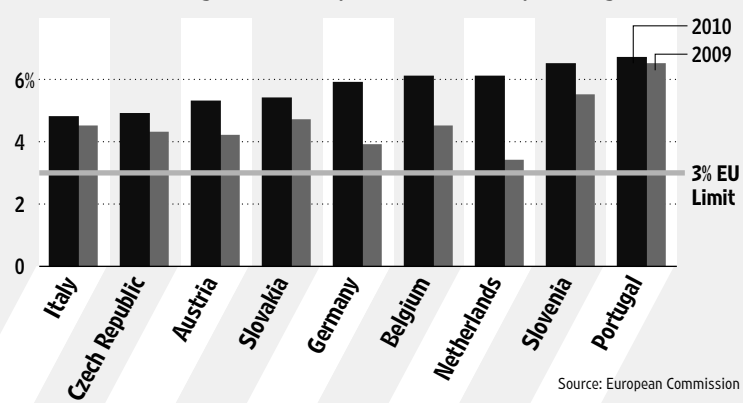
U.S. Treasury Secretary Timothy Geithner said in an interview with Germany's Die Zeit newspaper to be published Thursday that the world needs



Joaquin Almunia, European Union commissioner for economic and monetary affairs

Growing gaps

The European Commission Wednesday issued warnings to nine countries about excessive budget deficits. Expected deficits as a percentage of GDP:



to address trade imbalances. "We can't make decisions for the Europeans themselves. They have to consider themselves how they will adapt, but I don't know any other strategy that promises success," Mr. Geithner was quoted as saying. He said China has done more to adapt to the landscape in the aftermath of the financial crisis.

Europe's dependence on overseas demand was borne out by Germany's

manufacturing order intake for August. German manufacturers saw seasonally adjusted orders rise 1.4% from July, while domestic orders fell 1.9%, according to the country's economics ministry. Orders from outside the euro zone jumped 5.9%. Demand from the euro zone rose 2.8% from July.

—Andrea Thomas and Geoffrey T. Smith contributed to this article.

Turkish official plays down case against Dogan

BY MARC CHAMPION

ISTANBUL—Turkey's finance minister gave a passionate defense of his country's courts and tax system, insisting that a \$3.2 billion back-tax case against the Dogan Yayin Group was "purely technical."

"This country is not a banana republic," said Mehmet Simsek, speaking to reporters at the close of the International Monetary Fund's annual meeting. "There are strong institutions and those institutions are not new. There has been absolutely no attempt to politically influence this process."

Mr. Simsek also said Turkey hasn't set a date to restart talks on a loan facility with the IMF. He repeated Turkey's position that while it would like to have a new standby agreement with the fund, it wants the loan to support the government's own medium-term economic program, rather than a program set out by the IMF.

CORPORATE NEWS

Versace to shutter its last stores in Japan

Sharp decline in luxury spending hurts a fashion house that lacks deep pockets; focus shifts to China

BY STACY MEICHTRY

ROME — Gianni Versace SpA has closed its boutiques in Japan, a sign of how one of the world's biggest luxury markets is beginning to lose its luster with some luxury brands.

The fashion house said it shuttered its last three stores in Japan because they "no longer represented the brand image." The company described the move as part of a broader overhaul of strategy, adding that Versace wanted "a clean slate" while hunting for "new locations and more suitable distribution channels" in Japan. Versace didn't say when it planned to reopen stores in Japan.

The closures show how Japan's dwindling appetite for luxury goods is forcing brands to reassess their operations in pricey cities such as Tokyo and Osaka. Smaller fashion companies like Versace are under the most pressure, because they lack the financial firepower and economies of scale that larger rivals are tapping to ride out Japan's economic woes.

Japan has long been one of the fashion world's most important luxury markets because of strong demand for accessories such as leather



Pedestrians walk by a closed Versace store in Tokyo. The Italian company is looking for 'a clean slate' in Japan.

handbags, which generate higher profit margins than clothing.

The economic crisis, however, has severely sapped spending on big-ticket items. The squeeze has been particularly acute in Japan, which is grappling not only with a weak economy but also with a generational shift in spending habits.

For decades, Japanese customers were drawn to pricey handbags and

jewelry as symbols of upward mobility. In recent years, however, younger Japanese have begun to eschew the upscale tastes of older generations, turning instead to lower-priced "fast fashion" brands.

Luxury-goods sales in Japan are expected to fall 10% this year to €18 billion, according to a report by the Bain & Co. consultancy.

In China, meanwhile, luxury sales

are expected to climb 7% due to the rising number of wealthy Chinese, the report said.

"All the luxury brands are rethinking their business models in Japan," said Rogerio Fujimori, a luxury-goods industry analyst with Credit Suisse. "We're going to see Japanese clientele replaced by Chinese clientele."

As Japanese demand wilts, even

luxury behemoth LVMH Moët Hennessey Louis Vuitton SA has begun to rethink its presence in Japan, canceling plans for a new store in Tokyo's Ginza shopping district. Smaller brands like Versace, however, are under increasing pressure to choose between maintaining stores in Japan's high-priced real-estate market or opening new stores in China. Versace has opened more than 20 stores in greater China to date.

In recent years, Versace refocused its business on high-margin accessories to cater to big-spending customers in the U.S., Japan and Asia. Clashes between designer Donatella Versace and former Chief Executive Giancarlo Di Rizio over control of the company's strategy, however, led to Mr. Di Rizio's departure in May. Since then, Versace has appointed a new CEO, Giangiacomo Ferraris, who is currently reviewing the fashion house's strategy.

Versace reported revenue of €336 million (\$494.5 million) in 2008, up 8% from a year earlier.

Ms. Versace holds a 20% stake in the fashion house and is backed by her daughter Allegra Versace Beck, who owns 50%. Santo Versace, Ms. Versace's brother, holds a 30% stake in the label.

EU fines six power companies

BY PEPPY KIVINIEMI

BRUSSELS—The European Commission Wednesday fined six European and Japanese companies a total of €67.64 million (\$99.5 million) for colluding in the power-transformers market.

Swiss ABB Ltd., France's Areva SA and Alstom SA, as well as Japan's Fuji Electric Co., Hitachi Ltd. and Toshiba Corp. were found guilty and fined for having an oral market-sharing agreement in which the makers of power-transformers promised to stay out of each others' markets.

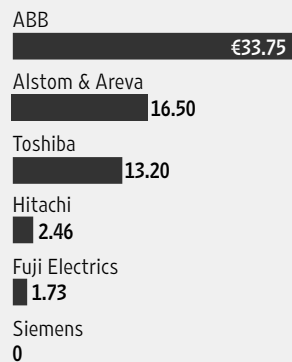
Customers Suffer

The companies' deal to divide the market "artificially hiked prices," causing suffering for customers and European taxpayers for a number of years, said Neelie Kroes, the European Union's competition commissioner.

Company representatives met twice a year between 1999 and 2003, usually in "high-class hotels" in places such as Singapore, Barcelona and Tokyo to reaffirm the deal,

Fined behavior

The European Commission fined six power companies a total of €67.64 million for collusion. Fines, in millions



Source: European Commission

said the commission, the EU's executive branch.

The agreement was always oral and the companies used code names for each other to avoid detection, the commission added.

Siemens Gets a Break

Germany's Siemens AG also participated in the agreement, but wasn't fined as it had revealed the existence of the cartel to the commission.

Power transformers are used to modify the voltage in electricity-transmission networks. They are mainly used by electricity suppliers in their grids for distribution to customers.

The highest fine was given to Swiss engineering company ABB at €33.75 million, because it had participated in a similar cartel before.

"The commission will not hesitate to increase fines for repeat of-

fenders until they have learned the lesson that cartels do not pay," said Ms. Kroes.

Alstom and Areva were fined €16.5 million, out of which they are jointly liable for €13.53 million. Alstom faces the remaining €2.97 million. This is because at the time of the collusion, Alstom owned the unit responsible for the infringement, which Areva then bought, the commission said.

Of the Japanese companies, Toshiba faces the highest fine at €13.2 million. Fuji Electric and Hitachi both got reductions for cooperation, paying €1.73 million and €2.46 million respectively, the commission said.

ABB said once it has the full decision from the commission it will consider its options for "appropriate next steps."

French industrial giant Alstom said it may appeal the decision once it has studied the commission's reasoning carefully.

A Toshiba spokesman said the company has cooperated fully in the commission's investigation, and maintains there was no infringement of EU competition law. "Toshiba believes that the European Commission's conclusions are unfounded, and is currently considering appealing the decision," the spokesman added.

A Hitachi spokesman said the company is reviewing the commission's judgment and will consider whether to pay the fine or appeal it. Areva said it will "assess the opportunity of appealing this decision."

Fuji Electric couldn't be reached for comment.

Siemens said it had suspended the employees in its former power-transmission group following the commission's 2007 cartel charges.

Microsoft case in Europe could end within months

BY CHARLES FORELLE AND PEPPY KIVINIEMI

BRUSSELS—The European Union signaled it would accept a settlement proposal outlined this summer by Microsoft Corp. that would end the bloc's pursuit of antitrust charges over the Internet Explorer Web browser, drawing the software giant closer to resolving nearly a decade of tussles with the regulator.

The European Commission, the EU's executive arm, said Wednesday it will "market test" the proposal, under which Windows users in Europe would get a "ballot screen" allowing them to choose a browser other than Internet Explorer.

Formally, the market test seeks comments from Microsoft's rivals and others in the industry, but the commission already has canvassed them for input and it is unlikely to change its course at this stage.

Both the EU's competition commissioner, Neelie Kroes, and Microsoft's general counsel, Brad Smith, said they expected the case to be wrapped up before year end.

Closing the Internet Explorer case would be a happy milestone for Microsoft, which has been fined more than \$2 billion by the European antitrust regulator. The only unresolved matters are a court appeal of part of the fine and an early-stage investigation of whether Microsoft impedes competition by withholding information that rival software developers need to work with its monopoly products. Microsoft also made proposals Wednesday to wrap up that matter.

"We are very pleased that this day has arrived," Mr. Smith said.

Mrs. Kroes said she is "very

hopeful" the new proposal will give "a choice between Internet Explorer and competing Web browsers."

Delivering the ballot screen to hundreds of millions of Windows users in Europe is expected to help increase market share of rival browsers, which include Mozilla's Firefox, Google Inc.'s Chrome and Opera Software ASA's browser.

An executive of Norway-based Opera, which launched the case with a complaint to the EU, said it was studying the announcement. Opera and an allied group, the European Committee for Interoperable Systems, had expressed worries that Microsoft's proposal didn't do enough: They feared that the ballot screen, which will appear as a Web page inside Internet Explorer, favors the Microsoft browser too much.

The commission opened its browser investigation in January 2008 after winning a landmark court judgment that confirmed the principle that tying products to Windows could be an antitrust violation.

As the commission moved close to imposing a fine on Microsoft and ordering the company to make changes, Microsoft in July of this year offered to settle. The two sides negotiated throughout the summer, bridging the 8,000 kilometers (4,971 miles) between Microsoft's Washington state headquarters and Brussels with video conferences.

Microsoft "agreed to make a significant number of changes to improve our proposals," Mr. Smith said. The changes include more detail about different browsers, and moving Internet Explorer out of the first position on the ballot screen.

—Carolyn Henson contributed to this article.

Nobel cause

Three scientists win chemistry prize for DNA studies > Page 10



CORPORATE NEWS

Aer Lingus to cut staff, salaries

Chairman offers bleak outlook in core markets

BY QUENTIN FOTRELL

DUBLIN—Ireland's troubled flag-ship carrier, Aer Lingus PLC, said Wednesday it will cut annual operating costs by €97 million (about \$140 million) by the end of 2011, €74 million of which will come from cutting staff by about 17% and slashing pay—a move that is likely to be resisted by trade unions.

The plan will result in the loss of 676 jobs from the airline's 3,879-strong work force; 489 of those jobs are in operational areas and some support areas, and a further 187 job cuts will come in other support areas when new computer systems are introduced.

That is in addition to 100 staff leaving this year at the end of fixed-term contracts.

Cost-cutting effort

The Aer Lingus move comes after British Airways PLC said Tuesday that it is shedding 1,000 full-time jobs and putting 3,000 more employees on part-time hours in an effort to get the airline's finances back in order. The move is part of a broader cost-cutting effort.

Aer Lingus's cuts in staff costs will include reductions for workers whose basic pay exceeds €35,000 a year as well as reduced variable pay



Passengers prepare to board an Aer Lingus flight from Dublin Airport.

and allowances for all staff.

"The job cuts seem to be extreme and draconian and an overreaction to the current difficult economic climate," said Gerry McCormack, national industrial secretary for the Siptu union.

"We cannot see any basis for pay cuts, job losses or changes to the pension scheme on behalf of Siptu members."

The Impact trade union, which

represents cabin crew and pilots, said the cuts were "deeply unfair ... The company has come back looking for more, with no regard to existing agreements."

The former state carrier warned, "If it's not possible to deliver the required cost savings in line with the plan, and within the required time frame, it may be necessary to reduce staff numbers further."

Aer Lingus Chief Executive

Christoph Mueller gave a bleak assessment of the company's prospects: "The outlook in each of our current core markets is poor and, in line with the macroeconomic outlook, we do not expect any near-term recovery."

Chairman Colm Barrington said the executive and management teams have agreed to a 10% reduction in salaries, which will be frozen at least through the end of 2011, and nonexecutive directors have unanimously agreed to a further 10% reduction in their fees, on top of the 20% reduction they took earlier this year.

Consultation period

The company will now hold a six-week consultation period with employees, union representatives and pension-plan trustees. Aer Lingus said it expects to conclude this consultation by Nov. 18.

Aer Lingus said passenger traffic in September climbed 4.1% from a year earlier to 960,000.

Short-haul passenger numbers rose 7.4% to 874,000, while long-haul passenger figures were down 20% at 86,000.

Separately, Franco-Dutch airline Air France-KLM SA said Wednesday passenger traffic fell 3.7% in September from a year earlier as market conditions remained difficult.

However, load factor, a measure of how full its planes are, improved by one percentage point to 81.9% as the airline cut capacity by 4.9%.

—William Horobin
contributed to this article

Google given date to revise its books pact

BY JESSICA E. VASCELLARO

A U.S. District Court judge told Google Inc. that it has until Nov. 9 to submit a revised version of its controversial pact with publishers and authors, as the parties work to fix concerns that their agreement is anticompetitive.

Judge Denny Chin set the fresh deadline at a Wednesday status hearing in New York.

Google announced the original settlement last October, aiming to resolve separate lawsuits that the Authors Guild and the Association of American Publishers filed against the Internet giant in 2005, on the grounds that the company's book-scanning efforts violated their copyrights.

That version is being redesigned amid growing criticism. Last month, the Justice Department said the original agreement shouldn't be approved without changes that limit what Google can do with the digital copies and address the fact that those who have copyrights over the books may have differing interests.

Under that original settlement, Google could sell access to and advertising against the out-of-print works that it has scanned, in exchange for sharing revenue back with the authors and others who own the books' copyrights. Included in the group are works whose copyright owners are unknown, so-called orphan works. That provision has drawn significant heat from critics, who argue it would give Google exclusive rights to those works.

At a meeting with reporters in New York Monday, Google Chief Executive Eric Schmidt said the issue of orphan works can be resolved with legislation, which Google supports.

The parties are also contemplating other modifications, including changes to the structure of the reg-

'We have been working around the clock,' said a lawyer for the authors.

istry, the groups of authors and publishers that are charged with overseeing the settlement, setting some prices and sharing revenue with copyright owners, say people familiar with the matter.

Speaking at the hearing, Deputy Assistant Attorney General William Cavanaugh said the Justice Department hadn't yet seen any proposed amendments.

Michael Boni, a lawyer for the authors, said at the hearing that the parties hope to seek final approval of an amended pact in December or early January. "We have been working around the clock," Mr. Boni said.

Judge Chin's new deadline sets the clock on what the parties hope will be the final phase of a multi-year struggle to clear the way to increase access and revenue to digital books.

Publishers are banking on the digital market for new growth and looking for more channels in addition to Amazon.com Inc., whose Kindle device is leading the market in electronic book-reading devices.

—Chad Bray and Julia Angwin
contributed to this article.

Amazon's Kindle e-reader goes global

BY GEOFFREY A. FOWLER
AND JEFFREY A. TRACHTENBERG

Amazon.com Inc. trimmed \$40 off the price of its Kindle e-reader and introduced a version of the device with international wireless service, in an effort to combat growing competition in the coming holiday shopping season.

The move drops the price of an entry-level U.S.-only Kindle with a six-inch display to \$259—still \$60 higher than the entry-level e-reader from Sony Corp., Amazon's rival in the emerging business.

Previous versions of the Kindle have been available only from Amazon's American store, and only had the ability to wirelessly download books inside the U.S.

A new \$279 premium version that can be used in the U.S. and internationally will begin shipping to customers on Oct. 19. It will offer wireless service in more than 100 countries.

"For years we have shipped English-language books from its U.S. store to customers in countries

Amazon has been eager to secure international rights from publishers.

around the world," said Amazon's vice president of Kindle, Steve Kessel.

Now, Amazon will be able to offer that same service with digital books, he said.

There are some limitations: Most



Jeff Bezos, CEO of Amazon.com, holds a Kindle e-reader. A wireless version of the device will be available internationally.

of the titles the company sells to international readers will be written in English. And for now, international customers are able to choose from a selection of about 200,000 e-books—compared with the 355,000 that are available to customers in the U.S.

Several U.S. publishers said on Tuesday that Amazon in recent weeks has been eager to secure rights to international markets from publishers where possible. In recent years it has become more common for publishers to purchase worldwide English-language rights on major books.

The move will enable Amazon to tap demand for e-books in markets where other companies have taken the early lead, such as the Cooler

reader sold by Interead in the United Kingdom.

The international Kindle is similar to its U.S. counterpart in other respects, including its e-ink screen. Global and U.S. wireless service for the international version of the Kindle will be provided by AT&T Inc. Sprint Nextel Corp. provides cellular connections in the U.S. for the domestic Kindle.

Amazon has taken the lead in the U.S. market for e-book readers. Forrester Research analyst Sarah Rotman Epps estimates that Amazon accounts for 60% of the U.S. market for such devices, with Sony accounting for 35%.

She forecasts three million e-book readers will be sold in the U.S.

in 2009, with 900,000 likely to sell during the coming holiday shopping season.

But Amazon's competitors are beginning to challenge the Kindle on features and flexibility to work with different kinds of e-books. Sony touts an e-reader that features a touch-screen interface and the ability to download and buy e-books from multiple sources in formats that can be read on multiple devices. Sony's e-book store also includes access to more than one million free out-of-copyright books offered by Google Inc.

Mr. Kessel said Amazon hasn't added a touchscreen to the Kindle because the technology detracts from its readability. As for the flexibility of using e-books bought from Amazon's Kindle store on other devices, he said "we will continue to roll out Kindle applications to read on other devices, just like we have today on the iPhone" from Apple Inc.

Mr. Kessel said Amazon would market the new international Kindle with a letter on the home page of Amazon's shopping sites in countries around the world.

He declined to say whether Amazon would be announcing any other new versions or features for the Kindle before this holiday shopping season.

"We think it is going to be a great season for Kindle," he said.

Mr. Kessel also declined to say how many Kindles Amazon had sold since launching the product in 2007. He said that today, among books available in both digital and physical editions, the company sells 48 Kindle editions for every 100 physical copies of those books.

CORPORATE NEWS

Soccer TV rights cloud StarHub outlook

New contract may spur exodus, bolster SingTel's plan to overtake rival in Singapore's pay-TV market

By SE YOUNG LEE

SINGAPORE—StarHub Ltd. may be losing some luster amid expectations of a mass exodus for its pay-television subscriber base after it was stripped of broadcasting rights for the immensely popular Barclays Premier League soccer games by rival Singapore Telecommunications Ltd.

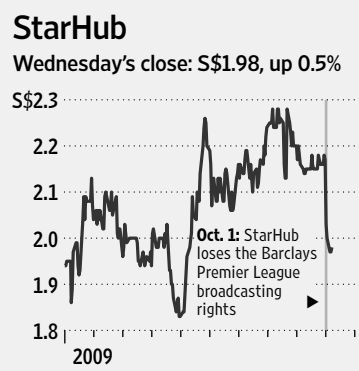
SingTel, seeking to overtake StarHub in the pay-TV market, said Thursday it got the rights to show the soccer games for three years starting August 2010. It also got exclusive rights to sports content from ESPN Star Sports starting mid-2010.

Losing the soccer rights is a blow for StarHub, which has been broadcasting the English league matches since 1997 and was widely expected to keep them.

Analysts say the content is a key differentiator with no equal substitute, leaving StarHub increasingly vulnerable in a highly competitive domestic market.

While there is little risk of earnings erosion in the near term as StarHub controls the sports content until mid-2010, it could impact the Singapore telecom operator's long-term earnings.

Partly on those concerns, StarHub shares lost more than 9% of their value in the past four sessions combined. On Wednesday in Singapore, StarHub's shares rose 0.5% to S\$1.98. Several brokerage firms



Liverpool's Fernando Torres (second right) and Hull City's Andy Dawson (left), Stephen Hunt (second left) and George Boateng (right) during their English Premier League match at Anfield in Liverpool, northern England.



including Nomura and Citigroup downgraded the stock's rating and target price.

"Much more of the cable-TV revenue and revenue share will be at risk for StarHub than just the [sports] revenues come June 2010," Citigroup said, noting that the loss of the soccer rights is a serious blow to its strategy of using the pay-TV service as a centerpiece to bundle other services such as mobile phones and broadband.

Citigroup estimates that about 250,000 of StarHub TV subscribers, or about 45% of the total base, cur-

rently pay for sports content, the majority of whom Citigroup believes are likely to defect once StarHub's broadcasting rights for the soccer league expire.

Nomura cut its forecast for StarHub's earnings per share in the next three financial years by between 1% and 11% and said that as much as 300 million Singapore dollars, or around US\$200 million, in revenue and S\$70 million in earnings before interest, taxes, depreciation and amortization could be at risk.

Jeannie Ong, StarHub's head of corporate communications, con-

ceded that the company's top line will be affected by the loss of the English soccer rights in mid-2010. But she said the number of customers who use the company's pay TV services for the soccer content alone is a "very small number."

She also said StarHub would look to reprice its sports package once costs for the "negative margin" English soccer league and ESPN Star Sports rights are removed to retain subscribers.

The company still has rights to other sports content such as the Spanish soccer league and two of

the four major tennis tournaments, and it plans to use the cash freed up from the English soccer and ESPN Star Sports content to bolster the line-up for its pay-TV platform.

Several analysts have said the Singapore government may intervene in the local pay-TV market, citing possible anticompetition issues because SingTel is expected to remain aggressive in getting additional content to bolster its pay TV service, which had 101,000 subscribers as of June 30.

A person familiar with the situation said Friday that SingTel paid more than S\$280 million for the English soccer rights, which is about 90% of StarHub's full-year net profit last year, and that SingTel likely can't recover the cost from the pay-TV business.

"Effectively what SingTel's done is throw the balance sheet and crowd out the competitor," CLSA analyst Ashwin Sanketh said Thursday.

"If this is a precedent for any content coming up, then you basically have the incumbent using their size...which is obviously not an ideal situation."

The Media Development Authority, which has jurisdiction over the market, said in an e-mail statement that it is monitoring the situation and will evaluate whether a direct intervention is "necessary and appropriate within the context of international trade practice."

Ford steps up ad campaign to win back customers

By MATTHEW DOLAN

DEARBORN, Mich.—Ford Motor Co. has made progress with its "Drive One" advertising campaign since its launch 18 months ago by convincing U.S. customers—sometimes at the expense of its bailed-out competitors—to buy its vehicles based on improvements in quality, fuel economy and safety.

But Ford officials admit they have made fewer gains persuading would-be buyers that their cars and trucks are savvy, clever and cool—the kind of emotional purchase triggers that could outweigh the more rational ones.

Starting Monday, Ford is launching a new chapter of its "Drive One" campaign, featuring 15-second spots of real customers talking about the "cool" features of their new Fords they own. It comes as the auto maker plans to boost its fourth-quarter advertising budget by 10% compared with the same period last year.

"It's all about what real customers are saying," said Matt VanDyke, Ford's director of marketing communications. The up to 40 spots have a grainy, home-video feel and Mr. VanDyke said they are meant to showcase owners' testimonials as "believable, honest and authentic" over the next 26 weeks.

The "Drive One" campaign has given Ford a consistent theme after years of changing slogans as often as once a year. But the company still needs to find ways of luring those hard-to-reach import buyers, especially as the economy picks up and auto sales increase.

At the same time, Ford's competitors are re-entering the advertising

game, convinced that the last three months of the year could mark the beginning of a recovery in the auto sector.

Slammed by declining sales and disappearing profits, Toyota Motor Co. is preparing a \$1 billion marketing effort to prime the U.S. market in the fourth quarter. The world's largest auto maker needs to turn around its North American business after acknowledging it expects to

The campaign has given Ford a consistent theme after years.

report a loss in its current fiscal year, which would be its second annual deficit in a row.

The \$1 billion marketing and advertising plan is 30% to 40% more than Toyota typically spends in the quarter.

Ford's recent challenge has been to entice buyers to reconsider the brand, a problem from which Toyota doesn't suffer. But as the industry suffered its worst slump in a quarter century and General Motors Co. and Chrysler Group LLC reorganized in bankruptcy aided by a government cash infusion, Ford's message over the past year has also been tailored to remind Americans the car company shunned a bailout.

In a variety of venues from public speeches to Internet postings, Ford began to preach the message that "Ford is different"—a not-too-subtle jab at its cross-town competitors. More recently, during the cash-

for-clunkers government rebate program, many Ford ads featured the headline, "Why Ford? Why Now?"

But Jim Farley, Ford's global marketing chief, insisted at the Frankfurt motor show last month that the company's "Drive One" slogan remains paramount and isn't disappearing as the unifying theme.

In an effort Ford called "friend to friend," the company early last year loaned autos to people who drove competitors' offerings. After a week, the drivers were allowed to pass the keys to a friend to try the same week-long experience, creating fodder for Ford commercials.

More recently, the Dearborn, Mich., auto maker has provided Ford cars and trucks to school fund raisers, hoping to multiply the power of the test drive experience to several hundred people at each event.

This fall's lighthearted television campaign centers on straight-talking Ford owners who gush about a

particular feature—from in-car ambient lighting offered in different hues to keyless entry devices—that makes them fans of the Blue Oval. The tagline at the end emphasizes the point.

In one, the line is "Ford Flex, wear skinny jeans in one" to highlight one owner who didn't have to keep bulky keys in his tight pockets.

"They weren't told that there was a commercial," said Toby Barlow, chief creative officer, at Team Detroit, Ford's joint venture from WPP's Detroit-based advertising agencies, adding that those selected for the ads granted their permission after the filming.

It was designed to "show the new face of the new owner," Mr. Barlow said. Ford officials downplayed concern by some dealers that ads that don't feature the car or truck have a tendency to be less effective.

According to Ford's internal research, consumers often dismissed

Rum maker wins St. Croix deal

By DAVID KESMODEL

Spirits maker Fortune Brands Inc. reached a tentative agreement with the U.S. Virgin Islands to continue making rum on St. Croix in exchange for marketing and other incentives whose value is projected to exceed \$1 billion over 30 years.

The long-term deal, spearheaded by Virgin Islands Gov. John P. deJongh Jr., includes a pledge by the government to cover the roughly \$100 million cost of both expanding the Cruzan Rum distillery and build-

ing a state-of-the-art wastewater-treatment facility.

Mr. deJongh, a Democrat, hopes to secure a long-term stream of U.S. excise-tax revenue for the Virgin Islands by wooing distillers to produce rum there, ultimately helping to bolster the territory's fragile economy.

In its current fiscal year, the territory faces a projected budget deficit of about \$250 million. The agreement with Fortune Brands still has to be approved by the Virgin Islands senate.

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CORPORATE NEWS

Charges are weighed in hotel feud

Grand jury considers whether Hilton, executives should face criminal counts

BY PETER LATTMAN

A federal grand jury is investigating whether Hilton Worldwide and several of its former executives should face criminal charges for allegedly stealing tens of thousands of pages of confidential documents from rival **Starwood Hotels & Resorts**, according to people familiar with the situation.

The grand jury is part of a six-month-old Justice Department probe into allegations that Hilton, which is owned by private-equity firm **Blackstone Group**, used trade secrets taken by former Starwood executives, who defected to Hilton last year, to develop its own luxury-hotel brand to compete with Starwood's successful W chain.

Federal grand juries in the U.S. review evidence presented by prosecutors to determine whether there is probable cause to return an indictment. At the conclusion of an investigation, prosecutors may decide not to pursue charges.

In the Hilton case, federal prosecutors are considering an aggressive approach, potentially bringing criminal charges against Hilton itself, in addition to possible charges against individuals, people familiar with the matter said. Criminal indictments of a major corporation are relatively rare.

The investigation, which is being handled by the U.S. attorney's office in Manhattan, is expected to reach a conclusion in the next two months, these people said. A spokeswoman for the U.S. attorney's office declined to comment.

A spokeswoman for Hilton, which was until recently known as Hilton Hotels Corp., declined to comment on the specifics of the investigation but said that the company is cooperating fully with the U.S. attorney's office.

Among the subjects of the probe is one of Hilton's top executives, Steven Goldman, said people familiar with the matter. Mr. Goldman, the hotel operator's 48-year-old president of global development and real estate, was placed on leave last month, and isn't expected to return to the company, one of these people said. The reason for his departure isn't known.

Daniel Gittner, a lawyer for Mr. Goldman, said his client did nothing wrong. "Steve Goldman has, and will



Starwood Hotels & Resorts' W hotel in San Diego, shown in February 2008.

continue to have, a sterling reputation," Mr. Gittner said.

Ross Klein and Amar Lalvani, both former Starwood executives who moved to Hilton's luxury-brands group in June 2008, are also subjects of the criminal inquiry, said the people familiar with the matter.

Ronald Nessim, a lawyer for Mr. Klein, said, "We are confident that after the U.S. attorney's office reviews all the evidence, they will conclude that Ross Klein shouldn't be criminally prosecuted."

Christopher Morvillo, a lawyer for Mr. Lalvani, said, "In light of the pending investigation and lawsuit, all I can say at this time is that Amar has an impeccable reputation in the industry and hopes to put this matter behind him as soon as possible."

The investigation comes at a challenging time for Hilton, which runs more than 3,400 hotels in 79 countries. Hilton, like the rest of the hotel industry, is struggling with declining room rates and revenue. The company also labors under a \$20 billion debt load from Blackstone's 2007 buyout.

Prosecutors have exercised particular caution in pursuing criminal charges against major companies since the 2002 indictment of Arthur Andersen LLP. Criminal charges against Arthur Andersen for allegedly destroying evidence in the massive fraud case against Enron Corp. are widely regarded as having led to the big accounting firm's demise. The Supreme Court eventually reversed its conviction on those

charges, but only after the firm was disbanded.

An alternative approach that has become more common in recent years is for prosecutors to seek what is known as a deferred prosecution or nonprosecution agreement. Such an agreement typically requires that a company be supervised by a federally appointed monitor and commit to reforms over a period of years.

The Hilton investigation, which involves the alleged theft of computer files, reflects an area of growing interest to the Justice Department and Federal Bureau of Investigation.

Early this decade, the Justice Department formed Computer Hacking and Intellectual Property units, or CHIP units, at U.S. attorney's offices around the country to combat intellectual-property theft and cyber-crime.

But federal prosecutors often decline to prosecute alleged theft of trade secrets because victims such as Starwood often have suitable remedies in civil court.

Indeed, the Justice Department's criminal investigation grew out of a civil lawsuit Starwood filed against Hilton in April alleging that Messrs. Klein and Lalvani, who both left Starwood in June 2008 to join Hilton, stole more than 100,000 electronic documents in "the clearest imaginable case of corporate espionage."

Before leaving Starwood, Messrs. Klein and Lalvani smuggled thousands of confidential documents via

email and via boxes from Starwood to Hilton, according to Starwood's complaint.

Hilton has said the lawsuit is without merit.

Starwood said in its complaint that Messrs. Klein and Lalvani stole, among other documents, its "brand in a box"—essentially the blueprints for launching a new luxury hotel brand. The lawsuit also alleges the two men stole demographic studies and lists of hotel projects that were in Starwood's development pipeline around the world.

Although he wasn't named as a defendant in the civil suit, Mr. Goldman played an active role in bringing Mr. Lalvani to Hilton, according to the complaint.

"Worst thing that happens," Mr. Goldman allegedly wrote to Mr. Lalvani in an email, "is they find out you are talking to me and pay you a load of money to stay and you owe me drinks for life."

The Starwood lawsuit halted the development of Hilton's Denizen brand, the company's answer to the W chain and its first entry into the boutique-hotel category. Today, Starwood operates roughly 30 W hotels.

Since the imbroglio began, Hilton has fired, or placed on leave, about 30 members of its luxury-brands group, many of them former Starwood employees, according to people familiar with the situation.

Legal experts also say that if prosecutors bring charges against any of the executives, the case would test the boundaries of U.S. criminal law in the trade-secrets area.

The men could be charged under the Economic Espionage Act, a 1996 federal law that specifically makes theft of trade secrets a felony, according to people familiar with the matter. Another law, the Computer Fraud and Abuse Act, which makes it a crime to steal data from company computers, could also apply in this case.

Earlier this year a former Goldman Sachs Group Inc. computer programmer was charged with stealing codes related to a high-speed trading program that he had helped to develop. In 2007, two former Coca-Cola Co. employees were sentenced to prison for conspiring to steal and sell trade secrets to rival PepsiCo Inc.

GLOBAL BUSINESS BRIEFS

Daimler AG

Financial-services venture launched with Mideast firms

German auto maker **Daimler AG** plans to establish a financial services joint-venture in the Middle East with Al Fahim Group and Garqash Enterprises as part of its expansion plans, according to a company document viewed by Dow Jones Newswires. The joint-venture will have its headquarters in Dubai and offer loans and leasing packages for new and preowned passenger cars and commercial vehicles, including a shariat-compliant Islamic finance product. Daimler, the maker of Mercedes Benz luxury cars, is targeting a contract volume of €300 million, or about \$450 million, in the midterm. In March, Abu Dhabi-based Aabar Investments became the largest single shareholder of the car maker by acquiring a 9.1% stake in a deal worth €1.95 billion. Both companies at the time announced plans to launch joint Mideast projects.

BMW

BMW AG, the world's largest luxury-car maker by sales, said monthly sales increased year-over-year for the first time this year in September, due to its compact Mini brand, and said sales in the fourth quarter should also be above last year's level. "Provided there are no economic setbacks, we should continue to make gains throughout the remaining months of the year, not least thanks to the new BMW models X1 and 5 Series Gran Turismo, which will join our model range in late October," BMW executive board member Ian Robertson said. The Munich-based company sold 122,354 BMW, Mini and Rolls-Royce cars, up 0.7%. The rise was fueled by 9.5% growth at Mini to 24,759 vehicles, behind the Mini Cabrio and One.

Anheuser-Busch InBev

Anheuser-Busch InBev said it will sell its theme-parks business to private-equity firm Blackstone Group LP for as much as \$2.7 billion. The deal will help Anheuser-Busch InBev pay down \$45 billion in debt it took on to buy Anheuser-Busch last year. It has been rumored that Anheuser-Busch InBev wanted to sell the theme parks but had held off because the collapse of credit markets made buyers unable to raise financing. The Belgian brewer will receive \$2.3 billion in cash and the right to participate in the first \$400 million of Blackstone's return on investment. The business, Busch Entertainment Corp., operates 10 entertainment parks in the U.S.

Monsanto Co.

The head of **Monsanto Co.** said next year will be "critical" as the company lines up new seed products to counter lower earnings from its crop-protection business. **Hugh Grant**, chairman and chief executive of the world's largest seed producer by revenue, said the rollout of high-tech corn and soybean seeds and international expansion will provide "the slingshot" for Monsanto's to reach medium-term growth targets. The strategy hinges on persuading farmers to buy the more expensive new offerings as global agricultural profits are under pressure from declining global commodity prices. The company Wednesday reported a loss of \$284 million, or 43 cents a share, for the quarter ended Aug. 31.

GM falls short on some goals, CEO says in update

BY SHARON TERLEP

DETROIT—General Motors Co. is falling short on several significant goals it plans to meet by year's end, including worker reductions and the sale of failing brands, Chief Executive Frederick "Fritz" Henderson told reporters and analysts.

Mr. Henderson on Wednesday outlined progress made by GM in the 90 days since it emerged from bankruptcy protection. He also announced that Mark LaNeve, GM's sales chief and longtime executive, is leaving for a job at an unidentified company. Mr. LaNeve headed sales and marketing until Mr. Henderson restructured the management team and put former product head Bob Lutz in charge of marketing.

Mr. Henderson said GM is on track to meet cash flow and cost-re-

duction targets, though he didn't elaborate. GM will release financial results for the third quarter in the middle of November, he said. Also on schedule are plans to shrink GM's U.S. dealership network.

Mr. Henderson said GM also is succeeding at changing a culture long criticized for being slow to adapt and averse to new ideas.

The company has reduced North American production to what Mr. Henderson said is an acceptable level. GM's global market share rose slightly in the third quarter to 11.9% compared to 11.6% the first half of this year, he said, though the figure is still below last year's.

However, GM has about 10,000 more U.S. workers than it planned to have by the end of 2009 after buyout programs for hourly and salaried programs fell short. GM aims to

have 64,000 workers and isn't as far along toward that goal as it expected by this point.

GM also missed a Sept. 30 goal of finalizing a deal to sell the Hummer truck brand to a Chinese manufacturer. And a plan to sell Saturn to **Penske Automotive Group** fell through after Penske failed to find a company to build the vehicles once GM stops making them, though Mr. Henderson said the development won't hurt GM's restructuring.

GM also is racing to complete the sale of a majority stake in its Opel European unit to a consortium led by Canadian car-parts maker **Magna International Inc.** Mr. Henderson said Magna and GM remain in concessionary talks with European labor groups.

Meantime, the company's sales have suffered amid a global sales

slump, and GM lost two percentage points of market share in the critical U.S. market. Mr. Henderson said GM's market share remains slightly ahead of the conservative estimates the company made early this year when laying out its restructuring.

"We are knocking some of these things off and staying focused on getting the rest of these matters behind us before the end of the year," Mr. Henderson said. "We are quite confident we will come out of this with a competitive cost structure."

Mr. Henderson faces intense pressure from GM's new chairman and the U.S. government—the company's new majority owner—to stem the sales slide and improve GM's financial performance. The move to publicize its restructuring efforts contrasts with the more buttoned-up strategy of Chrysler Group LLC..

ECONOMY & POLITICS

U.S. wants Iran to free detainees

Families are also pressing for release of foreign nationals amid talks on nuclear program

By FARNAZ FASSIHI

The United States is asking that Iran immediately release two jailed foreign nationals even as it pursues talks over Tehran's nuclear program, according to people familiar with the negotiations.

Families, colleagues and friends of the detainees have collected petitions signed by prominent figures and written letters to public officials as part of their far-reaching efforts to win the release of American-Iranian scholar Kian Tajbakhsh and Canadian-Iranian Newsweek journalist Maziar Bahari, who have been held captive by Iran for nearly three months.

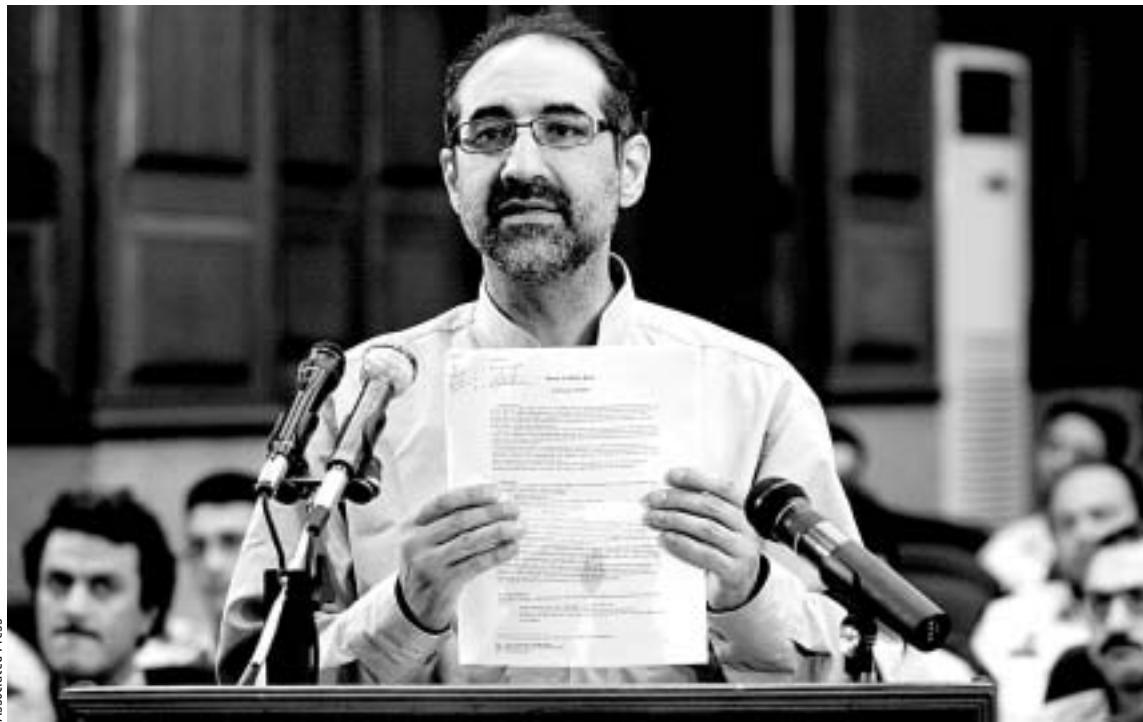
The State Department says it pressed Iran on its human-rights record when representatives of the two countries sat at the negotiating table to discuss Iran's nuclear program in Geneva last week. So far, Iran hasn't taken any action.

The U.S. didn't make the release of Mr. Tajbakhsh, 47, and Mr. Bahari, 42, a condition for further negotiations on the nuclear matter. The U.S. used the opportunity of the face-to-face high-level meeting with Iran to appeal for their release on humanitarian grounds and as a measure of good will, according to the people.

Supporters of the two men hope the backdrop of the talks will aid their cause. "If Iran is trying to build trust with the rest of the world one good way to do it would be to release people like Maziar and Kian," says Newsweek's foreign editor Nisid Hajari.

The two men are the only foreign nationals arrested in relation to the recent unrest surrounding controversial presidential elections in June. Neither has a political affiliation in Iran.

Three young Americans have been detained since the end of July by Iran for illegally crossing the Iranian border during a hike in the Kurdish areas of northern Iraq. Iran allowed a representative of the Swiss



Iranian-American Kian Tajbakhsh appears during an August trial in Tehran, in a photo released by Iranian news agency ILNA.

Embassy to meet with the hikers last week.

Mr. Tajbakhsh and Mr. Bahari were arrested soon after the elections, on different days but under similar circumstances. Intelligence officials raided their homes in the middle of the night, confiscated their computers, documents and passports. The two men were taken to the notorious Evin prison, to the ward controlled by the intelligence unit of the Revolutionary Guards. They have had no access to legal counsel, and haven't been charged or sentenced, according to their families.

Prisoners who have been released on bail recently from the same ward say they were blindfolded most of the day, beaten, psychologically tortured and interrogated for up to 12 hours at a time, often in the middle of the night.

Mr. Tajbakhsh and Mr. Bahari looked visibly thinner and haggard when they appeared in televised mass trials in August next to prominent opposition figures. Each delivered a confession detailing how, in their respective roles as academic and journalist, they had unwittingly participated in a plot by the West for a so-called soft revolution against Iran's regime.

The court appearance was the first time their families had seen them since the arrests. Families and colleagues dismiss the confessions and say they were coerced.

Mr. Tajbakhsh's 2-year-old daughter, Hasti, ran to the television and kissed the screen as it showed him mumbling his confession, and his wife sobbed, according to family members. Mr. Tajbakhsh and his family were planning to move this fall

from Tehran to New York, where he was scheduled to start teaching at Columbia University.

In London, Mr. Bahari's wife, Paola Gourley, is eight months pregnant with the couple's first child. She says her husband's hollow eyes in court shocked her.

"Understanding the reality of where he is and what he is going through was heart breaking," says Ms. Gourley, a British lawyer. Since his court appearance, she says she has suffered serious pregnancy complications threatening her life and the baby's and has been hospitalized twice. She says doctors tell her the problems are related to too much stress.

Mr. Bahari and Mr. Tajbakhsh have recently been allowed occasional brief phone calls and visits with their families supervised by a prison guard.

Japan consumers are more upbeat about economy

By TOMOYUKI TACHIKAWA

TOKYO—Consumer sentiment toward Japan's economy improved for the second straight quarter, a Bank of Japan survey showed, suggesting households are starting to feel the benefits of a pickup in corporate performance.

But fears about worsening employment conditions grew, the central bank's quarterly survey showed. That could prompt consumers to hold their purse strings tightly, possibly chipping off a nascent economic recovery.

The BOJ's consumer sentiment diffusion index was minus 72.3 in September, up from minus 81.4 in June. The index subtracts the number of consumers who say economic conditions are worse than a year ago from the number who say conditions are better.

Last month, 14.9% of respondents said they expect the economy to improve a year down the road, compared with 13.9% in June.

The results indicate consumers have started to believe the worst is over for the country's economy, and are less pessimistic about the outlook, as exports and industrial production bounced back from sharp losses triggered by the global financial crisis.

The BOJ's September *tankan* survey, released Oct. 1, also showed that sentiment among big manufacturers improved for the second straight quarter. The headline diffusion index rose to minus 33 in September, from minus 48 in the June survey.

However, 43.7% of consumers said in September they were greatly concerned about their employment conditions in the year ahead. This was up from 41.9% in the previous quarter. Reflecting such worries, 59.4% told the BOJ they will spend less over the next year, compared with 59.2% in June.

Japan's jobless rate fell to 5.5% in August from 5.7% in July. But some analysts think unemployment may reverse course and reach 6% toward the end of 2009, as pessimistic company managers reduce staff further.

Why the word 'reunification' was verboten in Washington

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*.

At the end of weekend celebrations marking East Germany's 40th anniversary, security forces in East Berlin stormed a candlelight march by more than 1,000 people calling for political changes. Demonstrations were reported in five other East German cities, and the protests were considered the largest since a workers' uprising was put down by the Soviets in 1953.

East and West As the Berlin Wall Fell

Meanwhile, Hungary's Communist Party had voted to disband and recreate itself as a party of social democrats in an attempt to survive multiparty elections with a shred of its once-absolute power. The move made Hungary the first Soviet bloc nation to dissolve its ruling Communist Party.

The delicate issue of German reunification was returning to the halls of Washington, according to

one *Journal* article. "U.S. officials are convinced that the Soviets are far from ready to see a rebirth of the Greater Germany that invaded the U.S.S.R. less than 50 years ago," the *Journal* wrote. Visiting West German officials tried to reassure the first Bush administration that reunification wouldn't mean the return to a nationalist German superstate.

While the U.S. had formally pledged to support German reunification—as long as it happened democratically—the *Journal* reports that officials actually were "profoundly uneasy with the idea." An aide to then-U.S. Secretary of State James Baker told the *Journal* that the very word "reunification" was shunned inside the administration because it connoted a return to Germany's dark past.

"I prefer to speak of it in terms of normalization of relations between the two Germanys on the basis of Western values," Mr. Baker told the Senate Foreign Relations Committee. "In other words, even in a Europe where 'Western values' prevail, there would still be two Germanys," the *Journal* wrote.



At left, U.S. servicemen patrol at the Berlin Wall. At right, a *Wall Street Journal* article from Oct. 9, 1989.

Delicate Topic of German Reunification Is Gaining Visibility as an Issue for U.S.

FOREIGN INSIGHT

By WALTER S. MURPHY

Staff Writer of *The Wall Street Journal*

WASHINGTON—As consensus Europe has begun crumbling, the delicate issue of German reunification has made its way back into U.S.-German relations—initially, like an unwelcome lost relative.

Over the past six months, visiting West German leaders have paraded through Washington, each going out of his way to reassure the administration and U.S. reporters that eventual reunification wouldn't mean a return to the type of nationalist German superstate that ignited two world wars. They insist that, in the new climate of European unity, it would be safe to have one Germany again.

Now, after the stampede of East Germans fleeing westward, senior State Department officials also see Germany's future as an issue demanding more attention. They have begun an informal review of U.S. policy on the subject. "It's not going to happen tomorrow," explains one, "but we may have to respond to it sooner than we ever thought."

Nobody involved in these conversations believes the two Germanys will be rejoined any time soon. U.S. officials are convinced that the Soviets are far from ready to see a rebirth of the Greater Germany that invaded the U.S.S.R. less than 50 years ago. And these officials are sure that similar doubts exist in Britain, France and Poland, which also were the victims of past German aggression.

Western values." In other words, even in a Europe where "Western values" prevail, there still would be two Germanys.

One Baker aide says that the very word "reunification" is being shunned inside the administration because it connotes a return to Germany's dark past. "When we discuss a single Germany, we'd rather talk about unification, to create something new, not reunification," he says. And, in the new climate of U.S.-Soviet unity, nobody wants to irritate Moscow by embracing an idea many doubt is sound anyway.

West German officials are painfully aware that the idea is still unpalatable to non-Germans. So, in private meetings with officials and "deep background" conversations with reporters, they've been rolling out an argument they hope is comforting. A larger, united Germany, they say, couldn't be a nationalist dictatorship because it would retain West Germany's current federal system. In that system, they note, power is divided among federal bodies and states, with checks and balances that would thwart a new would-be Hitler.

Walter's point, they insist, is a reunited Germany wouldn't be free to throw its weight around in Europe. It would be politically and economically integrated with the European Community, they argue, and the EC governing bodies would keep it in check.

West German President Richard von Weizsäcker told a U.S. audience recently, "I'm quite aware of many misgivings in the connection with German unification, if you look back in history. But ... I would simply invite everybody not to underestimate, if I may say so, our own intelli-

ECONOMY & POLITICS

Nobel for antibiotics tool

Trio win chemistry prize for work that has led to cures for diseases

ASSOCIATED PRESS

STOCKHOLM—Americans Venkatraman Ramakrishnan and Thomas Steitz and Israeli Ada Yonath on Wednesday won the 2009 Nobel Prize in chemistry for the atom-by-atom mapping of protein-making factories within cells.

The Royal Swedish Academy of Sciences said their work on ribosomes has been fundamental to the scientific understanding of life and has helped researchers develop antibiotic cures for various diseases.

This year's three laureates all generated three-dimensional models that show how different antibiotics bind to ribosomes. "These models are now used by scientists in order to develop new antibiotics, directly assisting the saving of lives and decreasing humanity's suffering," the academy said.

The researchers used a method called X-ray crystallography to pinpoint the positions of the hundreds of thousands of atoms that make up the ribosome. "This knowledge can be put to a practical and immediate use; many of today's antibiotics cure various diseases by blocking the function of bacterial ribosomes," the Nobel citation said. "Without functional ribosomes, bacteria cannot survive. This is why ribosomes are such an important target for new antibiotics."

The scientists' work builds on Charles Darwin's theory of evolu-



Chemistry Nobel Prize winners, from left: Venkatraman Ramakrishnan, Thomas Steitz and Ada Yonath.

tion and, more directly, on the work done by James Watson, Francis Crick and Maurice Wilkins, who won the 1962 Nobel Prize in medicine for mapping DNA's double helix, the citation said.

In 2006, Roger D. Kornberg won the Nobel Prize in chemistry for X-ray structures that showed how information is copied to messenger RNA molecules, which carry information from DNA to the ribosomes.

"Now, one of the last pieces of the puzzles has been added—understanding how proteins are made," said Prof. Gunnar von Heijne of the Swedish Academy of Sciences, the

chairman of the Nobel committee for chemistry.

The Indian-born Mr. Ramakrishnan, 57 years old, is the senior scientist and group leader at the Structural Studies Division of the MRC Laboratory of Molecular Biology in Cambridge, England. Mr. Steitz, a 69-year-old born in Milwaukee, is a professor of molecular biophysics and biochemistry at Yale University and attached to the Howard Hughes Medical Institute, both in New Haven, Conn. Ms. Yonath, 70, is a professor of structural biology at the Weizmann Institute of Science in Rehovot, Israel.

Polish premier dismisses several cabinet members

BY MAREK STRZELECKI AND MALGORZATA HALABA

WARSAW—Polish Prime Minister Donald Tusk shuffled his cabinet Wednesday in an effort to minimize the consequences of an alleged corruption scandal involving ruling-party officials.

Mr. Tusk dismissed Deputy Prime Minister Grzegorz Schetyna, Justice Minister Andrzej Czuma and Deputy Economy Minister Adam Szejnfeld and started a process necessary to dismiss the head of the anticorruption office.

The shuffle follows a scandal that allegedly involved the sports minister and the head of the ruling Civic Platform party's parliamentary club, both of whom resigned earlier.

Mr. Tusk acknowledged that how he handles the allegations is the first serious political test for his coalition cabinet, formed two years ago. "Public trust has been the foundation of my cabinet from the start and it has been crucial when we saw [the] first signs of the global crisis," Mr. Tusk said. "Recent events have raised justified doubts among Poles

and as result trust in the government has faced a test."

Poland will hold a presidential election next year and a general election in 2011. Mr. Tusk will be running for president, and is now considered a favorite. A presidential win would enable Mr. Tusk's Civic Platform to proceed with much-needed structural reforms, analysts say.

"Tusk and his party are clearly the markets' favorites and any indication that Tusk's or [Civic Platform's] likelihood of success in the coming elections has been affected should be negative for Polish assets and the zloty," Bank Nordea wrote in research note Wednesday.

Mr. Szejnfeld on Monday said he had been involved in drafting gambling legislation that was allegedly the subject of illegal lobbying by Civic Platform politicians at the request of a businessman who owned gambling outlets. Mr. Szejnfeld stressed that his role was transparent and reduced to the usual process of preparing ministerial opinions on drafted laws.

A spokesman for Mr. Czuma declined to comment. Mr. Schetyna's press office wasn't available.



Syrian President Bashar Assad, right, welcomes Saudi King Abdullah al-Saud at the presidential palace in Damascus on Wednesday.

Saudi king's visit to Syria sets stage for cooperation

BY JULIEN BARNES-DACEY

DAMASCUS—Saudi King Abdullah al-Saud started a two-day visit to Syria Wednesday, marking a thaw in relations between the two Arab powers and setting the stage for cooperation on regional issues from Lebanon to the Palestinian territories.

Authorities in Damascus welcomed King Abdullah in extravagant fashion, adorning the capital's streets with Saudi flags. Syrian President Bashar Assad hosted a state banquet, and the two leaders awarded each other their respective states' highest honors.

The visit is King Abdullah's first to Syria since he ascended the throne in 2005, and it goes some way in healing a four-year rift between the two countries. Relations soured after Saudi Arabia accused Syria of complicity in the 2005 assassination of former Lebanese Prime Minister Rafik Hariri, who was close to the Saudi monarchy. Syria has always denied the allegation.

Political stalemates in Lebanon

and the Palestinian territories were expected to dominate meetings between Saudi and Syrian officials during the visit. Both countries exert influence on opposing sides of those standoffs. Analysts also expected King Abdullah to press Mr. Assad to loosen his country's ties with Iran.

King Abdullah and Mr. Assad held brief talks Wednesday, which Syrian officials described as "positive and constructive," according to Buthaina Shaaban, political and media adviser to the Syrian president.

"Syrian-Saudi relations are headed toward excellent progress," state media quoted her saying.

The king is accompanied by a significant delegation of Saudi government officials, who are expected to discuss political and economic cooperation with their Syrian counterparts. Among the delegation were the ministers of finance and foreign affairs, as well as the head of Saudi intelligence. The two sides signed a tax-cooperation agreement Wednesday, according to the Syrian state news agency SANA.

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