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In Europe, there's more beer, less wine, few regrets
WEEKEND JOURNAL | PAGES W6-W9

What's News—

Business & Finance

Credit Suisse will cut 11% of its work force, or about 5,300 workers, after it said it incurred a loss of $2.48 billion in two months. Two-thirds of the job cuts will come from its investment bank, reflecting how financial firms are retreating from complex bets and piling into safer businesses. Shares rose 10%. Page 1

■ **U.S. auto executives agreed** to work under a federal oversight board on condition of receiving government aid. Page 6

■ **U.K. new-car registrations had** their worst monthly performance in 28 years in November, turning in a decline of 37%. Page 6

■ **Nokia cut** its forecast for handset sales for the second time in three weeks and plans to trim costs in 2009 and 2010. Page 4

■ **AT&T said** it will cut 12,000 jobs and reduce new-equipment spending next year because of economic weakness. Page 4

■ **France unveiled** a $33 billion package aimed at jump-starting its lackluster economy. Page 3

■ **U.S. stocks fell** as oil prices declined and recession fears grew. European shares eased after interest-rate cuts. Page 20

■ **U.S. retailers reported** some of the weakest sales in years last month. Wal-Mart again bucked the trend. Page 7

■ **Philips issued** a profit warning, citing worsening markets for construction, consumer goods and automotive products. Page 7

■ **DuPont trimmed** its outlook and unveiled a restructuring that includes job cuts, in another bad sign for chemical firms. Page 7

■ **William Morrison posted** better-than-expected sales after taking market share from bigger grocery chains. Page 8

■ **Carlyle Group** is cutting 10% of its staff, the first layoffs in the firm's history, and shutting an office as private equity braces for leaner times. Page 22

■ **AMD followed** in Intel's footsteps by cutting its fourth-quarter sales expectation. Page 8

Markets 3 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8447.29	-144.40	-1.68
Nasdaq	1463.73	-28.65	-1.92
DJ Stoxx 600	197.40	-0.89	-0.45
FTSE 100	4163.61	-6.35	-0.15
DAX	4564.23	-3.01	-0.07
CAC 40	3161.16	-5.49	-0.17
Euro	$1.2734	+0.0051	+0.40
Nymex crude	$43.67	-3.12	-6.67

Money & Investing > Page 19

World-Wide

European central banks slashed interest rates to help stave off an accelerating global slowdown, but market turmoil and a haphazard fiscal response make the moves unlikely to keep Europe from suffering a deep recession. The ECB's 0.75-percentage-point cut was its largest; a U.K. cut to 2% put its bank rate lower than ever. Sweden also cut its rate to 2%. Pages 1, 9

■ **Rice said Zardari** assured her that Pakistan will go after anyone connected to the attacks in India, as the U.S. walked a delicate line between the two nuclear-armed rivals. Page 13

■ **Russia's Putin cast himself** as a father-of-the-nation figure in a lively televised phone-in, but he ruled out a return to the Kremlin before 2012. Page 2

■ **Iraq's presidential council** approved a security pact that sets out a three-year timeframe for U.S. troops to leave the country, the deal's final legal hurdle.

■ **A top EU court ruled** for the third time that member nations must take an Iranian opposition group off the bloc's list of terror organizations. Page 13

■ **Russia hopes to increase** its nuclear-power presence in India and gain ground against Western suppliers with plans to sign a deal this week, during a state visit by Medvedev. Page 3

■ **A prominent rights group** in Russia said six masked men raided its St. Petersburg office.

■ **Canada's prime minister** was granted a request to shut Parliament for over a month, allowing him to delay a vote that could bring down his government.

■ **Chinese officials kicked off** economic talks by urging the U.S. to stabilize its economy and expressing concern about Beijing's investments in the U.S. Page 24

■ **Israeli forces** stormed a house in Hebron, dragging out settlers who had barricaded themselves inside, as violence spread to other parts of the West Bank.

■ **Zimbabwe declared** a national emergency as it battled to halt a cholera outbreak.

■ **Europe's top rights court** struck down a law that allows Britain to store DNA from people with no criminal record.

EDITORIAL & OPINION

The "dovish" ECB
We must be in an economic crisis if even a 75-basis-point cut doesn't impress. Page 14

Europe's central banks deliver sweeping rate cuts

Reductions may lose impact as turmoil in markets persists

By Joellen Perry in Brussels and Marcus Walker in Berlin

European central banks slashed key interest rates Thursday to help stave off an accelerating global slowdown, but market turmoil and a haphazard fiscal response make the moves unlikely to keep Europe from suffering a deep, painful recession.

The European Central Bank, which sets interest rates for the 15-nation euro zone, cut its key rate by three-quarters of a percentage point to 2.5%. The move, designed to prop up growth across the struggling $12.2 trillion economy—the world's second-largest after the U.S.—was the biggest one-day rate move in the bank's nearly 10-year history. It brought the total of the bank's cuts to an unprecedented 1.75 percentage points in two months.

The Bank of England cut its key rate by a full percentage point to 2%, as a credit clampdown pushes the fragile U.K. economy deeper into downturn. The move followed a stunning 1.5 percentage-points cut last month and took the bank's key rate to its lowest since the bank's founding in 1694. Sweden's central bank also cut its rate by 1.75 percentage points to 2%, the biggest fall since 1992.

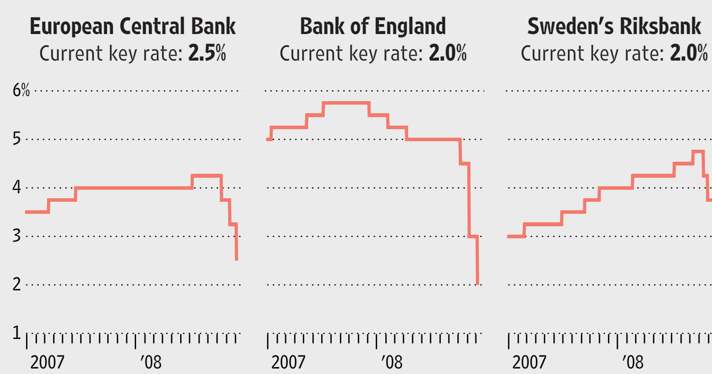
The dramatic central-bank moves come on the heels of recent calls from the European Union for the bloc's 27 members to contribute to a stimulus plan totaling around €200 billion ($254.24 billion). As European governments struggle to come up with a convincing, coordinated fiscal effort, the aim is to get an agreement at an EU summit on Dec. 11-12.

Economists say a combination of

Please turn to page 31

Down, down, down

European central banks delivered sweeping interest-rate cuts Thursday, hoping to stave off deep and painful slowdowns amid financial-market turmoil.



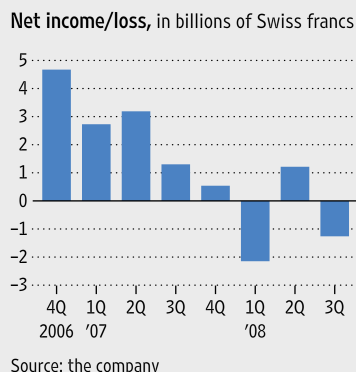
Sources: European Central Bank; Bank of England; Bank of Sweden

Trichet's travails
The ECB president has navigated uniquely European obstacles 9

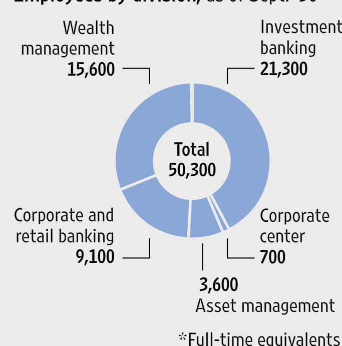
Cost cutting

Credit Suisse plans to trim 11% of its global work force in a bid to save two billion Swiss francs a year.

Net income/loss, in billions of Swiss francs



Employees by division, as of Sept. 30*



Source: the company

*Full-time equivalents

Credit Suisse plans to cut 5,300 jobs, posts big loss

BY CARRICK MOLLENKAMP

Credit Suisse Group lost three billion Swiss francs ($2.48 billion) in two months and said it plans to fire 5,300 employees, stark signals that investment banks will be retreating from complex bets and piling into safer businesses as the fourth quarter is proving brutal.

Credit Suisse's decision to cut 11% of its work force will save two billion francs in annual costs and further increases the ranks of the unemployed in the financial sector.

Two-thirds of the job cuts, or about 3,500 jobs, will be made at Credit Suisse's investment bank. The reductions will be completed by the first half of next year, the bank said.

After a horrid year, banks are jettisoning businesses that sold and traded complex credit securities. Banks like Credit Suisse also are cutting back on in-house, or proprietary, trading strategies that are sparking losses, and hoping they can make money on high-volume, less risky areas such as stocks, computerized trading, interest rates and currencies as well as advising on deals.

With banks focusing on different businesses post-credit crunch, in-

Please turn to page 30

Oil prices fall and may slide further still

By Ann Davis, Carolyn Cui and Ben Casselman

Oil markets, already in free fall, are facing a combination of pressures that could push prices per barrel much lower still in coming months.

Crude fell $3.12, or 6.7%, Thursday to settle at $43.67 a barrel on the New York Mercantile Exchange. Many oil-industry insiders and the trading community now expect prices to slump much lower, into the $30s, before supply cuts push prices back up, perhaps much later into next year. That is thanks to a combustible mix of factors—including an unusually dramatic market condition that is causing inventories to rise, big shifts in the quality of oil that refineries can use next year and severely deteriorating demand.

Lower oil prices are a short-term gain to consumers and businesses, from carpooling parents to households using heating oil to airline companies. But a sustained decline in the price of oil also has painful downsides. Energy-driven economies—in areas from Texas, Colorado and Alaska to Venezuela, Iran and Russia—can face huge busts, with job losses affecting employment for engineers and roughnecks on rigs as well as the accountants, hotels and restaurants

Please turn to page 31

THE WALL STREET JOURNAL.

Russia sends warning signals to Ukraine on gas

ASSOCIATED PRESS

MOSCOW—Prime Minister Vladimir Putin warned Kiev on Thursday that Russia will reduce gas supplies to Ukraine if it tries to siphon Russian gas intended for European consumers.

The warning, which comes amid difficult talks on a price for Russian gas supplies to Ukraine, will likely stoke fears in European nations. When Moscow cut gas to Ukraine in January 2006, amid a similar pricing dispute, Russian gas shipments to Europe dropped.

"We are proceeding from the assumption that we won't have any problems with transit of gas to Western Europe," Mr. Putin said during a question-and-answer session televised nationwide. "But if our partners don't fulfill the agreements, or try to siphon gas from the transit pipelines as they did in past years, we will be forced to reduce supplies. What else can we do?"

Most of the gas Russia supplies to Europe goes through Ukraine. Russia accused Ukraine of diverting transit gas during a 2006 supply cutoff. In another supply dispute in March, Ukrainian officials held out the possibility of siphoning off Europe-bound gas if necessary.

Mr. Putin's words contrasted with previous statements from both Russian and Ukrainian officials who said they hope the gas dispute won't lead to a disruption of supplies to Ukraine or European consumers, as was the case in 2006.

Mr. Putin said that Russian state gas monopoly OAO **Gazprom** has to raise the price Ukraine pays of $179.50 per 1,000 cubic meters, which is half of the price Gazprom charges its customers in Europe. Mr. Putin didn't say how much Russia wants to charge, but Gazprom officials have suggested that the price for Ukraine could top $400 next year.

Putin moves to reassure Russians

Premier's speech soothes amid concern about economic crisis

BY ANDREW OSBORN

MOSCOW—Prime Minister Vladimir Putin cast himself as a troubleshooting father-of-the-nation figure in a lively televised question-and-answer session, an exercise that was a hallmark of his presidency. But he ruled out a return to the Kremlin before 2012, scotching speculation that his successor, Dmitry Medvedev, is a temporary fixture.

Mr. Putin reveled in the state-media limelight, joking, comforting the newly unemployed, and promising a new dress to a little girl who phoned in. The performance confirmed his role as Russia's pre-eminent politician, and appeared designed to calm poorer Russians spooked by the financial crisis, which has begun to hit the real economy, analysts said.

"This was about consolidating the nation and being a crisis manager," said Igor Bunin, director of the Moscow-based Center for Political Technologies.

A sudden move to amend the constitution and extend the presidential term for future leaders to six years from four has fueled speculation that Mr. Putin, who as prime minister now is technically junior to Mr. Medvedev, wants his old job back. But on Thursday, Mr. Putin dismissed that idea in the short term.

"The next election is in 2012," he said. "We will have to get through to that time, then we will see."

Agence France-Presse/Novosti

Prime Minister Vladimir Putin's performance during the three-hour phone-in broadcast confirmed his role as Russia's foremost politician.

Mr. Putin called his political partnership with Mr. Medvedev, his handpicked successor, "very effective." His own role, as premier and leader of the ruling United Russia party, allowed him to get legislation through parliament rapidly, a boon at a time of crisis, he added.

During the phone-in, which lasted three hours and was broadcast live on state TV and radio, Mr. Putin mentioned Mr. Medvedev only once. His own performance topped evening news bulletins. In contrast, Mr. Medvedev, who is on a visit to India, got much sparser coverage. Earlier this week, a keynote speech by Mr. Medvedev wasn't even carried live on state TV, which typically has blanket coverage of such events.

Supporters said Mr. Putin spoke as national leader, and that his remit is much broader than that of a normal Russian prime minister.

"Defense and foreign policy are technically the responsibility of the president," said Sergei Markov, a pro-Kremlin lawmaker. "But Mr. Putin said a lot on both." Mr. Putin said he hoped strained U.S.-Russia relations would improve with Barack Obama, and critiqued neighboring Ukraine for overdue gas payments.

Though the session appeared to be carefully stage-managed, there was no obvious attempt to paper over the financial crisis, which state media had previously played down.

The first person to call said he had a young family and that he was jobless. "What are we supposed to do?" he asked. A somber Mr. Putin was unfazed—by that and similar questions. "We have good chance to get through this difficult period with minimal losses," he said.

Mr. Putin detailed government measures to help. "Everything will be fulfilled," he said of promises to increase welfare checks. Russia's gold and foreign-currency reserves, the world's third largest, would ensure "a soft landing," he added, pledging they would be spent "carefully." He stressed, though, that the crisis was a global phenomenon that had started in the U.S.

He didn't pretend it would be short-lived, saying most experts thought a recovery would only happen in spring 2010. Gleb Pavlovsky, a political analyst, said Mr. Putin was reaching out to low-income Russians, an audience he said the prime minister connects with better than Mr. Medvedev. "People needed this [the crisis] explained to them," he said.

The mood was heavier than during previous phone-ins. Afterward, one journalist asked if he planed to resign. "There is no such need yet," Mr. Putin answered. "Running away from problems has never been my style."

—Daria Solovieva contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Simonetta Di Pippo is director of human spaceflight at the European Space Agency. Her name was misspelled in a Technology Journal article Thursday about Cupola, a window for the International Space Station.

INDEX TO BUSINESSES

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

Adobe Systems 20
Advanced Micro Devices.....8
Aer Lingus 8
Alcatel-Lucent 4
Alfa Group 8
Allianz SE 8
Amazon.com 20
A.P. Moller-Maersk............8
Apple 4
Areva 8
AT&T 4,20
Bain Capital 24
Balfour Beatty Group 8
Bank of America 19
Bharat Heavy Electricals .24
BHP Billiton......................21
BJ's Wholesale Club 7
Blackstone Group.............19
Blue Star 19
BNP Paribas 19
Boskalis Westminster 8
California Public Employees' Retirement System 25
Capital One Financial 20
Carlyle Group....................22
Chevron 20
China Life Insurance.........24
Chrysler 6
Chugai Pharmaceutical 7
Citadel Investment 25
Citigroup 20,30
Co-operative Group 8
Commerzbank.....................8
Costco Wholesale 7
Credit Suisse Group..1,20,25
Daiwa Securities Group ...30
Daiwa Securities SMBC....30
D.E. Shaw Group..............19
Deutsche Bank 19,30
Drawbridge Global Macro Fund 25
Dresdner Bank....................8
DuPont 7
Earth Capital Partners 23
Exxon Mobil...................4,20
Fimalac 22
Ford Motor 6
Fortress Investment Group 25
Gap 7
Gazprom 2
General Motors 6,20
Goldman Sachs Group 30
Guggenheim Partners 25
HDFC Bank 24
Hellman & Friedman 24
Honda Motor 6
ICICI Bank 24
Industrial & Commercial Bank of China 24
Intel 8
Jaiprakash Associates 24
John Buck 25
J.P. Morgan Chase 25
Kohlberg Kravis Roberts ..19
Larsen & Toubro...............24
Lee Enhanced Offshore Fund 19
Lee Equity Partners 19
Lehman Brothers Holdings 24
Macy's 20
Mattel 29
McGraw-Hill 22
Merck & Co.........................8
Merrill Lynch 19
MGA Entertainment 29
Microsoft 12
Moody's.............................22
Mubadala Development....25
Nippon Mining Holdings 4,24
Nippon Oil......................4,24
Nissan Motor 6
Nokia 4,20
Nomura Holdings 22
Nordstrom 20
Nortel Networks 4
Nuclear Power Corporation of India 3
Oregon Investment Council 25
Panasonic..........................30
Philips Electronics 7
Reliance Industries 24
Renault 6
Research In Motion 4
Rio Tinto......................21,24
Roche Holding 7,20
Rolls Royce Group 8
Rosatom 3
Ryanair Holdings 8
SAC Capital Advisors........19
Sanyo Electric 30
Siemens 4,8
Smit Internationale 8
State Bank of India 24
Sumitomo Mitsui Banking 30
Telenor ASA 8
Tellabs.................................4
Tesco PLC 8
Thomas H. Lee Capital Management 19
Toyota Motor 6
UBS 20,30
Viacom 20
Vodafone Group 4
Volkswagen 6
Wal-Mart Stores 7,20
William Morrison Supermarkets 8

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INDEX TO PEOPLE

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

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

Albanese, Tom 21
Al Mubarak, Khaldoon ... 25
Berdowski, Peter 8
Birch, Graham 21
Bolland, Marc 8
Bryant, Carter 29
Cailloux, Jacques 31
Calello, Paul 1,30
Castro-Wright, Eduardo .. 7
Chandra, Vikram 32
Cobban, Nick 21
Conway, Bill 22
de Graaf, Eric 7
Delueuran, Michel 8
Di Pippo, Simonetta 2
Dodaro, Gene L. 6
Dodd, Christopher 6
Dunion, Tara 7
Everitt, Paul 6
Fair, Christine 13
Fink, Stanley 23
Gates, Bill 12
Gellert, James 22
Gettelfinger, Ron 6
Green, Orlando 22
Griffin, Kenneth 25
Hackworth, Nick 29
Hausmann, Richard 8
Holliday, Charles O. Jr. ... 7
Kallasvuo, Olli-Pekka 4
Kielholz, Walter 1,30
Kiriyenko, Sergei 3
Kleisterlee, Gerard 7
Kulhoff, Birgit 7
Larian, Isaac 29
Lewis, Kenneth 19
Loveless, Tom 12
Meyrowitz, Carol 7
Moynihan, Brian 19
Mulally, Alan 6
Murakami, Takashi 29
Nagahama, Toshihiro 3
Nardelli, Robert 6
Nikai, Toshihiro 4
Nishio, Shinji 4
Nolan, Thomas 29
Pelosi, Nancy 6
Reid, Harry 6
Reuther, Michael 8
Rubenstein, David 22
Sharma, V.K. 24
Sharp, Walt 4
Shugrue, Edward 25
Simonson, Rick 4
Steinhafel, Gregg 7
Tavakoli, Janet 22
Thomas H. Lee 19
Ullman, Chris 22
Usui, Futoshi 4
Van Steenis, Huw 1,30
Wagoner, Rick 6
Walker, George 24
Warner, Rufus 23
Zandi, Mark 6

LEADING THE NEWS

Associated Press

Russian President Dmitry Medvedev, left, with Indian Junior Foreign Minister Anand Sharma, after arriving in New Delhi on Wednesday for a three-day visit.

Russia vies with West for India nuclear deals

By ***Jackie Range*** *in New Delhi and* ***Gregory L. White*** *in Moscow*

Russia hopes to increase its nuclear-power presence in India and gain ground against Western suppliers with plans to sign a deal this week, during a state visit by President Dmitry Medvedev.

Mr. Medvedev's three-day visit, which began Thursday, comes after a large U.S. nuclear-business delegation postponed a planned trip to India amid heightened security concerns following deadly terrorist attacks in Mumbai last week.

International competition is growing to gain a slice of the Indian nuclear-energy market, where nuclear power is expected to reach 40,000 megawatts of capacity by 2020. In 2007, India had installed capacity of 3,900 megawatts.

The commercial battle has intensified after the U.S. approved a landmark nuclear pact in October, opening the way for American companies to sell their technology to India. That arrangement came on the heels of a civilian nuclear deal between India and France.

Sergei Kiriyenko, head of **Rosatom**, Russia's state-run nuclear company, told a Russian news agency Russia planned to sign an agreement with the Indian government Friday to build four reactors for the Kudankulam plant in southern India.

An Indian government spokesman declined to confirm the likelihood of a nuclear agreement with Russia being concluded, however, saying he "cannot and will not comment on the outcome of the visit."

India's power-supply system is widely viewed as abysmal. Some parts of rural India suffer 15 hours or more a day of power cuts, and major towns and cities endure blackouts of several hours a day. The power shortages are seen as a serious brake on India's economic expansion goals. The economy has grown an average of 8.7% annually during the past five years. But the rapid expansion, combined with rising incomes, has lifted electricity demand 9% a year.

India has become a key market for Rosatom, which is currently working with the state-owned **Nuclear Power Corporation of India** Ltd. to build two nuclear reactors in the southern Indian state of Tamil Nadu, at the same site where Russia said new plants are slated to be built.

Mr. Medvedev's foreign-policy adviser, Sergei Prikhodko, confirmed the planned agreement in comments Thursday, saying "the quality, pricing and reliability of Russian nuclear plants get a high assessment in India, so we have a chance to seriously strengthen our position on this market, even despite rising competition."

In an interview with Indian television aired before his visit, Mr. Medvedev said he hopes nuclear cooperation with India "can be put on a fundamental, industrial basis."

Russia is also hoping for more defense business from India. India has long been a major buyer of Russian military hardware, but the weapons purchases have been marred by tensions over cost overruns and delays. In the televised interview, Mr. Medvedev said he hoped to make progress in a long-running dispute with India over the cost and timing of an aircraft carrier that New Delhi ordered several years ago.

He also said Moscow hopes to expand defense links to include areas such as submarine leasing and possible joint production of weaponry.

Coming on the heels of Mr. Medvedev's trip to Latin America—the first tour of that region by a Russian president in years—the visit to India is part of the Kremlin's push to show it is again a major player on the world stage.

Businesses spend less as recession deepens in Japan

TOKYO—Japanese businesses cut their capital spending in the July-September quarter by a record 13% from the previous year, adding to fears that the recession that has hit Asia's biggest economy may be worse than previously thought.

The Finance Ministry's survey of financial statement statistics of corporations also showed pretax earnings fell at the fastest pace in nearly seven years. Manufacturers' sales fell for the first time in six years.

"The data confirmed anew that Japan is in a recession and that the extent of the downturn is more serious than generally thought," Toshihiro Nagahama, a senior economist at Dai-Ichi Life Research Institute said.

France sets stimulus plan

Economic jump-start sought with package valued at $33 billion

BY DAVID GAUTHIER-VILLARS

Reuters

French President Nicolas Sarkozy announced a $33 billion package, valued at around 1.3% of gross domestic product, to jump-start the economy.

PARIS—France unveiled a €26 billion ($33 billion) package aimed at jump-starting its lackluster economy via the construction of new homes and transport lines, refurbishment of public buildings and incentives to trade in old cars.

The plan comes as European Union countries are struggling to heed a request by the European Commission, the region's governing body, to spend as much as possible to help reinvigorate the 27-nation bloc's economy. The EU has urged each country to spend around 1.5% of their gross domestic product.

France's package—which is primarily focused on infrastructure projects and investments by state-controlled firms like Électricité de France SA, but also includes a one-off €200 payment for low-income households—is valued at around 1.3% of gross domestic product.

However, it's unclear how much new money France is actually putting on the table.

Speaking in the northern industrial town of Douai, President Nicolas Sarkozy said that the measures would add €15 billion to France's projected 2009 budget deficit, which is expected to be €53 billion. Mr. Sarkozy didn't specify where the remaining €11 billion would be sourced.

As part of the plan, France will dig a canal north of Paris, renovate its university buildings and put new metro cars in service, the French president said in a televised speech.

The government will also help finance the construction of 70,000 homes, on top of the 30,000 unfinished homes it has committed to buy in 2009.

"It's not a question of spending more in the long run," Mr. Sarkozy said. "It's a question of spending faster."

Across Europe, countries have taken vastly different approaches to support their economies.

The U.K. has targeted consumer spending. It has announced both an increase in government expenditure and tax cuts valued at about £20 billion, or about $30 billion. That amounts to about 1% of U.K.'s annual economic output—a level that could hurt the country's already-stretched finances.

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CORPORATE NEWS

Nokia, again, slashes handset forecast

Cellphone giant warns of worsening slowdown in demand, but hopes to grab bigger share of a smaller global pie

BY ADAM EWING

Nokia Corp. on Thursday cut its forecast for the global handset market for the second time in three weeks, warning that the industry slowdown has hit more rapidly than expected as consumers cut spending.

To offset the sales slump, the world's largest mobile-phone maker said it would cut costs next year and in 2010.

Nokia said it expects fewer than 330 million phones to be sold worldwide in the fourth quarter, lower than the estimate it gave Nov. 14 when it issued a profit warning. Next year's volumes are expected to fall 5% or more from 2008 levels, the Finland-based company said.

The phone maker said it targets an increase in market share next year, including in the smartphone segment. However, it said it wasn't sure it could deliver a gain in market share in the fourth quarter from the third quarter's 38% level.

Next year "will be a challenging year for the mobile-devices industry, but I believe Nokia will fare much better than our competitors," Nokia Chief Executive Olli-Pekka Kallasvuo told analysts Thursday during the company's investor-day event in New York.

Though consumers are likely to trade down to less-expensive cellphones in the coming tough times, Mr. Kallasvuo said Nokia is in the best position to handle a potential transition because of its wide portfolio.

The downturn also presents a good opportunity to gain market share, Mr. Kallasvuo added. Aside from Nokia's presence in still fast-growing markets, the CEO pointed to the U.S. and South Korea—two lucrative markets with little Nokia presence—as opportunities.

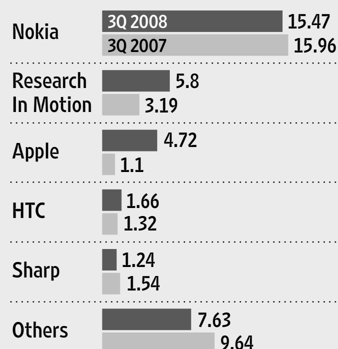
Nokia said the slowdown is hitting operations across its markets, but the recent incremental downturn in emerging markets has grown more pronounced. Nokia's high-volume sales are largely dependent on markets such as India and China.

The latest warning underscores the "rapid change" in consumer spending Nokia previously flagged, and the damage it is causing to cellphone makers and operators.

Earlier this month, **Vodafone Group** PLC, the world's largest mobile operator by revenue, warned that full-year revenue would fall short of its forecasts and unveiled plans to cut £1 billion ($1.48 billion) in costs.

Meanwhile, Dallas-based telecommunications company **AT&T** Inc. said Thursday that it will cut about 12,000 jobs, or 4% of its work force, through the end of next year in response to the downturn.

The cellphone market has contracted just once before, in 2000-2001, but analysts expect the coming slowdown to be deeper.



The Nokia N97 is demonstrated at a Nokia conference Thursday in New York.

Associated Press

Nokia is "acting on all fronts to reduce our costs," said Rick Simonson, Nokia's chief financial officer, including reducing the cost of goods sold and cutting operating and capital expenditures. "Nokia's highly variable, low-fixed-cost business model allows us to scale to a declining market," Mr. Simonson said.

Nokia said it now expects its key device and services operating margin to be between 13% and 19% next year, down from its previous target of 20%, while it expects its joint venture with **Siemens** AG, Nokia Siemens Networks, to have an operating margin in the single digits in 2009. Its recently added Navteq digital-mapping unit should have a margin just above its device and services business, it said.

Separately, research firm Gartner Inc. said Thursday that Nokia's share of the smartphone market in the third quarter fell to 42.4% from 48.7% in the year-earlier period, hurt by the lack of a commercial touch-screen device.

Mr. Kallasvuo acknowledged that the company's smartphone portfolio was not "ideal" earlier in the year.

Nokia is expected to get a sales boost from its recently announced N97 touch screen, its flagship product; however, the product won't be ready until the first half of next year. The N97 will compete with **Apple** Inc.'s iPhone and **Research In Motion** Ltd.'s BlackBerry.

Smartphone sales growth is suffering because of the economic downturn, Gartner said. In the third quarter, 36.5 million smartphones were sold—a 12% increase from a year earlier, but a slowdown from the 16% annual growth seen in the second quarter.

—Roger Cheng contributed to this article.

Japanese refiners to merge, cutting capacity

A WSJ NEWS ROUNDUP

TOKYO—**Nippon Oil** Corp., Japan's biggest oil refiner, is merging with **Nippon Mining Holdings** Inc. in a move to cut capacity and costs as a global slowdown hits demand for oil products.

The planned merger may signal the start of a long-awaited consolidation in Japan's refining sector, which is saddled with aging plants and weak retail margins.

The companies didn't disclose any financial terms of the deal. It is expected to take the form of a takeover by the much-bigger Nippon Oil. The companies said a joint holding company would be finalized by October.

Nippon Mining, the country's biggest copper producer, has significant oil-distribution assets. Its copper business would also allow Nippon Oil to diversify away from oil.

The companies' presidents said at a news conference that the merged company would cut refining capacity by around a fifth, or 400,000 barrels per day, by April 2012. The cut is equal to about 8% of total capacity in Japan, the world's third-largest oil consumer.

The officials also said the new company would cut costs by 60 billion yen ($642 million) by April 2013, and eventually strip out more than $1 billion in annual costs.

A global slowdown has halved refining margins since the spring, with Japan hit particularly hard as its population is shrinking and drivers were quick to switch to more fuel-efficient cars after fuel prices spiked this year. Recently the price of crude oil has plummeted to around $46, from a peak of $150 a barrel in July, on worries about the global economy and reduced demand.

Nippon Oil President Shinji Nishio, left, shakes hands with Nippon Mining President Mitsunori Takahagi

Associated Press

UBS analyst Toshinori Ito said the merger was positive for both companies and would be good for the industry as it would create leadership in pricing, help eliminate excess price competition and tighten the supply-demand balance.

Shares in both companies rose sharply at the prospect of the creation of a company that could have combined revenue of more than 13 trillion yen this fiscal year ending March 31, according to company forecasts. That would make it Japan's fourth-biggest company by sales after corporate giants including auto maker Toyota Motor Corp. and trading houses Mitsubishi Corp. and Mitsui & Co.

In trading on the Tokyo Stock Exchange, Nippon Oil shares ended up 3.4% at 331 yen while Nippon Mining finished up 11.3% at 285 yen.

Japan's trade and economy minister welcomed the planned merger, saying industry developments such as these will help to strengthen the energy industry in Japan, which imports all its fuel needs. "This is an ambitious undertaking in the face of structural changes in the business environment, and it's deeply meaningful," Toshihiro Nikai said in a statement.

If approved at shareholder meetings next June, the combined Nippon Oil-Nippon Mining will house three main business units under the umbrella of a holding company: one for oil refining and sales, another for exploration and a third for metals and mining.

Nippon Oil President Shinji Nishio also said the combined company would be able to speed up the drive to grow alternative-energy operations while running the conventional oil business more efficiently. "We will inject our management resources into growing business areas including new energy and oil exploration," he said.

According to Credit Suisse analyst Futoshi Usui, a merger between Nippon Oil "would help strengthen oil operations from upstream to downstream." Nippon Oil is valued at nearly 500 billion yen by market capitalization, while Nippon Mining is valued at close to 260 billion yen.

Analysts also said Nippon Mining's core operations would help Nippon Oil reduce reliance on the turbulent oil business. "Nippon Mining's copper business would help diversify risks," Mr. Usui said.

Nippon Oil accounts for roughly a quarter of domestic gasoline sales, while Nippon Mining unit Japan Energy Corp. accounts for about 10%. Their post-merger market share could be close to double the slice of the 18% or so held by No. 2 firm, TonenGeneral Sekiyu KK, a unit of **Exxon Mobil** Corp.

"This could trigger consolidation and realignments among local oil refiners," Merrill Lynch analyst Takashi Enomoto said in a client note. "Low oil refining margins in Japan, compared to global levels, may see structural correction."

Exxon Mobil has already sold one Japanese refinery to Brazil's state-run oil company, Petrobras, and there is speculation its other Japanese refineries and retail chain may be for sale.

Some analysts saw regulatory issues hampering consolidation. The new Nippon Oil-Nippon Mining combination would struggle to grow further, as it would already have a 35% share of the Japanese market, said CLSA analyst David Hewitt.

AT&T cuts jobs, capital spending in weak divisions

BY JEFFRY BARTASH

AT&T Inc. said it would cut 12,000 jobs and reduce spending on new equipment next year in response to the weaker economy.

The phone giant's job cuts, representing about 4% of its work force, make the company the latest U.S. bellwether to announce major layoffs.

Phone companies have been delaying projects and scaling back capital spending for months, and AT&T's announcement Thursday is sure to put more pressure on already-battered vendors of phone equipment, such as **Nortel Networks** Corp., **Alcatel-Lucent** and **Tellabs** Inc.

Aside from the economy, AT&T cited a "changing business mix" as a reason for the cutbacks. The company said it is still hiring in stronger businesses, such as wireless, video and high-speed Internet.

"There's an ongoing industry shift from wire line to wireless and broadband," AT&T spokesman Walt Sharp said.

Most of the job cuts will take place in AT&T's traditional local and long-distance segments, which have been losing customers for years. .

The job cuts will begin in December and continue into next year. AT&T, based in Dallas, plans to book an expense of $600 million in the fourth quarter to pay for severance and related costs.

AT&T said it expects to lower its capital expenses next year. The company is on track to spend roughly $17.8 billion on network expenses this year.

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CORPORATE NEWS

U.S. auto makers would accept oversight

Chief executives press for a bailout, agree to supervision

BY JOSH MITCHELL AND COREY BOLES

WASHINGTON—The executives of the Big Three U.S. auto makers said Thursday they would be willing to work under the supervision of a federal oversight board as a condition for receiving financial aid from the government.

During Thursday's Senate hearing, the chiefs of **General Motors** Corp., **Ford Motor** Co. and **Chrysler** LLC responded to a question from Banking Committee Chairman Christopher Dodd, who asked whether they would be willing to work within a structure similar to that established for the federal bailout of the former Chrysler Corp. in 1979-1980.

GM's Rick Wagoner, Ford's Alan Mulally and Chrysler's Robert Nardelli said they would. Each subsequently agreed that the board could have the legal authority to dictate restructuring terms to the companies and others, including unions, suppliers and dealers.

The Big Three are struggling to stay afloat heading into 2009 during an economic recession, a steep decline in sales and a tight credit market. The three companies burned through nearly $18 billion in cash reserves during the latest quarter.

GM is asking for an immediate injection of $4 billion to stay afloat until the end of the year and an additional $14 billion in aid next year. "If more extensive restructuring is required, GM will work with the oversight board to determine the additional necessary actions," GM's written plan said.

Chrysler is requesting an immediate $7 billion by year end. Ford wants a $9 billion line of credit that it said it wouldn't tap unless economic conditions worsened.

Both Messrs. Wagoner and Nardelli suggested a March 31 deadline to come back to lawmakers to demonstrate that their restructuring was well under way as a condition of receiving financial assistance from the federal government.

Associated Press

General Motors CEO Richard Wagoner, left; UAW President Ron Gettelfinger; Ford CEO Alan Mulally; and Chrysler CEO Robert Nardelli testified on Thursday.

Mr. Mulally said that Ford's restructuring was continuing, noting that the company wasn't asking for an immediate cash infusion. Ford wants a longer term loan facility that it might have to draw upon in the future.

The executives also conceded that they made mistakes in their management. They told lawmakers they were unprepared for congressional hearings last month, when Congress criticized them as lacking credible plans to turn around their companies.

The executives came back with detailed plans that they said would return their companies to sound financial footing. But they presented a bleaker picture for the industry than they did just weeks ago, increasing their request to $34 billion from $25 billion in emergency aid. Mr. Wagoner said last month's hearings "were difficult for us" and sparked a "healthy internal review."

"It's no secret that GM, like our fellow domestic auto makers, has struggled in the face of increased competition from foreign manufacturers with lower wage, health-care and benefit costs," Mr. Wagoner said in prepared remarks before the Senate Banking Committee.

Mr. Nardelli said Thursday: "I can tell you in my 38 years in business, I've never attended a more important session where more is reliant upon both the House and the Senate."

Meanwhile, the Federal Reserve is expected to turn away requests to lend directly to auto makers, leaving the issue in the hands of Congress and the Bush administration. Democratic leaders have asked the Fed to review the auto makers' turnaround plans.

In a letter to Fed Chairman Ben Bernanke late Wednesday, Sen. Dodd asked whether "anything in your statute prevents you from lending to any of these domestic auto-manufacturing companies" through the Fed's emergency authority or other vehicles that have been used in recent months. The central bank has authority to lend to nonfinancial companies only on a fully secured basis, meaning that the loans need to be backed by assets. The auto firms don't appear to have collateral that would meet the Fed's lending criteria.

Fed officials have resisted moving beyond their usual role of maintaining financial stability to directing industrial policy. They are likely to be more resistant to lending to the auto makers if Congress is unable to reach its own settlement.

Sen. Dodd was focusing on legislation that would effectively create a bridge loan for the industry, by diverting funds from an existing loan program originally intended to help the industry retool to meet higher fuel economy standards. The senator wants to impose much tougher conditions on the aid than a bipartisan bill developed in the Senate last month, congressional aides said.

The goal of the initiative would be for the Senate to move ahead of the House, where deep divisions exist on the issue. The final cost of the package could exceed the $25 billion.

Mr. Dodd said Thursday that a failure of one or more of the domestic auto makers "would affect every sector of our economy."

"In just two weeks time, the clouds on the economic horizon have grown even darker and greater in number," Sen. Dodd said, noting the designation this week by a panel of economists that the country had entered a recession that began a full year ago. But, he said, following the advice of those in Congress who contend the auto companies should file for bankruptcy protection rather than a taxpayer bailout "plays Russian roulette with the entire economy of the United States."

"Inaction is no solution," he said.

Behind the moves is Senate Majority Leader Harry Reid, the Nevada Democrat who pressed Sen. Dodd Wednesday to move forward. Mr. Reid is trying to break a stalemate between Congress and White House on the issue. Sen. Reid declared that a Democratic-Party backed bill—which would solely draw on the $700 billion market rescue fund—couldn't pass Congress, signaling to rank-and-file Democrats that compromise would be needed to avoid another collapse of legislative efforts to help the industry.

Sen. Reid and House Speaker Nancy Pelosi said the hearings would help determine whether Congress would consider a massive aid package for the industry in a special session next week. Critics say the companies have been poorly managed and failed to show they won't be back for another government rescue.

Mark Zandi, chief economist at Moody's Economy.com, told the panel of senators Thursday that Congress shouldn't hesitate to save the auto makers but that the bailout would likely far exceed $34 billion if it were to succeed. The price tag would likely be between $75 billion and $125 billion, Mr. Zandi said.

He recommended money be provided to the companies in two tranches. The first "should be sufficient to forestall the auto makers' imminent disorderly bankruptcy," and the second should only be provided if the restructuring plans are proceeding successfully, he said.

Gene L. Dodaro, the acting comptroller general at the Government Accountability Office, an investigative arm of Congress, testified that a bailout package include the creation of an oversight board to administer the funds and ensure taxpayers' interests are safeguarded.

He said terms of any financial assistance shouldn't be indefinite.

"Although Congress may decide that there is a compelling national interest in providing financial assistance to help ensure the long-term viability of the Big 3, companies receiving assistance should not remain under federal protection indefinitely," said Mr. Dodaro.

A strict criteria for eligibility should be established, controls holding executives accountable to the taxpayer put in place, if possible collateral for the money secured, and compensation to the taxpayer for the risk of providing the assistance should all form part of any legislation, he said.

In an interview with The Wall Street Journal in Washington, Ford's Mr. Mulally explained that he was very concerned about the financial health of GM and Chrysler after the auto makers told Congress they needed the immediate infusion of cash to survive.

Messrs. Wagoner and Mulally both say said they'll work for $1 a year—a move Chrysler's Mr. Nardelli has already made—if their firms accept government loans. All three plans envision the government getting a stake in the auto companies that would allow taxpayers to share in future gains if they recover.

In Detroit, the United Auto Workers union said it would delay the three companies' payments to a multibillion-dollar, union-run health-care trust and essentially end a jobs bank program in which laid-off workers are paid most of their salaries. They also decided to let the Detroit leadership begin renegotiating elements of landmark contracts signed last year, a move that could lead to wage concessions.

The companies, union officials and car dealers were lobbying feverishly for the loans, arguing that the collapse of one or more of the Detroit car makers would throttle the already weakened U.S. economy and jeopardize the nation's manufacturing sector.

United Auto Workers union President Ron Gettelfinger warned that in the absence of action by Congress "I believe we could lose General Motors by the end of this month." He said the situation was dire and that time was of the essence.

The auto executives were roundly criticized for taking corporate jets to the hearings last month and this time made the 520-mile trip to Washington aboard hybrid cars. Underscoring the different approach, Mr. Wagoner and GM officials ate lunch Wednesday at Quiznos at a Pennsylvania rest stop along the way.

—Sudeep Reddy and the Associated Press contributed to this article.

Skid deepens in Europe's auto market

BY JONATHAN BUCK

LONDON—New-car registrations in the United Kingdom in November recorded their worst monthly performance in 28 years, the latest sign that the market for new cars in Western Europe is in freefall.

Registrations in the U.K. fell 37% in November from a year earlier, the steepest drop since June 1980 and a continuation of the steady declines seen over the past seven months.

New-car registrations in Western Europe in November, due for release Dec. 16, are expected to show a marked deterioration from October, when they fell 15%.

Year-to-year new-car registrations in November show the breadth of the downturn: They fell 18% in Germany, 14% in France, 30% in Italy and 50% in Spain. The figure from Germany was the worst since reunification in 1990, and Spain's fall was the biggest since January 1993. After adjustment for two fewer working days last month compared with a year earlier, new registrations fell only 5% in France.

Tougher credit conditions are partly to blame. A world-wide squeeze in funding means that credit or leasing arrangements to buy cars are much harder to come by. The result is many potential car buyers, including short-term rental- and corporate-fleet operators, have been forced to delay purchases.

Car makers are feeling the pinch: The European Commission, the European Union's executive arm, is drafting a plan to help auto makers weather the crisis. The plan is likely to run to tens of billions of euros.

European leaders have faced calls from the auto industry for individual company and factory bailouts, for help for manufacturers' financing arms, and for breaks for consumers so they can start buying cars again. Hundreds of thousands of jobs in the automotive sector and support industries could be lost if auto makers are forced out of business.

Meanwhile, the Big Three U.S. auto makers are trying to restructure in a bid to secure billions of dollars in emergency government loans. **General Motors** Corp. said earlier this week that it may sell its Saab Automobile AB unit. **Ford Motor** Co. also said it was exploring a sale of Volvo Cars.

GM and **Chrysler** LLC said this week that they could collapse by the end of the month unless they receive bailouts.

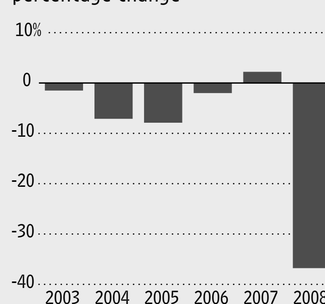
In the U.K., 100,333 cars were registered last month, off from 158,735 in November 2007. November typically accounts for 6.8% of annual volumes, but this year is expected to account for less than a 5% share.

No car maker experienced year-to-year gains in the U.K. last month. The best performance came from Volvo, which reported a 6.7% decline. Among volume manufacturers, **Renault** SA cited a 64% drop and **Volkswagen** AG posted a 33% fall. GM's Vauxhall brand slumped 39%.

Japanese car makers **Toyota Motor** Corp., **Nissan Motor** Co. and **Honda Motor** Co. cited declines of about 40%.

Car sales crash

U.K. new car registrations fell 36.8% to the lowest level in 28 years. November-to-November percentage change



Source: U.K. Society of Motor Manufacturers and Traders

"November has been another difficult month for the motor industry," said Paul Everitt, chief executive of the Society of Motor Manufacturers and Traders, which compiles the U.K. data.

Mr. Everitt added that while some consumers may have delayed their purchases to take advantage of recent cuts in value-added taxes, overall demand continues to fall.

U.S. retailers lose ground

Wal-Mart sales rise as nondiscounters report steep declines

By Kevin Kingsbury

U.S. retailers reported some of the weakest sales figures in years last month, with many missing already low expectations. **Wal-Mart Stores** Inc., however, continued to outperform as it topped estimates on store traffic and transaction size.

The dour numbers—coming as an economic recession enters its second year—were aggravated by the fact that the latest period included fewer post-Thanksgiving days compared with last year. But that doesn't change the fact that shoppers simply are keeping their wallets closed tighter. Consumer spending dropped by the biggest amount in the third quarter in 28 years and the woes are expected to continue this holiday season, making it one of the worst in years.

Wal-Mart, a bargain-hunter's destination, has been posting stout results compared with its retail brethren. Its U.S. same-store-sales, excluding gasoline, rose 3.4% last month as sales increased 3.4% at its namesake chain and 3.5% at its Sam's Club. Vice Chairman Eduardo Castro-Wright said the company, which last month projected a 1% to 3% increase for November, had strong sales on "Black Friday," the day after Thanksgiving, which is the start of retailing's biggest selling period.

The world's largest retailer by revenue forecast December same-store sales at the higher end of its fiscal fourth-quarter forecast, which calls for 1% to 3% growth.

Associated Press

Customers reach for television sets at a Wal-Mart store in Lakewood, Colo., last month. The discounter's November sales gain stood apart from rivals' declines.

Sam's Club rival **Costco Wholesale** Corp. reported a 5% decrease in same-store sales, twice the size analysts expected, according to Thomson Reuters. Assuming no change in currency values and excluding gasoline sales, Costco said it would have recorded 3% growth—1% domestically and 6% internationally.

Smaller **BJ's Wholesale Club** Inc. continued its string of strong results, reporting a 4.1% same-store sales increase.

Thomson Reuters said discounters as a whole were the only retail segment expected to post growth in same-store sales, thanks to Wal-Mart. In contrast, department stores and apparel chains—both of which have been struggling for some time—reported double-digit declines.

Gap Inc.'s results weren't as bad as feared, with the apparel retailer saying it was more aggressive with its offers than last year. Still, the company reported a 10% drop in same-store sales. Analysts were expecting a 17% slide.

Target Corp., which has been struggling for a year, reported a 10% drop, worse than expected, though President and Chief Executive Gregg Steinhafel said Black Friday same-store sales were stronger than the rest of the month.

Off-price retailer TJX Cos. reported a 12% drop, half of which it attributed to the dollar's recent gains. CEO Carol Meyrowitz declined to give a December forecast, citing the retail sector's "unprecedented volatility."

High-flying teen retailer Buckle Inc. continued its streak of double-digit growth. Its same-store sales increased 15%.

Vegas electronics show sees attendance slipping

By Ben Charny

A sharply slowing global economy appears to be taking its toll on one of the world's biggest technology conventions, the Consumer Electronics Show in Las Vegas, set for next month.

Organizers of the event, which is to hold its 32nd gathering between Jan. 8 and 11, now expect fewer companies to participate and less booth space to be sold. CES is on track to occupy 1.7 million square feet of floor space, about 5% less than the previous CES show.

About 15% fewer companies have registered to attend the event, compared with the show last year. Among the missing will be **Philips Electronics** NV. Philips declined to comment.

Meanwhile, a handful of companies are downsizing by using meeting rooms rather than renting out pricier showroom floor space, said Tara Dunion, a spokeswoman for the show's sponsor, the Consumer Electronics Association.

While a count doesn't yet exist, it is likely that products to be introduced at 2009 CES will be down from the roughly 20,000 that made their debuts at the 2008 show.

One bright spot is attendance preregistration, which is running on pace with last year's attendance of 141,000. "Will we exceed that? Who knows," Ms. Dunion said.

Behind the shrinking show is a sharply contracting global economy that is curtailing discretionary budgets for companies and consumers alike. Cutting travel and display expenses for conventions is a budget priority for many Fortune 500 companies, according to recent surveys. Many more companies have begun slashing their research-and-development budgets, meaning fewer new gadgets to display.

Some penny-pinching consumers also appear to be skipping CES, usually one of Las Vegas's biggest draws in January. Hotels have begun chopping their rates by as much as $75 a night, the show's organizers said.

Getty Images

While fewer companies are expected to participate in this year's Consumer Electronics Show, some of the companies attending are reducing floor space.

DuPont warns of a quarterly loss

By Bob Sechler

DuPont Co. slashed its financial targets and announced a big restructuring plan that included job cuts, the latest sign of the steep downturn facing the chemicals sector.

The Wilmington, Del., company said it now expects to post a fourth-quarter loss. It also forecast full-year 2009 earnings below Wall Street expectations, citing a rapid slump in demand and a global recession it expects to last "well into 2009."

In particular, Chief Executive Charles O. Holliday Jr. blamed "a steep global decline" in construction and motor-vehicle sales and slowing consumer spending.

"Many customers have dramatically curtailed production to draw down inventories," Mr. Holliday told analysts on a conference call. "We can't control the markets, but we can control our costs, working capital and expenditures."

Company executives said sales volumes were down about 15% in October and November, accelerating from a 4% decline in the third quarter.

The company unveiled a $600 million restructuring effort that included 2,500 job cuts—out of about 60,000 employees—and a 10% to 20% reduction in planned capital spending. DuPont also said it will reduce the number of contractors by 4,000 by year end, with additional reductions in 2009.

In addition, DuPont said it has temporarily idled about 100 manufacturing sites world-wide.

DuPont makes a range of products, including Corian countertops and automotive paint, Kevlar, which is used in body armor, and genetically modified seeds.

DuPont said it expects to post a fourth-quarter loss of 20 cents to 30 cents a share, excluding an estimated pretax charge of $500 million related to the restructuring. Quarterly sales are expected to decline at least 15%. In October, the company predicted earnings of 20 cents to 25 cents a share.

—Shirleen Dorman contributed to this article.

FDA seeks more testing of Roche drug

By Hans Schoemaker
And Anita Greil

Roche Holding AG was delivered a major setback on its most promising new drug, Actemra, when the U.S. Food and Drug Administration asked for a new animal trial and other information, which will delay its launch by at least 18 months.

Basel-based Roche said that it plans to submit the additional data for the rheumatoid arthritis drug in the third quarter next year. The FDA didn't request new trials in humans.

Assuming that the agency will take up to six months to review the data, the launch of Actemra can now be expected in 2010 at the earliest, said Birgit Kulhoff, a pharmaceutical analyst with Swiss private bank Rahn & Bodmer. The company had originally hoped to launch it at the end of 2008.

Many analysts see Actemra reaching peak annual sales of around $2 billion. A few see even higher results.

Roche shares slipped on the news, closing at 165.90 swiss francs ($137) down 3.20 francs, or 1.9%.

Actemra, a humanized monoclonal antibody, was developed by Japan's **Chugai Pharmaceutical** Co., which is controlled by Roche, and Roche owns the rights to sell Actemra outside Japan.

SwissMedic, the Swiss drug watchdog, approved Actemra this week. The drug is already on the market in Japan and received backing from an advisory panel to the European Union regulator in late November. It will be marketed as Ro-Actemra in the EU.

Philips warns of sales slump, accelerates its restructuring

By Roberta B. Cowan
And Robin van Daalen

AMSTERDAM—**Philips Electronics** NV on Thursday shelved its earnings target for 2010, slashed fourth-quarter sales expectations and accelerated restructuring measures as demand plummets in some of its core markets.

The Amsterdam-based maker of shavers, televisions, lighting and high-end medical equipment said it no longer expects to double earnings before interest, taxes and amortization per share by 2010 from 2007 levels, as consumers spend far less than expected on its products because of the credit crunch.

"The downturn we see now is without recent comparison and is developing much faster and deeper than expected," said Chief Executive Gerard Kleisterlee.

Philips said demand in the consumer, construction and automotive sectors had dropped dramatically over the quarter. Mr. Kleisterlee said the company is accelerating initiatives to lower costs and protect margins "ahead of what looks like a challenging 2009."

For the fourth quarter, Philips said it expects additional charges and write downs of €1.2 billion ($1.53 billion). The company has reshaped its portfolio over the past few years to make it more resilient but said it will write down about €1.1 billion of the value of its remaining financial holdings—mainly flat-panel TV company LG Display Co. and NXP BV, formerly Philips's semiconductor division.

The company said it will also book additional restructuring charges of €110 million in the fourth quarter as it seeks to protect profitability. The charges come on top of the €230 million in charges announced previously. Philips spokesman Joon Knappen said the company will cut jobs as a result of the additional restructuring measures but declined to give further details.

For the fourth quarter, Philips now expects health-care revenue of between €2.25 billion and €2.35 billion, revenue at the consumer-lifestyle unit of €2.8 billion to €3 billion and revenue from lighting of €1.83 billion to €1.93 billion.

The figures indicate a revenue miss of around €750 million and will have a huge impact on profitability, as the fourth quarter is key for the consumer and lighting divisions, said Petercam analyst Eric de Graaf.

CORPORATE NEWS

AMD cuts sales forecast

PC-chip maker warns demand is slumping across the board

BY JERRY A. DICOLO

Advanced Micro Devices Inc. Thursday slashed its fourth-quarter sales forecast and now projects a 25% decline from the third quarter, saying semiconductor demand has slumped across the board.

Competitor Intel Corp. three weeks ago cut its fourth-quarter targets, among the biggest signs of how rapidly computer sales turned sour because of the slumping economy.

"October was really weak. November was slightly better, but pretty weak. Now we're in the December period with people being very cautious," said AMD Chief Financial Officer Bob Rivet. "It's an across-the-world issue. No market is not affected."

Though analysts generally expected the cuts at the Sunnyvale, Calif., chip maker, some were surprised by the size of the revision. Deutsche Bank analyst Ross Seymore said the magnitude of the decline was "substantially worse" than his and other estimates.

AMD has been on a quest to return to profitability after seven consecutive quarterly losses. Earlier this year, investors cheered the move to spin off its manufacturing operations into a separate company, and its latest chip for servers, known as Shanghai, has raised confidence in AMD's prospects following problems with its earlier Barcelona chip. But as AMD management works to turn around the company, the downturn in the wider economy may make a quick return to profitability less likely.

AMD now expects revenue, excluding that from process-technology licenses, to fall 25% from the third quarter's $1.59 billion. The company had projected flat results in October.

Analysts were expecting, according to Thomson Reuters, revenue of $1.54 billion in the fourth quarter, historically the strongest for technology sales. The company reports fourth-quarter results on Jan. 22.

Mr. Rivet, speaking at the Credit Suisse Technology Conference, said demand for chips used in desktop computers has seen the biggest drop-off, while notebook computers have held up a bit better.

Server sales have been the bright spot for AMD, he said, as customers have been impressed with Shanghai.

William Morrison sales rise 8.1%

BY LILLY VITOROVICH

LONDON—Confirming its turnaround, **William Morrison Supermarkets** PLC on Thursday posted a better-than-expected increase in fiscal third-quarter sales as it gained market share from bigger grocery chains.

The U.K. grocer also said it agreed to buy 38 stores from the **Co-operative Group** for £223.1 million ($329.6 million). The acquisition, Morrison's first major deal since its £3 billion purchase of Safeway in 2004, will add around 5% of new space, the company said.

But analysts cautioned that Morrison's market-share gains—underpinned by strong consumer demand for less-expensive groceries in the wake of the economic downturn—may be short lived. Morrison is associated with lower prices than rivals, but industry leader **Tesco** PLC is starting to claw back customers with its low-cost Discounter brand.

Morrison, the U.K.'s fourth-biggest supermarket chain has been bearing the fruits of a turnaround plan spearheaded by Chief Executive Marc Bolland. Morrison said that sales at stores open at least a year, excluding fuel, rose 8.1% in the 13 weeks ended Nov. 2—outstripping Tesco's 2% increase.

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GLOBAL BUSINESS BRIEFS

Merck & Co.

U.S. drug maker issues gloomy earnings outlook

Merck & Co. warned next year's earnings would fall well below Wall Street estimates, in a sign of how the global downturn is hitting drug makers. The Whitehouse Station, N.J., company, which is in the process of making billions of dollars in spending cuts, estimated its 2009 profit before items would be $3.15 to $3.30 a share on sales of $23.7 billion to $24.2 billion. Wall Street had forecast earnings excluding items of $3.52 a share, according to Thomson Reuters. Many investors have believed drug makers are safe investments during difficult economic times because patients still need their medicines. Yet some patients stop taking certain prescriptions or curb purchases of over-the-counter drugs.

Boskalis Westminster NV

Dutch dredging company **Boskalis Westminster** NV dropped its bid to buy maritime-services company **Smit Internationale** NV on Thursday, saying it would be difficult to take it over without management cooperation. "In view of the changed conditions in the financial markets and the market in general, we believe it is irresponsible to pursue the offer without support and cooperation from the board of management and supervisory board of Smit," Boskalis Chief Executive Peter Berdowski said. Boskalis had sought to buy Smit for €1.1 billion ($1.4 billion) and divest its salvage and harbor-towage operations. Boskalis first announced an indicative offer of €62.50 per Smit share in September, but Smit's management rebuffed it, saying that it undervalued the company.

Areva SA

Rolls Royce Group PLC and **Balfour Beatty Group** PLC Thursday separately announced deals with French nuclear power plant and services provider **Areva** SA for the construction of new nuclear reactors in the U.K. Rolls Royce, best known as a maker of jet engines, said it had agreed a memorandum of understanding to work with Areva on programs that will see the first new nuclear reactors built in the U.K. in over 20 years. Rolls-Royce didn't provide an estimate of how much income it expects the agreement to generate, but said that the civil nuclear market is currently valued at around £30 billion ($44 billion) a year globally. Construction company Balfour Beatty said it is partnering with Areva to build supply chains for the construction work.

A.P. Moller-Maersk AS

Denmark's **A.P. Moller-Maersk** AS, the world's biggest container-shipping company, said its Maersk Line division is laying up eight huge vessels as demand drops off amid turbulent global economic conditions. "We have reached the point where laying up the eight vessels makes better economical sense than redeploying them," Maersk Line said in a statement. The decision follows reductions to its Far East and North American services announced last month, when Maersk said it would cut capacity by 8% in 2009. "In several corridors, the rates do not fully cover our variable costs," said Michel Delueuran, Maersk's head of network and products. The company signaled it will make more capacity reductions through schedule changes, reduced sailing speed and other measures.

Siemens AG

Siemens AG's sales and order growth in China will likely slow in the fiscal year ending September 2009, reflecting the slowdown in the domestic economy, the head of the company's China unit said Thursday. While Beijing's four trillion-yuan ($581.79 billion) stimulus package could shore up demand for Siemens products, there was a risk spending would go "too predominantly" to local suppliers, said Richard Hausmann, chief executive of Siemens Ltd., China. China, the second-largest overseas market after the U.S. for Siemens, contributed around 6% to the company's new orders globally last year. Siemens said its China sales in the full year ended in September totaled 57 billion yuan, while its new orders in the period amounted to 65.5 billion yuan.

Commerzbank AG

Commerzbank AG plans to cut Dresdner Kleinwort's U.K. mergers-and-acquisitions operations and proprietary trading, a spokesman for the bank said Thursday. A consultation process with employees is under way, and no final decisions have been made, he added. A spokeswoman for the bank said that Commerzbank's investment-banking chief, Michael Reuther, laid out plans to integrate Dresdner Kleinwort at a meeting with senior managers in London Wednesday. Commerzbank's purchase of **Dresdner Bank** AG from **Allianz** SE is due to be completed by January. Commerzbank will cut about 1,200 of its 3,300 employees at the combined London investment-bank operations in the coming months and shed another 150 in Frankfurt and elsewhere.

Ryanair Holdings PLC

Budget airline **Ryanair Holdings** PLC, seeking to win support from the Irish government and unions for its new bid to acquire rival **Aer Lingus** PLC, spelled out improved terms and guarantees that Ryanair hopes will garner political support. Ryanair said Thursday that if it were successful in its €748 million ($951 million) bid, it will remove the airline's fuel surcharges. In addition, Ryanair said it would continue to "honor and respect" Aer Lingus's longstanding policy of trade-union recognition and that Aer Lingus flights between Shannon in Ireland and Heathrow, outside of London, would be restored. The Irish government said it is evaluating the new bid. Ireland's Siptu trade union said the new conditions "don't change the fundamentals" of its opposition to the bid.

Telenor ASA

The U.S. District Court for the Southern District of New York on Wednesday upheld its November ruling which ordered Russia's **Alfa Group** to pay fines starting at $100,000 per day to Norwegian telecommunications operator **Telenor ASA.** Alfa also has to deposit shares in co-owned Ukrainian operator Kyivstar with the court. The ruling is part of a long-running battle between the two companies over strategy and control of their two mobile-telecom ventures, Kyivstar and Russia's Vimpelcom. On Nov. 19, the New York court had held Alfa's telecommunications arm Altimo and its affiliates in contempt of a U.S. arbitration-court ruling concerning Kyivstar and ordered it to sell its shares in the operator. A spokesman for Altimo declined to comment.

—Compiled from staff and wire service reports.

Trichet shifts gears on euro-zone policy

ECB president has prodded a reticent institution to take a more aggressive response to the financial crisis

By Joellen Perry

BRUSSELS—European Central Bank President Jean-Claude Trichet is starting to silence criticism that he is responding too slowly to the downturn that may be Europe's worst since World War II.

On Thursday the ECB, which makes monetary policy for the 15-nation euro zone, cut its key rate by three-quarters of a percentage point to 2.50%. The move, the biggest in the central bank's 10-year history, follows two half-point cuts in October.

Thursday's rate cut places the ECB among the ranks of central banks moving aggressively to contain slowdowns in the wake of financial-market turmoil. With this latest measure, "the scale of what the ECB has done over the last eight weeks has become impressive," said Holger Schmieding, an economist with Bank of America in London.

The U.S. Federal Reserve has slashed its rate to 1% and is likely to cut further. The Bank of England Thursday cut its key rate by a full percentage point to 2%, following a 1.5 percentage-point reduction last month. Sweden's Riksbank also lowered its key rate by 1.75 percentage points Thursday to 2%—the bank's biggest cut since 1992.

By contrast, the ECB began cutting rates only in October. In July, it increased interest rates, citing an expected spurt of inflation that didn't materialize.

Mr. Trichet initiated the ECB's about-face after shockwaves from the mid-September collapse of Lehman Brothers Holdings Inc. threatened to topple European banks. Convinced that letting Lehman fail was a catastrophic mistake, Mr. Trichet pressed to ensure European nations didn't let major financial institutions crumble.

To do so, the 65-year-old Mr. Trichet has had to navigate a sea of uniquely European obstacles—including that the ECB has no supervisory authority over banks and must deal with 15 independent governments that control fiscal spending.

"We have at the end of the day a single currency and a single market in financial services, but the only central institution is the ECB," says Rosa Lastra, professor in International Financial and Monetary Law at Queen Mary University of London. "That deficient institutional design limits the ECB's sphere of competence."

Under Mr. Trichet's direction, the ECB deployed a battery of tools to keep banks flush with short-term funds, badgered European governments to coordinate financial-industry rescues, and pushed the Continent's financial supervisors to synchronize their standards.

Mr. Trichet, who has led the ECB since 2003, had to reorient an institution that sometimes seems designed to be cautious. Unlike the Fed, which focuses both on boosting growth and controlling inflation, the ECB's single mandate is keeping prices steady. That goal—a legacy of Germany's hyperinflation of the 1930s—often irks European politicians who want lower rates. Mr. Trichet must find consensus among a team of equals on the bank's rate-setting council, made up of 15 national central-bank chiefs and the six-member executive board based in Frankfurt.

Agence France-Presse

European Central Bank President Jean-Claude Trichet at a news conference Thursday, after the ECB cut rates by 0.75 percentage point. Mr. Trichet has had to reorient an institution designed to be cautious about cutting rates.

Initially, European governments took the view that the made-in-the-U.S. financial crisis wouldn't spill over much, in part because euro-zone banks were less exposed to subprime-related securities than their U.S. counterparts. They thought the banks could rely on healthy streams of income from parts of their businesses, such as consumer deposits, that were less affected by market turmoil.

Any notion that Europe could escape the worst of the effects from U.S. financial woes evaporated after Lehman Brothers sought bankruptcy protection. The ECB pumped funds into euro-zone money markets to ensure banks had ample short-term funds. When that looked insufficient to keep banks from failing, ECB policy makers pressed European governments to step in with public funds. After national governments pursued a patchwork of financial-sector rescue plans, Mr. Trichet shuttled across the Continent helping coax politicians to accept a common set of principles to govern rescues.

Unlike the Fed, the ECB can't intervene directly to prop up individual banks. That lender-of-last resort role falls to the euro zone's national central banks. Though many big European banks do business across borders, the euro zone doesn't have a unified budget. Instead, rescues fall to national governments, few of whom had figured out how they would split the cost if a cross-border bank failed.

The ECB's July fumble, critics say, stemmed partly from a misplaced optimism about Europe's ability to resist a crisis stemming from the U.S. Hours after the decision to raise rates, Mr. Trichet praised the euro-zone economy as "sound" and said "resilient" global growth would stoke export demand. But official statistics last month showed the region's $12.2 trillion economy contracted in the second and third quarters—the traditional definition of recession—when the ECB raised its rate.

Mr. Trichet nevertheless defends his call as the right one at the time. At a Frankfurt press conference on Oct. 2 he said, "I would say that thanks to the decisions we have taken ... we see that we have somewhat regained control of inflation expectations."

The son of a literature professor, Mr. Trichet studied engineering before turning to economics. He rose through France's civil-service ranks to become Treasury director in 1987. Later, he chaired the Paris Club of creditor nations during the sovereign-debt crises of the late 1980s and early 1990s, scheduling debt repayment for emerging-market nations.

Lehman's fall tested his diplomatic skills. In the days after the investment bank's failure, ECB staffers monitored signs of market stress across the bloc. A classic measure of financial-sector stress—the gap between three-month interbank lending rates and market expectations of the ECB's key interest rate—skyrocketed along with other measures.

The ECB swung into action. The euro zone's decentralized setup means the ECB shares financial-stability oversight with national central banks and supervisors but can't access individual banks' books. So ECB staffers scoured public information sources including banks' quarterly reports and called national authorities, gathering as much data as they could.

The week of Sept. 22, shares in Belgian-Dutch conglomerate **Fortis** NV came under heavy selling amid mounting fears it would go bust. All that week, ECB staffers fed information it received on Fortis and the Belgian banking system into an in-house computer model that lets it simulate how the collapse of a big bank might ripple through the euro-zone financial system.

Mr. Trichet called Belgium's Prime Minister Yves Leterme on Saturday, Sept. 28, to request a meeting the next day, traveling from Frankfurt to Brussels on Sunday. Though the prime minister knew Fortis was in trouble, it was unclear whether the bank needed rescuing.

Mr. Trichet's message: It did. "He put the lights on red," says Mr. Leterme's spokesman Peter Poulussen, noting the central banker stressed the need for a quick rescue. Along with Belgian central governor Guy Quaden, Mr. Trichet conferred next with Belgian lawmakers, who later that night approved a €11.2 billion government bailout involving Belgium, the Netherlands and Luxembourg.

Mr. Trichet and other ECB policy makers made the case for intervention with other governments, too. French-Belgian conglomerate **Dexia** got a €6.4 billion bailout that Tuesday; Germany's government orchestrated a €50 billion package for **Hypo Real Estate** AG the following Sunday, after a private-sector solution failed.

The chaos that followed Lehman's fall changed policy makers' calculus. At their Oct. 2 meeting, the 21-member group agreed the economic fallout from financial-market turmoil trumped inflation as the top concern. Most left the meeting believing a rate cut of at least 0.5 percentage point was needed soon.

Also at the meeting, ECB policy makers debated a new dynamic: Some governments were acting, but they weren't acting together. Along with other European officials, ECB policy makers were agitated about Ireland's declaration Sept. 30 of a sweeping, €400 billion guarantee of the debt of its top six banks. ECB policy makers fretted the Irish offer might spark countermoves by other European governments, which could shift lending back and forth to countries that offered the strongest guarantee.

From his pan-European perch, Mr. Trichet pressed European governments for coordinated action. At an emergency summit of Europe's top four heads of state in Paris on Oct. 4, organized by French president Nicolas Sarkozy, Mr. Trichet and ECB vice president Lucas Papademos made the case that European countries should coordinate their financial-sector rescue efforts. Other European leaders, including European Commission president José Manuel Barroso, were also pressing for coordination. Mr. Trichet whipped out several simple charts—tools he often uses to press an argument—that showed the severity of the situation.

One chart showed a radical widening in the gap between three-month lending rates and expectations of the ECB's policy rate since Lehman's fall. That spread illustrated how a surge in fears about bank failures had caused a spike in how much banks needed to pay to borrow from other banks. Higher spreads raised the risks a bank might fail and could also hurt the economy by keeping consumer and business interest rates high.

While European leaders left the meeting agreeing on little more than a set of vague principles, ECB policy makers felt that the session laid the groundwork for more comprehensive coordinated action later on.

At the same time, Mr. Trichet was cooking up his own coordinated moves with other central banks. After Mr. Trichet signaled on Oct. 2 that the ECB was likely to lower its key rate soon, Fed Chairman Ben Bernanke broached the idea of a coordinated cut with Mr. Trichet and Bank of England Governor Mervyn King. Late on Tuesday, Oct. 7, Mr Trichet held a teleconference call with the ECB's Governing Council to discuss the plan. In a call that went past midnight, the rate-setters agreed to join the global 0.5 percentage-point cut, which was announced the next day.

That same day, Oct. 8, the ECB followed with a move to help European banks get more short-term funding. Usually, the ECB makes banks bid for funds in quantities the central bank itself decides and it lends more to banks that bid at higher rates. But policy makers thought the post-Lehman market strains were so severe that the ECB should ease the terms. So policy makers decided to let banks bid for one-week loans in unlimited amounts and at fixed interest rates, ensuring banks received as much short-term funding as they wanted.

By the time euro-zone leaders gathered Oct. 12 in Paris for a summit, many heads of state had come around. European leaders emerged from that meeting with a set of principles on how European governments would recapitalize banks and guarantee many forms of bank debt. The ECB followed up three days later by lowering its collateral standards drastically, dropping the lowest rating to BBB- from A- and radically widening the universe of assets it accepted.

—Sudeep Reddy and Marcus Walker contributed to this article.

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INVESTING IN SEOUL

City aims to redefine itself as a regional business center

SEOUL, capital of South Korea and the world's 13th largest economy, is a vibrant and dynamic city of 10 million. And it is raising its profile as a leading global business destination.

The city occupies a strategic geographical position astride sea and air arteries at the heart of Northeast Asia, the world's third-largest economic zone after North America and the European Union. From nearby Incheon International Airport, 51 cities in China, Japan and Russia with populations of a million or more lie within a three-hour flight. The adjacent port of Incheon, on the Yellow Sea, serves shipping routes to and from China.

"Seoul is located between the world's second-largest economy [Japan] and the world's fastest-growing economy [China]," says Bill Oberlin, president of the American Chamber of Commerce in Korea, located in Seoul. This, he adds, "makes its geographic position unique and extremely important in the region."

Other commentators also acknowledge the city's advantages.

In its 2008 World-Wide Centers of Commerce Index, MasterCard, the Purchase, New York-based payment-card company, placed Seoul at number nine of 75 cities, ahead of Shanghai, Toronto, Sydney and Zurich. The city registered high scores for its legal and political framework, economic stability, breadth of financial services and volume of financial instruments traded.

Seoul also ranked ninth in the 2008 Global Cities Index published jointly by Foreign Policy magazine and the Chicago-based international consulting company A.T. Kearney, ahead of Washington, Beijing and Brussels. The city scored particularly well for business activity, ranking seventh world-wide, measured by the value of its capital markets, the number of Fortune 500 companies located there and the volume of goods that pass through it.

With Seoul's immediate environs home to half of Korea's 48 million people, one of its greatest assets is that it is the administrative, cultural, business and financial center of one of the world's top economies.

"Seoul provides excellent access to both government and local and international business concerns within a relatively small geographical distance," says Tom Coyner, author of "Mastering Business in Korea," published last year. "Previous governments have attempted to disperse essential resources throughout the country, but fortunately, wiser minds have prevailed."

Another advantage is Seoul's 21st-century infrastructure. A web of 12 subway lines — running for 534 kilometers and served by 380 stations — connects the city, and a high-speed bullet train links Seoul to the country's south. The journey to Busan, South Korea's second-largest city and home to its largest port, takes three hours.

And Seoul's mobile telecommunications and broadband backbones are arguably some of the world's finest. Between 2005 and 2007, the city topped the United Nation's Digital Opportunity Index, a measure of the sophistication and availability of information and communications services.

One area, however, where Seoul's progress has lagged is architecture. Compared with such cities as Dubai, Singapore and Hong Kong, Seoul lacks iconic buildings. But this is changing.

The tripod-like Samsung Securities building, opened in 1999, looming over downtown; the SK Telecom headquarters, opened in 2003 and shaped like a giant cellphone; and the Leeum Museum of Art, opened in 2004 and designed by Dutch architect Rem Koolhaas, add diversity to Seoul's skyline.

More landmarks are in the pipeline. In Yeouido, the capital's financial district, the Seoul Metropolitan Government is building a 5.4 million-square-foot mixed-use office/hotel/shopping complex, the Seoul International Finance Center (IFC Seoul), with the aim of attracting the regional headquarters of foreign businesses. It is due to be completed 2011.

After the war, in the rush to develop a modern state, not enough attention was paid to the quality of buildings, says Paul Rogers, chairman of Seoul-based property company Skylan Development, which is building the $2 billion Parc1 complex, designed by London architect Richard Rogers and situated next to the IFC Seoul. "Seoul has the opportunity to redefine itself as an influential world-hub city," he adds.

"Seoul provides excellent access to both government and local and international business concerns within a relatively small geographical distance."

By the end of this year, an international designer is expected to be chosen for the $28 billion redevelopment of the downtown Yongsan district, creating an upmarket commercial-residential area, with a landmark super-skyscraper at its center.

With South Korea the world's leading manufacturer of semiconductors, flat-panel computer and TV screens and ships, as well as the fifth-largest producer of automobiles, as well as number six in steel, Seoul is home to the headquarters of 12 Fortune 500 companies, including Samsung Electronics and Hyundai Motor.

The city now looks poised to further elevate its position as a business destination as South Korea executes its plan to prioritize the development of its service sector, especially financial services. The goal is to transform Seoul into the key finance center for Northeast Asia.

The money is already in place. Assets under management by Seoul-based fund managers in the first half of 2008, according to the Asset Management Association of Korea, a Seoul-based regulatory body, reached some $344 billion. And according to the World Federation of Exchanges' 2007 Annual Report, the $2.01 trillion scale of South Korea's domestic capital markets approached Hong Kong's $2.71 trillion and was double the size of Singapore's just under $1 trillion. The stock market, then capitalized at $1.12 trillion, was the world's 14th largest and Asia's fourth, while the bond market, valued at $887.6 billion, was the world's sixth largest and Asia's second.

A further preparation for the city's new role has been the design of a simplified regulatory framework. In February, South Korea will enforce the Capital Markets Consolidation Act passed by the National Assembly last June, hoping to ignite a financial services "big bang." It should enable more-diverse financial products and services.

Seoul has already lured some of the top names in finance as investors.

"You need only look at our growth here to see that Korea is most definitely open for business, and welcoming of foreign investment," says John Walker, chairman of Macquarie Group of Companies, Korea, a unit of the Sydney-based financial group. It has grown to 400 employees and has invested in assets of A$20 billion ($12.9 billion) as of March 2008, from a staff of five and zero assets in 2000. "Korea can generate significant revenue," he says.

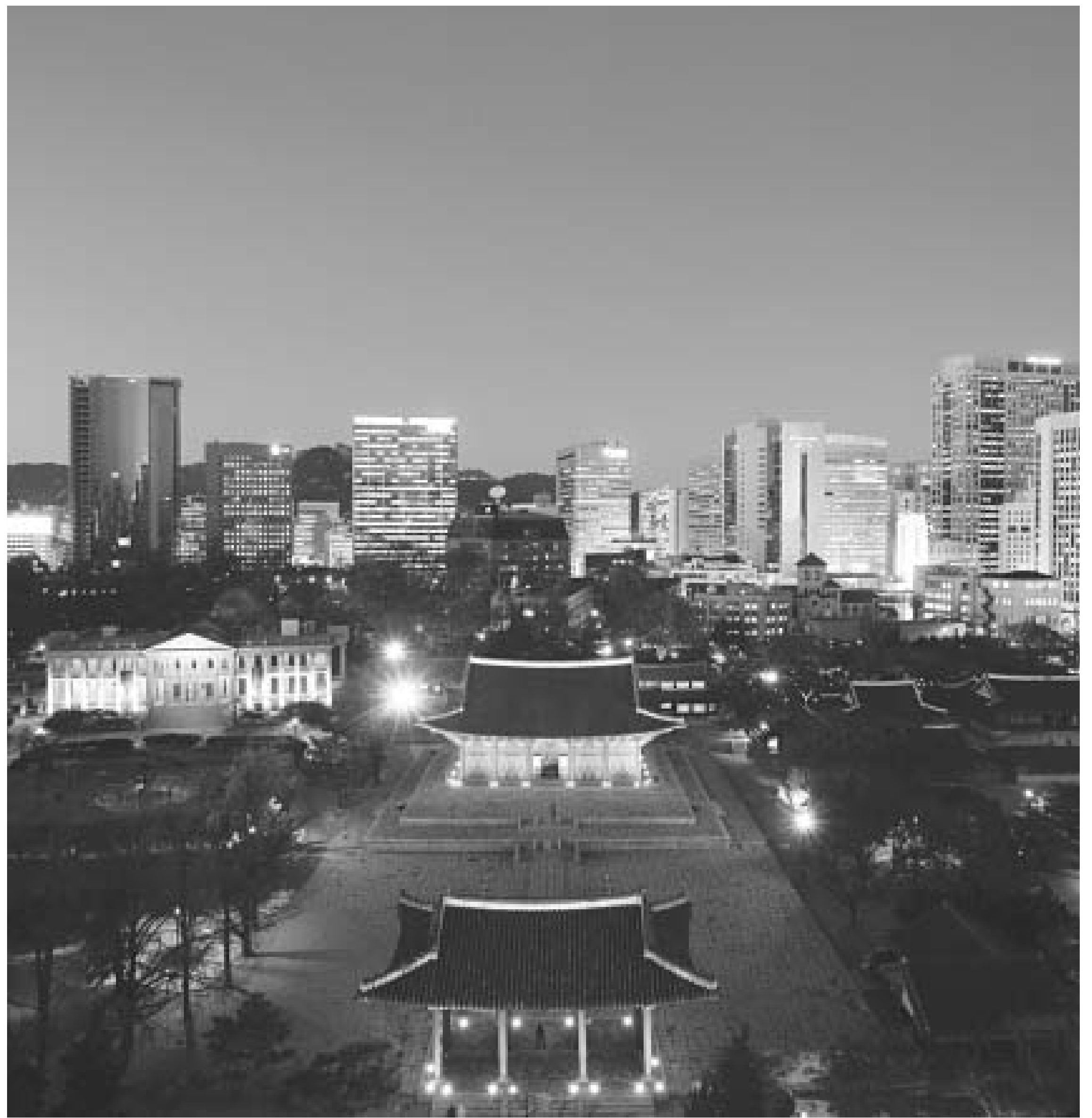
This view is backed by John Edwards, CEO of SC First Bank, the Seoul-based subsidiary of London's Standard Chartered Bank. "Seoul is a large, diverse and sophisticated market, one which is evolving rapidly, with a huge appetite for banking services," he says.

Like other cities world-wide, Seoul now has to deal with the global financial crisis, but the city may have an advantage — during the Asian financial crisis in the late 1990s it faced a similar situation and managed it well. In August 2001, South Korea redeemed the $58 billion bailout it received from the International Monetary Fund during the 1997/8 Asian financial crisis — three years ahead of schedule. And while other major economies are forecast to slide into recession next year, the consensus is that South Korea will continue to grow.

Kwon Goo-hoon, economist at the Seoul office of New York-based investment bank Goldman Sachs, forecasts Korean GDP growth of 1.8% next year, compared with 4.2% this year.

And in September, the Seoul-based Korea Stock Exchange was upgraded to "developed" market status by one of the world's leading indexes, the London-based FTSE.

Once global stability returns, this move is expected to propel further capital into Seoul financial markets.



Seoul is the administrative, cultural, business and financial center of one of the world's top economies, and half of South Korea's 48 million people live in its immediate environs.

STAN HONDA; JUNG YEON-JE/AFP/Getty Images

Seoul is home to many Fortune 500 companies, including Samsung Electronics and Hyundai Motor.