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THURSDAY, NOVEMBER 13, 2008

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■ **European shares sank** in choppy trade. U.S. stocks dropped sharply as the outlook for large retailers darkened further and the Treasury altered its bailout plans. Pages 19, 21

■ **The Bank of England forecast** that the U.K. economy will contract sharply next year and inflation will fall, in its gloomiest outlook in over a decade. Page 19

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■ **The European Commission** called for legislation to subject credit-rating firms to a new system of restrictions. Page 2

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■ **Putin threatened** to scrap a planned pipeline that would carry Russian gas under the Baltic Sea to Germany. Page 3

■ **Maersk said** volumes fell 3% in the third quarter, and analysts are predicting container shipping will be flat in 2009. Page 8

■ **Iberia posted** an 80% drop in profit on higher fuel costs, and the Spanish airline's chairman said merger talks are progressing with British Airways. Page 7

■ **The EU cleared Italy's** latest plan to rescue Alitalia. Page 7

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8282.66	-411.30	-4.73
Nasdaq	1499.21	-81.69	-5.17
DJ Stoxx 600	205.22	-6.95	-3.28
FTSE 100	4182.02	-64.67	-1.52
DAX	4620.80	-140.78	-2.96
CAC 40	3233.96	-102.45	-3.07
Euro	$1.2508	-0.0024	-0.19
Nymex crude	$56.16	-3.17	-5.34

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World-Wide

The U.S. Treasury shifted the focus of its financial-market rescue package to nonbank financial institutions and consumer finance, and shelved the original plan to buy troubled mortgage assets. It also is considering requiring that firms seeking future government money raise private capital. Page 9

■ **A series of bombings shook** Baghdad for a third consecutive day, killing 23 people and injuring 90. The attacks underlined the fragility of recent security gains in the Iraqi capital.

■ **An Iraqi soldier fired** on U.S. soldiers at a base in Mosul, killing two, before being shot dead, a U.S. general said. He disputed Iraqi accounts that the shooting followed an argument.

■ **North Korea said** it will close its border with South Korea on Dec. 1, in what would be its most hostile act yet after Seoul's decision to tie economic assistance to arms reduction.

■ **Iran said** it successfully test-fired a new, more accurate generation of its longest-range surface-to-surface missile.

■ **The Swiss defense minister** announced his resignation, after months of criticism over his leadership of the military.

■ **Suspected Islamic militants** shot and killed a U.S. aid official and his driver in Pakistan, the latest incident in a wave of violence in the northwest. Page 10

■ **Four Hamas militants died** in clashes with Israeli troops along the Gaza border.

■ **Angola said it is mobilizing** troops to send to Congo, heightening fears that fighting in the central African country will engulf other nations in the region.

■ **Sudan's president offered** a cease-fire in Darfur and promised to disarm militias, but rebels dismissed the moves.

■ **Russian and U.K. forces** repelled a pirate attack on a cargo ship near Somalia, while pirates commandeered a Turkish tanker off the coast of Yemen.

■ **Jerusalem residents elected** a secular businessman as mayor.

■ **The EU scrapped** a much-ridiculed ban on selling fruits and vegetables with irregular curves.

EDITORIAL & OPINION

What slowdown?

Nikesh Arora, president of Google Europe, says online retail is still booming. Page 12

Saint-Gobain is fined a record $1.12 billion

Punishment signals tough EU crackdown on auto-glass cartel

BY JOHN W. MILLER

BRUSSELS—The European Commission slapped its biggest penalty yet on a single company for operating a cartel, fining French glass maker **Saint-Gobain** SA €896 million ($1.12 billion) for fixing the price of glass supplied to Europe's car manufacturers.

The fines handed out to four European glass makers totaled €1.36 billion and capped a surge in aggressive fines the European Union has issued to bust price-fixing cartels, from zipper and candle-wax manufacturers to brewers, under Neelie Kroes, the EU's antitrust regulator.

Seven of the top 10 cartel fines the EU has levied have come in the past three years. Under Ms. Kroes, the commission has levied a total €6.7 billion in fines against cartels.

Also fined on Wednesday were **Pilkington** PLC of the United Kingdom, Japan's **Asahi Glass** Co. and Belgium's **Soliver** NV. The four companies together control 90% of the global market for car glass, valued at €2 billion in 2003, when the commission began its investigations after receiving an anonymous tip.

From 1998 to 2003, the commission said, the companies collaborated in "a series of meetings and

Please turn to page 31

Cartel cop

Under Neelie Kroes (pictured) in the last three years, the EU's antitrust office has levied seven of its 10 biggest ever cartel fines.

Year	Company	Amount (in millions)
2008	**Saint-Gobain** (car glass)*	€896.0
2007	**ThyssenKrupp** (elevators and escalators)	479.7
2001	**F. Hoffmann-La Roche** (vitamins)	462.0
2007	**Siemens** (gas insulated switchgear)	396.6
2008	**Pilkington** (car glass)*	370.0
2008	**Sasol** (candle waxes)	318.2
2006	**Eni** (synthetic rubber)	272.3
2002	**Lafarge** (plasterboard)	249.6
2001	**BASF** (vitamins)	236.8
2007	**Otis** (elevators and escalators)	224.9

*Announced Wednesday

Source: European Commission

Photo: Agence France-Presse

Retailers plug credit crunch to spur buying

BY CECILIE ROHWEDDER

LONDON—On a recent cover, the British weekly fashion and celebrity magazine Grazia touted stilettos as "credit crunch heels"—a means "to cheer up in the current economic climate." Rival publications Best and Marie-Claire are heralding the arrival of "credit crunch fashion" and "credit crunch chic" on their front pages as well.

The credit crunch has led to more than bank bailouts. The term has filtered into popular culture here as a catch-phrase aimed at Britons with no links to finance. Marketers and retailers are invoking the crisis to convey the opposite of its meaning—and get consumers to spend.

The department store Selfridges has been offering a candy line called "credit crunch." The store has sold 5,000 of the £3.99 ($6) bags, which contain chunks of crunchy toffee covered in chocolate and are now among the three best-selling products at its confec-

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Dubai's property boom fades, raising debt fears

BY CHIP CUMMINS

DUBAI—This city's six-year property boom appears to be over, with asking prices for some homes falling as much as 19% in October from the previous month, according to a closely followed survey.

The property market here isn't important just to buyers, sellers and lenders. The government, through a handful of big developers, is the largest player in the sector. A sharp slowdown could crimp its financing as worry grows about its ballooning foreign debt.

Home prices were climbing sharply as recently as the first half of this year. But over the summer and fall, tightened local lending collided with the global financial crisis to choke off easy credit. That scared away buyers, especially local and international speculators who have helped fan years of price increases.

Other factors were at work. Dubai has been rocked by a series of arrests and probes at several big property developers and financial institutions. No charges have been filed, but the dragnet alarmed investors. Government officials moved to tighten regulations in order to slow down run-away speculation and property flipping.

Analysts at HSBC Holdings PLC said Wednesday that the average asking price for homes in Dubai fell 4% in October from September. Advertised prices for upscale Dubai "villas," typically stand-alone homes in a master development, fell by 19% month-on-month, the bank found. In next-door emirate Abu Dhabi, average home prices fell 5%.

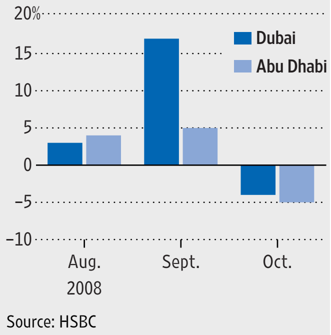
The report included only prices for the so-called secondary market, which includes second-hand homes and unfinished property that investors bought from developers in the hope of selling quickly for a profit. The report didn't include prices for property sold directly by developers.

Property agents here have been warning of softening prices and disappearing buyers for weeks. But the

Please turn to page 31

Going down

After six years of growth, Dubai property prices are falling, choked by tight lending. Month-to-month price movements, in percent



Source: HSBC

LEADING THE NEWS

Restricting ratings firms

EU Commission proposes new system of controls, disclosure

By Adam Cohen

BRUSSELS—The European Commission proposed legislation that would subject credit-rating firms to a slew of new restrictions, increased regulatory oversight and penalties for bad behavior.

The firms, which analyze risks facing companies and bond issuers and evaluate financial instruments, were sharply criticized by regulators in the U.S. and Europe last year for failing to warn investors about the U.S. subprime-mortgage meltdown, and have continued to draw criticism as the financial crisis has expanded.

On Wednesday, the commission—the European Union's executive arm—said it wants the ratings firms to register with the Committee of European Securities Regulators, or CESR, and abide by a series of new rules. Ratings companies until now have followed a voluntary code of conduct in the EU, which the bloc's chief markets regulator, Charlie McCreevy, has called a "toothless wonder."

In the U.S., ratings companies such as Standard & Poor's, a unit of **McGraw-Hill** Cos., Moody's Investors Service, owned by **Moody's** Corp., and Fitch Ratings, a unit of **Fimalac** SA, have been registered since last year and have had to follow U.S. Securities and Exchange Commission rules.

"I want Europe to adopt a leading role in this area," Mr. McCreevy said. "Our proposal goes further than the rules which apply in other jurisdictions. These very exacting rules are necessary to restore the confidence of the market in the ratings business in the EU."

In addition to registration, the commission's proposal would require ratings firms to "disclose the methodologies, models and key assumptions they use in the rating process."

The companies also would be required to publish an annual report detailing the accuracy of their opinions.

Ratings firms also would have to ensure there are no conflicts of interest in their work. The planned legislation will ban firms from providing consulting or advisory services and require them to disclose their 20 largest clients by revenue.

Ratings-firm employees would have to rotate the areas they cover on a regular basis to ensure their independence isn't compromised. These employees would have to have "appropriate knowledge and experience" to issue ratings, the commission's proposal says.

Ratings companies also would have to have three independent directors on their boards.

The ratings firms are worried that strict state oversight could lead to interference in their ratings of government debt. They also want consistent rules across jurisdictions.

Standard & Poor's is examining the commission's proposals "to see if they support ratings opinions that are independent and internationally consistent," a company spokesman said.

A Moody's spokeswoman said, "We believe any regulatory oversight in the EU should protect the independence of credit opinions, permit sufficient flexibility to adapt to market changes and promote regulatory consistency across the globe."

The commission wants each of the EU's 27 member countries to designate an authority to enforce its new rules.

These overseers would coordinate their work through CESR and have full powers to investigate ratings companies' work. They would be able to conduct surprise inspections, demand documents, summon employees for questioning and review telephone and email records, according to the commission's proposal.

These national authorities would impose penalties on ratings agencies that break the law. The proposed legislation doesn't detail possible punishments, but said they should be "effective, proportionate and dissuasive."

The commission's proposal needs approval from the European Parliament and would come into force six months after that. Mr. McCreevy predicted the law will be in place by this time next year.

—Mark Brown in London contributed to this article.

New EU rules

The EU's plan to regulate credit ratings agencies includes the following restrictions:

- **Ratings agencies** can't offer advisory services
- **Ratings can** be issued only if high-quality data are available
- **Agencies must** disclose their models and methodologies
- **Agencies must** publish an annual performance report
- **Agencies must** have at least three independent board members

Source: The European Commission

BHP weighs its options as bid for Rio hits hurdles

By Dana Cimilluca And Robert Guy Matthews

BHP Billiton Ltd. is considering several options to overcome regulatory objections to its $68 billion takeover bid for **Rio Tinto** Ltd., including selling billions of dollars in assets to a rival or spinning off some of its prized iron-ore holdings, people familiar with the matter say.

While BHP executives express increasing confidence that they will be able to pull off one of the largest hostile takeovers in history, the range of divestiture options they are considering highlights how dramatically the world of deal making has changed and how hard it is to sell assets in the current business environment. Roughly a year after BHP, the world's largest mining company, made its audacious bid for one of its biggest rivals, the value of the offer has more than halved as BHP's stock price has fallen, reflecting the difficult environment.

BHP is crafting a response to the European Union's objections to the deal laid out last week. While the company hasn't acknowledged that it must offer divestitures to win antitrust approval, it is widely expected to have to do so, given that the combination would unite the world's second- and third-largest iron-ore producers. EU approval is the last major hurdle for BHP before it can take the offer directly to Rio shareholders, which it expects to do early next year.

Officials at mining giants **Anglo American** PLC and **Xstrata** PLC have indicated they may be interested in any Australian iron-ore assets BHP offers for sale as part of the regulatory process. Analysts estimate that the value of assets that could come up for sale may reach $12 billion.

BHP's ability to sell those assets for a lofty price has dwindled as the global economic outlook darkens and as debt to finance takeovers has become scarce. That may explain why BHP is exploring alternatives to a straight sale of assets for cash.

A BHP spokesman declined to comment.

Prices for iron ore, once the cash cow of commodities, especially for BHP and Rio, have fallen drastically since the beginning of the year when they were at record highs.

With steel makers cutting output because of the soft world economy, iron ore, whose sole use is for the production of steel, is no longer in such strong demand. Prices have dropped to about $70 a metric ton from about $200 in February. Rio Tinto, Brazil's Cia. **Vale do Rio Doce** and other iron-ore producers have slashed production in the last few weeks by 10% or more in hopes of putting a floor under the price. More cuts could come next year if steel demand doesn't strengthen.

BHP, which is based in Melbourne, Australia, has been reluctant to announce production cuts. Such supply restraint could make it look to regulators that the company is trying to exploit its power over steel makers just as it is trying to paint the opposite picture.

Alberto Calderon, BHP's chief commercial officer, said this week at a Deutsche Bank metals and mining conference in London that the company is in "the last stages" of dealing with EU regulators and that "we still think we can come to a manageable agreement with them."

BHP's confidence has been bolstered by the outperformance of its shares in comparison with those of London-based Rio Tinto. That has opened up a more than 30% gap between the value of its all-stock offer and Rio's share price. The difference increases the likelihood that Rio shareholders will accept the current offer without demanding an increase.

Rio Tinto Chief Executive Tom Albanese, in a presentation Tuesday at the Deutsche Bank conference, reiterated his company's view that BHP's offer undervalues Rio Tinto.

CORRECTIONS & AMPLIFICATIONS

Beat Wittmann, the head of **Julius Baer Holding** AG's investment-product funds arm joined the company in January 2008, not June, as was incorrectly stated in a Money & Investing article on Wednesday.

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.

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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

LEADING THE NEWS

Reuters

A worker in Germany dresses as **a fat-cat executive** during an IG Metall union walkout. The union Wednesday settled for an annual wage rise of 4.2%.

Germany is considering curbs on executive pay

Germany's center-right Christian Democrat party is considering legislation to curb executive pay, as the global financial crisis heightens scrutiny of disparities between labor and management compensation in Europe's largest economy.

The news came as IG Metall, Germany's most powerful labor union,

By ***Marcus Walker*** *in Berlin and* ***Mike Esterl*** *in Frankfurt*

withdrew a strike threat and accepted a staggered 4.2% wage rise for 3.6 million industrial workers, after having pushed for an 8% increase.

Economists welcomed the labor deal, saying it amounts to an annualized increase below 3.5% and should allow the European Central Bank to continuing cutting interest rates without fear of resurgent inflation.

But IG Metall's move also increases pressure on Germany's ruling coalition to tamp soaring executive pay ahead of next year's general elections, in a nation increasingly skeptical of what many Germans see as unbridled capitalism.

A leaked Christian Democrat discussion paper, whose contents were confirmed by party officials Wednesday, shows that conservatives are considering forcing executives to wait for at least four years before exercising stock options, compared with two years under current rules.

Other measures in the paper include requiring companies' full supervisory boards, which include labor representatives, to vote on executive pay packages. Companies could also be required to cut executives' remuneration in bad years, while executives could face greater personal liability for bad decisions.

"We must make managers carry more responsibility for bad results, for example by requiring them to repay bonuses," said Otto Bernhard, a Christian Democrat lawmaker leading a cross-party working group on the issue.

The group is likely to agree on a set of measures in coming weeks, he said. Party leaders would then have to approve the proposals. Parliament could vote on legislation next year, say officials involved in the talks. Germany's Social Democrats, the other half of Chancellor Angela Merkel's ruling coalition, have called for executive pay curbs.

German politics has been shifting gradually further to the left since 2005, when Social Democrats—previously authors of market-oriented reforms—denounced foreign investors such as private-equity firms as "locusts" preying on German businesses.

Amid a widening gap between rich and poor, Germany has made some welfare rules more generous in the past year, partially unwinding previous cuts. Last year Germany pushed for tighter international regulation of hedge funds, but encountered resistance from the U.S. and U.K.

The financial crisis has prompted governments in Europe and the U.S. to attach executive pay restrictions to companies taking advantage of multibillion-dollar bank-bailout packages. Germany required executives at banks that receive capital injections from a €500 billion ($626.4 billion) bailout package approved by lawmakers last month to cap their pay at €500,000. They won't be allowed to receive bonuses.

Management board members at Germany's top 30 publicly listed companies averaged €2.9 million in compensation last year, up 7.75% from 2006, according to DSW, a German shareholder rights group.

That doesn't include the estimated €60 million in compensation paid last year to Wendelin Wiedeking, the chief executive of **Porsche Automobil Holding** SE, which isn't among the top 30 German firms. His pay package generated headlines in German newspapers last autumn. Mr. Wiedeking is believed to have earned about €80 million this year.

The relatively modest annual pay raise of roughly 4.2% over 18 months agreed to by IG Metall on Wednesday follows several years of stagnant wages for German workers, even as the economy grew and corporate profits and executive payouts surged. The Organization for Economic Cooperation and Development said Wednesday that German labor costs slipped 0.1% in the second quarter.

Germany's "wise men," a council of economic advisers, predicted Wednesday that the country's economy will slip into a recession in 2009 and urged the government to introduce new fiscal measures to boost demand. Such measures would come on top of a government plan introduced last week that would cost the country's finances around €23 billion over four years.

In the latest evidence of an economic slowdown on the Continent, the European Union said industrial output in the 15 countries using the euro shrank 1.6% in September from August. Germany reported last week that its industrial production fell 3.6%—the biggest drop in more than a decade.

Putin ups pipeline stakes

Threat to scrap plan for German gas link precedes EU meeting

Russian Prime Minister Vladimir Putin threatened to scrap a planned pipeline that would carry Russian gas under the Baltic Sea to Germany, a high-profile project that has faced stiff opposition in parts of Europe.

"Europe must decide whether it needs this pipeline or not," Mr. Putin told Finland's Prime Minister, Matti Vanhanen, at a meeting in Moscow.

By ***Gregory L. White, David Crawford*** *and* ***Thomas Catan***

"If you don't, we will build liquefaction plants and send gas to world markets, including to European markets. But it will be simply more expensive for you," he added.

The comments came ahead of talks set for Friday in Nice, France, where Russian President Dmitry Medvedev hopes to get relations back on track with the leaders of the European Union, Russia's largest trading partner. Those ties were severely strained by Russia's war in Georgia in August.

Norwegian Prime Minister Jens Stoltenberg, meanwhile, seeking to reassure Europe about alternative supplies, said after talks with European Commission President José Manuel Barroso on Wednesday that Norway plans to increase exports of natural gas to Europe.

In Brussels, Ferran Terradellas Espuny, spokesman for the EU's energy commissioner, said, "The EU continues to strongly support the Nord Stream pipeline as an additional source of gas supplies from Russia."

Vladimir Putin

But EU lawmakers have called for a new investigation into the pipeline's environmental impact. The plan also has been attacked by Poland, Lithuania and Estonia, angered at being shut out of the direct route. In recent weeks, the global financial crisis and the sharp fall in oil prices have also raised questions about financing the €7.4 billion ($9.27 billion) cost of the project, which is to be completed in 2011.

Joachim Pfeiffer, energy-policy spokesman for the ruling German Christian Democratic Party of Chancellor Angela Merkel, said in a statement that while Germany still supports it, "we won't insist on the Nord Stream project if it doesn't make business sense."

Nord Stream, which involves OAO **Gazprom** of Russia, **E.ON** AG and **BASF** of Germany and NV **Nederlandse Gasunie** of the Netherlands, has been a top Kremlin political priority for years since it would bring the first direct Russian gas exports to Western Europe, bypassing transit states such as Ukraine.

Finland, one of several EU states that has a say in approving the Nord Stream project, will conduct an environmental review of the plan next year, Mr. Vanhanen said.

After the talks Wednesday, Mr. Putin said Moscow had agreed to delay by nine months to 12 months imposing new tariffs on wood exports that had been set to take effect Jan. 1. Those plans had met harsh opposition in Finland, whose forestry industry depends heavily on Russian logs.

Separately, Russia's Deputy Prime Minister, Alexander Zhukov, said Gazprom is looking at buying a stake in Spanish energy company **Repsol-YPF** SA.

"Gazprom is considering buying 20% of Repsol, which is offered for sale by Spanish builder **Sacyr Vallehermoso**," the Russian news agency RIA-Novosti quoted Mr. Zhukov as saying.

Spain's Industry Minister, Miguel Sebastian, was apparently caught off-guard by the announcement, which followed a meeting between the two. He told reporters that it the first he had heard of it.

Mr. Sebastian has previously indicated that he would like to see a Spanish buyer for the stake, which is valued at about €3.6 billion and is being sold by the debt-laden Spanish construction company.

Repsol declined to comment on the possible Russian interest.

CORPORATE NEWS

As water sales dry up, Nestlé pans soda

World's biggest seller of bottled water responds to environmental concerns with ads linking soft drinks to obesity

BY AARON O. PATRICK

Nestlé

Nestlé is running TV spots for its Nestlé Pure Life water on U.S. Spanish-language channels narrated by talk-show host **Christina Saralegui** (above), who says in the ads that drinking water instead of three sugary soft drinks per week for a year "will spare you seven pounds of fat."

Concerns that bottled water is a bad choice for the environment have cooled sales of the hot-selling product. But **Nestlé**, the world's biggest bottled-water producer, is trying to persuade consumers they should worry more about another drink: soda.

The company recently began showing TV spots for its Nestlé Pure Life on U.S. Spanish-language channels such as Univision and TeleFutura touting water as a healthier alternative to sugar-filled soda drinks. Nestlé—which also owns the Perrier, Poland Spring,Vittel and Aquarel brands—plans to expand the campaign into English-language TV and print ads across the U.S. in the first quarter of next year, a spokesman says.

ADVERTISING

The spot for Nestlé Pure Life is narrated by Christina Saralegui, a popular talk-show host often called "the Spanish Oprah." "More than 30% of kids in the U.S. are obese," she says. "Drinking water instead of three sugary drinks per week for a year will spare you seven pounds of fat."

Nutrition experts have made similar arguments for years, but it hasn't shown up in a lot in water advertising. Nestlé has the freedom to tap it because, unlike rivals, it doesn't also make soda. Nestlé Pure Life is the third most popular bottled water in the U.S. by volume, after **PepsiCo**'s Aquafina and **Coca-Cola**'s Dasani brands, according to Beverage Digest, a trade publication.

Nestlé executives say the idea to target soda came from its consumer research: Bottled water sales in the past have grown mainly from consumers moving to water from soda and other sugary beverages. In 2006, 70% of the increase in sales of bottled water in the U.S. came from people switching drinks, according to Bob Davino, a vice president of marketing for Nestlé Waters.

Nestlé recently added an anti-soda message to its bottle packaging. "A typical 12 oz. soda contains the equivalent of 10 tsp. of sugar," reads a label on one-pint bottles of Poland Spring water.

Nestlé is looking for new marketing ideas because, like many rivals, it has seen bottled water sales fall amid consumer criticism that transporting water in plastic containers is wasteful. Many municipal governments across the U.S. and Europe, including New York and London, have reduced or banned the purchase of bottled water in their offices, citing environmental concerns.

Hit by the backlash, Nestlé Waters was the only division at the Vevey, Switzerland, company to report a drop in sales in the first three quarters of this year. Water sales made up 7.6 billion Swiss francs ($6.4 billion) of Nestlé's 81.4 billion Swiss franc total. In the U.S. and Canada, the division's sales rose a meager 1%. In Europe, they fell 7%. To turn around the division, Nestlé appointed John Harris as CEO of water last year after his successful stint running its European pet food business.

"The feeling is that we are destroying the environment," says Mr. Harris. Water sales are also being hit by the financial crisis as people switch to tap water, he adds.

So Nestlé is going after the $72 billion U.S. soda market. By contrast, bottled water sales, excluding water-cooler sales, totaled $17 billion in the U.S. last year, according to Beverage Digest.

The soda industry says it is simplistic to blame it for obesity. "We need a societal change to increase the amount of physical activity in this country," says Craig Stevens, a spokesman for the American Beverage Association, an industry group based in Washington, D.C.

This year, soda makers in the U.S. and abroad agreed to stop advertising on any TV channel or other media outlet which gets 50% or more of its audience from children under 12.

Nestlé began its anti-soda campaign with the Hispanic community because it drinks more bottled water than most other ethnic groups, says Kim Jeffery, Nestlé Waters' chief executive of North America. The English-language ads will pitch a similar message at the "household chief wellness officer," a phrase Nestlé uses internally to refer to moms.

Made by a Los Angeles agency specializing in Hispanic marketing, **Castells & Asociados**, the Saralegui ad has been "off-the-charts effective," Mr. Jeffery says. He declined to disclose recent sales figures. It was the first TV ad for the Pure Life brand in the U.S., according to a spokeswoman.

An English-language version is currently being made by the Dallas office of Publicis, a unit of Paris-based **Publicis Groupe**.

The approach is very different from previous ads for Pure Life, which tried to send a message that the drink is about "family life," says Mr. Davino. Newspaper and magazine ads showed families in different settings, including the beach, drinking Pure Life.

Dentsu will buy McGarry Bowen

BY SUZANNE VRANICA

McGarry Bowen

A scene from a commercial by **McGarry Bowen** for Kraft salad dressing.

Despite the U.S. ad slowdown, Japanese advertising heavyweight **Dentsu** said it will acquire **McGarry Bowen**, one of the largest independent ad boutiques in New York.

The deal is part of an aggressive plan by Tokyo-based Dentsu to bolster its presence in the U.S.—after years of flirtation. It currently gets only about 10% of its revenue from markets outside of Japan.

While Dentsu, one of the world's biggest advertising companies, has long tried to increase its revenue from the U.S. by acquiring small American ad firms, it has failed to become a major player in the U.S. market. The pricetag for McGarry Bowen wasn't disclosed.

In buying McGarry Bowen, Dentsu would be acquiring an agency with a solid reputation and close ties to big marketers. Its clients include **Hewlett-Packard** and **J.P. Morgan Chase**. McGarry Bowen had about $57 million in revenue last year, according to a person familiar with the matter.

Separately, Dentsu said its net profit dropped 44% from a year earlier in the first half ended September on stagnant advertising business for TV, newspaper and other media. The ad agency also cut its forecast for the full fiscal year.

Dentsu posted a net profit of 8.11 billion yen ($82.8 million) for the six months ended Sept. 30, down from 14.44 billion yen a year earlier. Revenue fell 5% to 948.62 billion yen. Dentsu reports its earnings under Japanese accounting standards.

The McGarry Bowen acquisition comes as the U.S. ad market is sputtering. Many ad agencies are already seeing marketers curb their ad spending. Some Wall Street analysts suggest ad spending could sink 6% in 2009.

The talks also come about six months after Dentsu named Tim Andree, chief executive officer of Dentsu America, its first non-Japanese executive officer, a move that suggested the firm was getting more serious about the U.S. market.

Mr. Andree was behind Dentsu's purchase last year of Attik, a small San Francisco firm whose clients including **Toyota Motor** and **Coca-Cola**. Mr. Andree has an aggressive agenda. Dentsu is looking to get about 30% of its revenue from North America by 2010 via organic growth and acquisitions, according to a person familiar with the matter.

—Yoshio Takahashi contributed to this article.

Sainsbury net increases, defying U.K. downturn

BY LILLY VITOROVICH

LONDON—**J Sainsbury** PLC became the latest U.K. supermarket chain to defy the economic downturn, reporting better-than-expected earnings for its fiscal first half and accelerating its move into the convenience-store market.

Sainsbury's net profit rose 5.6% to £170 million ($261.6 million) for the period ended Oct. 4, from £161 million a year earlier, buoyed by higher sales and a drop in administrative expenses.

Sainsbury, the U.K.'s third-biggest retailer by sales after **Tesco** PLC and **Wal-Mart Stores** Inc.'s Asda, continued to benefit from a turnaround strategy, customer demand for less-expensive store-brand goods and the migration of some customers from more-upscale grocers **Marks & Spencer Group** PLC and Waitrose during the recent economic downturn.

Revenue rose 7.4% to £9.94 billion from £9.25 billion. Sales from stores open at least a year, excluding fuel, rose 3.9%, meaning same-store sales have now grown for 15 consecutive quarters.

Analysts applauded Sainsbury's results, which came amid a sharp downturn in U.K. consumer spending that has hit nonfood retailers hard. In a research note, J.P. Morgan retail analysts called the performance "strong," saying executives aren't making "dire pronouncements about the future and are demonstrating a high degree of control in all the key aspects of their business: [product] ranging, cost control, supply chain and marketing."

Sainsbury said Wednesday it plans to open 50 new convenience stores in fiscal 2010 and a further 100 the following year. The group's convenience business currently consists of 300 stores.

Chief Executive Justin King said progress in the past four years has made Sainsbury "a more robust business with a wide customer base and universal appeal." Sainsbury expects 3% to 4% growth in same-store sales, excluding fuel, over the medium term, Mr. King reiterated on a conference call.

Separately, Tesco said it will halt the planned acceleration of its convenience-store expansion in the U.S. as a result of the nation's economic woes. Tesco had planned to open Fresh & Easy Neighborhood Market convenience stores at a faster rate than it had over the past year, but will now maintain about the same pace, a company spokesman said. Fresh & Easy has 100 stores—26 in Phoenix, 25 in Las Vegas and 49 in Southern California.

CORPORATE NEWS

GE in cancer clinic deal

U.S. medical center expanding overseas with high-tech gear

By Paul Glader
And Jeanne Whalen

University of Pittsburgh Medical Center said it would open at least 25 cancer clinics in Europe, Asia and the Middle East in the next decade, with help from **General Electric** Co.

The move is a new twist on the international push by top U.S. health-care organizations like the Cleveland Clinic and Johns Hopkins, as well as a way for UPMC and GE to boost their brands in new markets. Officials said the clinics would offer diagnosis and treatment.

Cancer care "is a growing market, growing at a very fast pace," said Reinaldo Garcia, the international head of GE Healthcare. The partners say there are an estimated 10 million new cancer cases a year globally, affecting both developed and developing countries.

UPMC said it would buy scanning and imaging equipment exclusively from GE. That could include ultrasound machines and computed tomography, or CT, scanners. The partners didn't disclose the potential value of the deal to GE. GE Healthcare is experiencing tough competition and declining reimbursement rates in North America.

Rapidly growing UPMC has acquired health-care systems in western Pennsylvania, where it has become the largest employer and has built a specialty in cancer care. The nonprofit system generated $7 billion in revenue last year, but executives say they are saturating the local market and looking to expand abroad.

UPMC opened cancer clinics in Ireland in 2006 and 2007; in February, it said it would buy a 25% stake in and manage Dublin's 183-bed Beacon Hospital. It also manages a transplant center in Palermo, Italy, and emergency medical services in Qatar.

Other big U.S. health systems also are expanding overseas, particularly in oil-rich, and well-heeled, regions such as the Middle East. The Cleveland Clinic is developing a 400-bed hospital in Abu Dhabi expected to open in 2011. Johns Hopkins Medicine International, a unit of the Baltimore-based university, is managing a 470-bed hospital near Abu Dhabi. New York-Presbyterian Hospital consults with hospitals in Turkey and elsewhere, and is looking for a long-term contract to manage a hospital overseas, says Kenneth Ouriel, senior vice president of international operations.

Philips Electronics NV, another big seller of medical equipment, says the global market for cancer-related medical equipment is growing at about 10% a year, with emerging markets growing at a faster rate. Philips and a private company that sets up medical clinics are talking to Saudi Arabia about centers there, said Jacques Coumans, vice president of global oncology marketing.

UPMC said each of its clinics may employ 20 to 40 people; the management fee, ownership structure and brand of the clinics may vary by market. GE said it will help UPMC select sites and develop relationships with health-care decision makers. They are focusing first on Greece, Turkey, Germany and South Korea.

Gunner Folprecht, an oncologist at University Hospital Dresden in Germany, said he didn't see a great need for a U.S.-style cancer clinic in Germany because the local level of care is already high. He said he could see more of a need for such clinics in Eastern Europe.

Charles Bogosta, president of international and commercial services at UPMC, said cancer care in some developed markets is still cumbersome. He said UPMC has developed a "hub and spoke" system to provide diagnosis, radiotherapy and cancer management in clinics more quickly and closer to patients' homes.

New AMD chip received well

By Don Clark

Advanced Micro Devices Inc. overpromised and underdelivered on its last big product launch. It is determined to reverse that pattern this week, with a new chip dubbed Shanghai.

The new member of AMD's Opteron product line, which serve as calculating engines in server systems, is a successor to a chip called Barcelona that was late to market when announced in September 2007 and had early technical problems. AMD's missteps with the Opteron family—which commands higher prices and profit margins than chips for personal computers—contributed to big losses for the company this year and helped rival **Intel** Corp.

So AMD executives said little about Shanghai until customers had tested it. The verdict, so far, seems to be thumbs-up.

"We knew the performance results would be good, but they exceeded our expectations," said Paul Gottsegen, a vice president of marketing in **Hewlett-Packard** Co.'s server business.

Sally Stevens, director of platform marketing at **Dell** Inc., estimated that Shanghai delivered about 37% better computing performance per watt of energy consumed—an important issue for customers worried about power bills. Dell, H-P, **Sun Microsystems** Inc. and **International Business Machines** Corp. say they plan to offer systems using Shanghai.

The Shanghai chips, which come in initial models that draw 75 watts and list from $377 to $989, can be plugged into systems that use AMD's Barcelona version with no hardware modifications. Both chips offer four processing units; the biggest technical benefits come from AMD's use of an advanced manufacturing process that creates smaller transistors that switch faster and use less power.

But AMD, which is hosting a meeting for analysts Thursday at its headquarters in Sunnyvale, Calif., still faces stiff headwinds. For one thing, Intel has been creating circuitry with similar dimensions for a year.

Aided by its own new products, Intel's 80.8% share of shipments of chips for PCs and servers in the third quarter is up more than four percentage points from the year-earlier period, according to the market researcher IDC, though AMD managed to boost market share in servers. Intel also next year is delivering the server version of a long-awaited design called Nehalem that it plans to introduce for desktop PCs on Monday.

A more pressing issue is the economy, which has raised questions about whether companies will curtail computer purchases. The concerns have hurt AMD's stock, which ended October at $3.50 a share—far below its 52-week high of $13.27 in November 2007—and has subsequently slid more than 20%. The stock traded at $2.60 Wednesday afternoon on the New York Stock Exchange.

"There is a lot of dread about the fourth quarter and first half of 2009," said Shane Rau, an IDC analyst.

But AMD's new chips are particularly suited for a task called virtualization, which allows customers to do more work with fewer servers and is expected to grow in popularity during the downturn. AMD previously eased some investor concerns with a deal to save money by spinning off its manufacturing operations to a new joint venture.

The company this week also is discussing moves to spur new uses for another class of chips—called GPUs, for graphics processing units—that are now mostly used with computer games or other specialized applications. The company on Dec. 10 is distributing a new driver program and other software to help further exploit GPUs, along with software for formatting video files faster. AMD also is unveiling new GPU hardware to be used along with server systems.

Thomson Reuters's net falls 87%

By Kevin Kingsbury

Thomson Reuters Corp. reported an 87% drop in third-quarter net income, reflecting a gain logged in the year-earlier period from the sale of Thomson Learning's higher-education business.

Net income fell to $381 million, or 46 cents a share, compared with $2.97 billion, or $4.61 a share, a year earlier, which included $2.66 billion in earnings from discontinued operations. Revenue increased 86% to $3.33 billion, helped by the acquisition of Reuters. Revenue on a pro forma basis rose 8%.

Chief Executive Thomas H. Glocer said Thomson Reuters's markets business had "good results" despite the recent turmoil. Earnings increased 20% on a pro forma basis amid cost cutting, while revenue increased 7%.

The company's professional business saw 10% revenue growth and 11% profit growth amid gains in online, software and services revenue. Thomson Reuters's legal business, which includes the Westlaw research service and is the segment's biggest portion, saw revenue increase 7% and earnings rise 13% amid higher margins.

Bloomberg News/Landov

Donatella Versace, left, and Jet Li at a Beijing event to promote the luxury-goods company's partnership with the actor to help victims of the Sichuan earthquake.

Versace expects Asia to be its second-largest market

By Loretta Chao

BEIJING—Asia is on track to overtake the U.S. as **Gianni Versace** SpA's second-largest market next year after Europe, the company's chief executive said.

"Our plan for Asia [was] set two years ago," Versace CEO Giancarlo Di Risio told reporters Wednesday in Beijing. "We are sticking with that plan....By 2009 [Asia] will be our second largest market after Europe."

Versace expects minimal impact from global financial woes on its sales, Mr. Di Risio said.

"For Versace, we can say for sure that the financial crisis has not yet made an impact on us." He said the company is looking toward next year "with the same level of enthusiasm."

Mr. Di Risio said in an interview that Asia would be the second-biggest market for Versace both in terms of revenue and investment. While Japan remains the largest luxury market within Asia, he expects that China—which, along with the Middle East, is one of the company's fastest-growing markets—eventually will be No. 1 in Asia.

China is "a developing market, and we have a lot of potential clients who have spending power," he said through an interpreter.

The Beijing news conference concerned Versace's partnership with Chinese actor Jet Li's philanthropic foundation to aid victims of the Sichuan earthquake in May.

> 'We have a lot of potential clients [in China] who have spending power.'

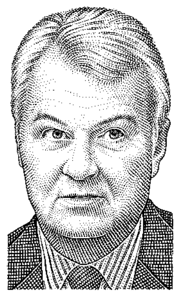
Versace, which has 21 boutiques in greater China, will unveil displays in all its windows here Friday to mark the sale of specially designed items, proceeds from which will go to the foundation to help it set up trauma centers for children in the earthquake zone.

The charitable partnership was part of the company's strategy in China to "show solidarity," Mr. Di Risio said.

E.ON earnings slide 93% as costs rise, investments sag

A WSJ News Roundup

German utility **E.ON** AG said third-quarter net profit slid 93% because of higher costs for building power plants and a dip in investment income, even though sales rose 39% thanks to higher prices for natural gas and electricity.



Wulf Bernotat

The Düsseldorf-based electricity and natural-gas provider said net profit fell to €100 million ($125.3 million) from €1.35 billion a year earlier. The result was hampered by a €280 million write-down on investments, which offset income from other securities.

"The bottom line was again considerably impacted by the revaluation of energy derivatives, which is always very difficult to predict," said Unicredit analyst Karin Brinkmann.

Sales, meanwhile, rose to €19.25 billion from €13.85 billion, largely because of rising demand in Europe and higher prices for natural gas.

In the first nine months of the year, net profit at E.ON, the world's largest investor-owned utility by market value, dropped 42% to €3.06 billion from €5.32 billion a year earlier. A 22% rise in sales to €60.46 billion failed to offset €334 million in write-downs.

Despite the drop in net profit, Chief Executive Wulf Bernotat said E.ON was set for growth. The company reiterated that full-year net profit would surpass last year's €7.2 billion by between 5% and 10%.

"The first nine months of 2008 clearly demonstrate that we've set the right course for making E.ON even more international, even more focused, and even more profitable," the CEO said in statement. "This will enable us to continue our growth strategy, even in the current financial crisis."

CORPORATE NEWS

EU approves Alitalia plan

Bid to rescue airline remains vulnerable to strikes by crew

Associated Press

Passengers lined up at an Alitalia counter near Rome on Wednesday. Strikes by crew opposed to the carrier's rescue plan have **grounded flights** in recent days.

*By **Stacy Meichtry** in Rome and **Alessandro Torello** in Brussels*

The European Union cleared the Italian government's latest plan to rescue **Alitalia** SpA, but the turnaround plan still faces a major obstacle: labor unrest.

Strikes by Alitalia pilots and cabin crew opposed to the turnaround plan have grounded dozens of flights in recent days, including the cancellation of 50 flights Wednesday. The labor unrest risks unraveling the Italian government's complex plan to sell Alitalia's takeoff and landing slots to Cia. **Aerea Italiana**, a new company formed by a group of Italian investors.

Rome has touted the plan as the airline's last hope of avoiding bankruptcy after several failed attempts by successive governments to prop up the airline with state funds. The European Commission, the EU's executive body, had warned Rome that it wouldn't allow further state aid to Alitalia, which has €1.2 billion ($1.5 billion) in debt.

A key pillar of Rome's rescue plan is expected to leave taxpayers to shoulder most of the debt, shielding the new company, known as CAI, and its investors from the airline's many creditors.

Prime Minister Silvio Berlusconi in August rewrote Italy's bankruptcy law to allow Alitalia to sell its newer planes and other commercially viable assets to CAI under the umbrella of bankruptcy protection. Alitalia's unsold assets and most of its debt, meanwhile, will remain in a so-called old company that will undergo liquidation.

European Transport Commissioner Antonio Tajani said Wednesday that the rescue plan doesn't constitute state aid. "The process...represents a real privatization," Mr. Tajani said at a news conference. Mr. Tajani, who was nominated for the post by Mr. Berlusconi, called for the establishment of a "monitoring trustee" to ensure that Alitalia's planes and slots are sold to CAI at fair-market value.

The European Commission also ruled that a €300 million loan to Alitalia granted by Italy's previous, left-wing government was illegal. The commission said the loan should be repaid by the old company, not CAI or its investors.

With the EU's approval in place, CAI can proceed with plans to buy Alitalia's assets and merge them with **Air One** SpA, a smaller domestic rival. Alitalia also is in talks with Franco-Dutch carrier **Air France-KLM** SA and Germany's **Deutsche Lufthansa** AG over the possible sale of a minority stake in the relaunched airline.

It was unclear whether the new airline will manage to contain the labor unrest that has crippled Alitalia in the past. CAI recently struck a deal with some of Alitalia's largest unions to hire more than 12,500 employees from the carrier's current staff of about 18,000 people. Many pilots and cabin crew, however, remain opposed to the agreement, which calls for employees to clock more flight time and serve more destinations.

Iberia's net sinks 80% amid higher fuel costs

By Jason Sinclair And Santiago Perez

MADRID—**Iberia Líneas Aéreas de España** SA posted an 80% decline in third-quarter profit, hurt by higher fuel costs and weakening demand in its home market. The airline's chairman, meanwhile, said merger talks are progressing with **British Airways** PLC.

Calling the merger a "complex process," Iberia Chairman Fernando Conte on Wednesday said the U.K. carrier's pension liabilities represent one of the hurdles to the negotiations.

Mr. Conte also said it was premature to provide a time frame for the deal but expects to have a firmer time scale by year end.

The U.K. and Spanish carriers, which have a longstanding codesharing agreement, announced in July an all-share merger valued at £3.16 billion ($4.86 billion), with exact terms to be set later. BA's pension plan in August showed a deficit of about £1.7 billion. Iberia, in contrast, has no debt and about €2 billion ($2.51 billion) in cash.

Iberia shares have lost 43% so far this year, because of volatile fuel prices and a weakening economic environment across all of its main markets. The airline's shares, however, have outperformed British Airways' amid speculation that the merger negotiations may result in a higher swap ratio for Iberia because of the size of the U.K. carrier's pension liabilities.

In Spain Wednesday, shares of Iberia fell 1.2% to €1.69. BA shares fell 7.1% to 143.10 pence in London.

Iberia, Spain's largest airline by sales, reported a net profit of €30.3 million, compared with €148.1 million a year earlier. Fuel costs, which made up more than a quarter of the airline's total expenses year to date, jumped more than 59% to €469.4 million in the latest quarter, while operating costs increased 3.8% to €1.44 billion.

Revenue slipped 0.2% to €1.46 billion.

Marketplace

Game over?

Nintendo, Sony may find tough competition from Apple's iPhone > **Page 29**

Delta widens international reach

Associated Press

Associated Press

Delta plans to add **15 international routes** starting in the spring. International flights have been a growth engine for airlines because of the premiums they can charge.

ATLANTA—Fresh off its acquisition of Northwest Airlines, **Delta Air Lines** Inc. said it plans to add 15 international routes starting in the spring.

It was unclear whether the new routes will mean another year of capacity growth outside the U.S., however, as the carrier will cut flight frequency on other routes.

Several major carriers, including Delta, have raised ticket prices, added or raised fees and made large cuts to U.S. domestic capacity this year and have said they are prepared to make further such cuts next year. International flights have been a growth engine for airlines because of the premiums they can charge. But even Delta, which has seen a double-digit increase in international capacity this year, has started to slow down. Atlanta-based Delta's acquisition of Northwest closed Oct. 29.

Robert Cortelyou, a Delta network-planning executive, told reporters that the airline has seen strong growth in some of the new markets where the airline is heading.

Standard & Poor's analyst Philip Baggaley said some of the markets Delta where is adding routes have been relatively insulated from the global slowdown, though he said it is inevitable those areas will feel some pain in the future.

Last month, a Delta executive said fourth-quarter international capacity growth would be about two percentage points less than previously expected. **UAL** Corp.'s United Airlines said international capacity would shrink 7% to 8% next year and **AMR** Corp.'s American Airlines said its international capacity would decline nearly 1% percent next year.

Delta on Wednesday didn't provide international capacity expectations for next year. A spokeswoman said Delta is trimming international flight frequency on certain routes at off-peak times .

Delta Wednesday said its international plans for next year include new flights from New York's JFK International Airport to Prague and Zurich. The airline also is adding three nonstop trans-Pacific flights between the U.S. and Tokyo's Narita International Airport. That includes new flights from Salt Lake City and JFK. Delta also will add flights between Atlanta and Nairobi, Kenya, and Cape Town, South Africa, via Dakar, Senegal. Among other additions, Delta said it plans to add a second nonstop flight between JFK and Tel Aviv.

CORPORATE NEWS

Horizon is looking dark for shippers like Maersk

By John W. Miller

The shipping industry received further glum news Wednesday as shipping giant **A.P. Moller Maersk** A/S reported that volumes slipped 3% during the third quarter from a year ago.

Analysts forecast that after a decade of 10%-15% growth, container shipping will be flat in 2009 as slowing economies shrink ocean trade.

"The container industry is heading into its darkest storm ever," said David Hallden, an analyst with Credit Agricole Cheuvreux. Freight rates, especially between Asia and Europe, the world's busiest route, have collapsed due to the decline in trade and a glut of vessels. The 20- or 40-foot long steel boxes known as containers carry 90% of the global goods trade.

Maersk has begun selling off ships it doesn't need and trimming staff, say analysts. Maersk and other lines also have said they will eliminate some of their undersubscribed runs between Asia and Europe.

Maersk also produces and ships crude oil in the North Sea, Qatar, Algeria and Kazakhstan.

Charter rates for oil tankers have held steadier than the steep declines seen in shipping rates for dry-bulk carriers and container ships. The Baltic Dry Index, which measures dry-bulk shipping rates on 40 routes across the world, has fallen more than 90% since May.

The Copenhagen-based conglomerate, which also owns an oil-services firm and a 20% stake in Danske Bank Group, reported that profit rose 22% for the first nine months of the year to 17.69 billion Danish kroner ($2.98 billion) and revenue rose 28% to 231.4 billion kroner, thanks mostly to its oil units. The financial crisis and the recent collapse of the oil price to under $60 a barrel from more than $140 this summer will hurt Maersk going forward, analysts said.

"There are two sides to the oil coin," says Morten Eismark of Danske Securities, but Maersk's losses in its oil businesses would outweigh gains in its shipping division from cheaper transportation fuel.

The company now predicts a profit ceiling of $4.3 billion for 2008, instead of $4.6 billion, because of developments "in container freight rates, transported volumes, exchange rates, oil prices and prices of securities."

Maersk also forecast 2009 profit of $3 billion—a figure that analysts called optimistic.

Chief Executive Nils Smedegaard conceded that 2009 would be a "challenging" year. But, he said, "we have a good cash flow and cash position."

Maersk's shares fell 3.9% in Wednesday trading in Copenhagen, to 29,600 kroner ($4,982). Maersk has lost roughly half its market capitalization value since August.

—Gustav Sandstrom contributed to this article

U.K. retail magnate Green acquires stake in Moss Bros

By Hannah Benjamin

LONDON—British retail magnate Philip Green said Wednesday he snapped up a stake in high street menswear retailer **Moss Bros Group** PLC, saying he considers the British economy's hard times as good for Moss Bros clothing rentals.

"We don't know yet what the plan is," said Mr. Green in an interview. "But I think the benefit for us is there in terms of hire and that it's a good time to be in that market."

Mr. Green bought the 28% holding in the suit and wedding hire specialist from beleaguered Icelandic investment group **Baugur Group** Hf. The shares had been held by Kaupthing Bank on behalf of Baugur. Last month Mr. Green said he remained interested in the Icelandic investment firm, which has stakes in Debenhams PLC, Woolworths Group PLC, French Connection Group PLC.

In September, Moss Bros Chief Executive Philip Mountford said the company could hold full-year sales steady because people will dress smarter to try and keep their jobs as the U.K. economy falls into recession.

Mr. Green's investment vehicle, **Warbeck Holding** Co., acquired 26,896,932 shares in Moss Bros at a price of 24.95 pence a share, and Mr. Green said it is considering making an offer for the remaining stake. The possibility that Mr. Green would make a full offer sent Moss Bros shares up 68% in London, closing up 10.75 pence at 26.5 pence.

"I don't know yet if we will make an offer," said Mr. Green on the subject of a full buyout. "I just think it's a well-established business that's been around a long time and I think it gives us another opportunity on the high street. "We think it's a decent market and I feel we could do a lot more with more scale." Through **Arcadia Group** Ltd., Mr. Green runs British clothing chains Top Shop, Miss Selfridge, Wallis and Dorothy Perkins.

"Philip is very highly regarded in retail, not just here but worldwide, and I'm sure his motives are very honorable and proper and good for us," said Moss Bros Finance Director Michael Hitchcock.

GLOBAL BUSINESS BRIEFS

Siemens AG

Barbara Kux is appointed to the management board

German engineering giant **Siemens** AG said Wednesday that Barbara Kux will become the first woman to join its management board in the company's 160-year history. Ms. Kux will join the board—which is being expanded to nine people—on Nov. 17 and be responsible for supply-chain management. She joins Siemens from **Philips Electronics** NV, where she served as chief procurement officer. The appointment is part of a broader management shake-up at Siemens in the wake of a corruption scandal that erupted in 2006, triggering several high-profile resignations. Very few of Germany's largest publicly traded companies have female members on their management board.

Eurasian Natural Resources

Kazakh miner **Eurasian Natural Resources** Corp. Wednesday said it was cutting production and costs, and it expects 2008 earnings toward the low end of expectations after a sharp drop in demand for its key commodities. ENRC's main products are ferrochrome and iron ore, both used in steel production and seen as particularly vulnerable as steelmakers reduce output. The group is cutting 2008 ferrochrome production by 8% below 2007 levels, and iron ore 12% lower. ENRC said analysts expect 2008 earnings before interest, taxes, depreciation and amortization within a range of $5.15 billion to $4.31 billion and net profit from $3.19 billion to $2.69 billion. "We are comfortable with the lower end of analyst market expectations," said Mr. Perry.

Electricité de France SA

Electricité de France SA Wednesday posted a 6.9% increase in revenue for the first nine months of the year thanks to higher prices and tariffs. Revenue rose to €45.59 billion ($69.66 billion) from €42.64 billion a year earlier, the state-controlled electricity company said. EDF also said it benefited from "growth in the volumes of electricity and gas sold," notably because of colder weather conditions. In the third quarter, EDF's revenue rose 8.3% to €13.4 billion. EDF maintained its objective of organic growth in earnings before interest, taxes, depreciation and amortization of about 3% for the full year. Europe's biggest utility by market value said its financial structure is solid and that it has secured the funding for the planned acquisition of nuclear operator British Energy PLC.

Veolia Environnement

French water, waste, transport and energy-services group **Veolia Environnement** Wednesday reported a 13% rise in revenue for the first nine months of the year, helped by higher energy prices and a change in tariff rules in France. Revenue rose to €26.32 billion ($32.97 billion) from €23.32 billion. Operating cash flow increased 4.1% to €3.07 billion from a restated €2.95 billion for the same period a year earlier. However, the world's largest water company by sales said lower contributions from waste operations and its German and Central European water divisions in a weaker economic environment limited growth in the third quarter. Veolia reiterated it expects full-year cash flow from continuing operations of between €4.1 billion and €4.2 billion, little changed from last year.

ABB Ltd.

Cash-rich **ABB** Ltd. said it will buy Canada-based **Ber-Mac Electrical and Instrumentation** Ltd. ABB, which declined to specify the takeover price, said Ber-Mac has annual sales of about $100 million. Analysts estimate the Swiss electrical-engineering company might have spent $80 million to $120 million on the deal. Zurich-based ABB said the takeover—the second substantial acquisition since it ousted former Chief Executive Fred Kindle—should boost its oil and gas operations in the U.S. and Canada. ABB said it was continuing to look out for acquisitions and that the company was likely to spend between $500 million and $1 billion for a potential takeover target in areas such as renewable energy and power storage equipment.

LVMH

French luxury-goods company **LVMH Moët Hennessy Louis Vuitton** SA on Wednesday sought to reassure investors, saying that its growth in China remains "very dynamic" and that the situation won't change in coming months. The company put out the brief statement in response to an 11% slide in its share price Tuesday, which came as analysts expressed worries that LVMH's performance in China this year wouldn't match up to expectations while LVMH's major markets in the West suffer. LVMH said Wednesday that its Louis Vuitton brand in China was recording 30% organic growth over "the last months and the last weeks," without elaborating. LVMH shares rose 4.1% early on Wednesday, but ended basically flat at €43.74.

NTT DoCoMo Inc.

NTT DoCoMo Inc. said it will buy a 26% stake in Indian mobile-phone carrier Tata Teleservices for about $2.7 billion, as Japanese companies buoyed by a strong yen hunt for overseas deals. The companies said they "expect to expand mobile communication operations in the fast-growing Indian mobile market, aiming to increase operating revenue and achieve steady business growth." Under the agreement, NTT DoCoMo will buy as much as 20% of the outstanding common shares of Tata Teleservices Maharashtra Ltd. through a joint tender offer with **Tata Sons** Ltd., the holding company of the Tata Group conglomerate. The additional 6% stake will be purchased from existing shareholders.

Axel Springer AG

Berlin-based publisher **Axel Springer** AG said net profit for the first nine months of the year more than tripled, thanks to a divestment gain. The company also confirmed its full-year outlook. Net profit rose to €554 million ($694 million) from €173.8 million a year earlier. In May, Axel Springer booked a gain of £438 million from selling its minority stake in pan-European broadcaster ProSiebenSat.1 Media AG to majority shareholders and private-equity firms Kohlberg Kravis Roberts & Co. and Permira. Nine-month sales meanwhile were up 8.1% to €1.99 billion, boosted by consolidation effects. Axel Springer said that it expects full year sales and adjusted earnings before interest, tax, depreciation and amortization, or Ebitda, to be above last year's.

British Airways PLC

Three former **British Airways** PLC executives and one current employee were released on unconditional bail Wednesday after appearing at a London court in relation to criminal charges in an airline fuel-surcharges case. In early August, the U.K.'s Office of Fair Trading brought charges against Martin George, Alan Burnett, Iain Burns and Andrew Crawley for allegedly fixing prices charged by British Airways and **Virgin Atlantic Airways** Ltd. The regulator accuses BA of colluding with Virgin Atlantic to fix fuel surcharges on long-haul flights. Mr. Crawley remains head of sales at BA. A lawyer representing Messrs. Burns and Burnett declined to comment while representatives for Messrs. Crawley and George couldn't be reached. BA declined to comment on a continuing case.

Macy's Inc.

Macy's Inc. swung to a fiscal third-quarter loss as revenue slid 7%. The department-store operator said it will cut its planned capital spending for the coming fiscal year to between $550 million and $600 million. The current fiscal year's figure is projected to be $950 million. For the quarter ended Nov. 1, Macy's posted a net loss of $44 million, or 10 cents a share, compared with net income of $33 million, or eight cents a share, a year earlier. Both periods included two cents a share in restructuring-related costs. Macy's said last week that revenue for the quarter fell to $5.49 billion from $5.91 billion. Same-store sales, or sales at stores open at least a year, declined 6%.

Air Arabia PJSC

Air Arabia PJSC, the Middle East's biggest budget airline, said Wednesday it will buy 10 more Airbus A320 planes as it prepares to open a new hub in Morocco. The order follows a deal for 34 of the single-aisle planes, Airbus's most popular model, late last year. Like U.S.-based Southwest Airlines Co. and other discount carriers, Air Arabia's reliance on a single plane type lets it keep training and maintenance costs relatively low. The airline didn't say how much it will pay for the aircraft. Airbus, owned by **European Aeronautic Defence & Space** Co., lists the A320 at an average price of $76.9 million a piece, although buyers often negotiate discounts for bulk orders.

Panasonic Corp.

A joint venture between **Panasonic** Corp. and **Hitachi** Ltd. said it will manufacture liquid-crystal-display television modules in Malaysia by the end of November, with an initial investment of about 900 million yen ($9.2 million). IPS Alpha Technology Ltd. said it will open a factory by February with an initial output of 50,000 units a month, aiming to increase that to three million units a year. LCD-TV modules will be supplied to Panasonic's TV-assembly plants in Malaysia and other Asian countries to respond to demand for flat-panel TV sets there. IPS's investment comes as global demand for LCD television sets sags and companies post shrinking profits from the business. Nevertheless, IPS Alpha also plans to open a factory in Japan in 2010 to make LCD panels.

—Compiled from staff and wire service reports.

U.S. Treasury shifts focus of rescue plan

Purchase of illiquid assets is put on hold; new proposal would require firms seeking aid to raise private capital

By Greg Robb
And Deborah Solomon

WASHINGTON—U.S. Treasury Secretary Henry Paulson laid out details for the next stage of the government's financial-market rescue package Wednesday, announcing he has shelved the original plan to buy troubled mortgage assets while turning his attention to nonbank financial institutions and consumer finance.

In a review of the $700 billion rescue effort, Mr. Paulson defended the steps taken to date, but he also said financial markets remain fragile and that the focus must remain on "recovery and repair."

"I believe we have taken the necessary steps to prevent a broad systemic event. Both at home and around the world, we have already seen signs of improvement," Mr. Paulson said in a speech at the Treasury Department.

But in a striking admission, Mr. Paulson said buying up mortgage assets "is not the most effective way" to use government funding.

Purchasing these so-called toxic assets was once the cornerstone of the rescue plan for financial markets and was almost the entire focus of Congress when the package was being debated before its enactment. But almost as soon as Treasury received the money, it decided that giving capital to banks in return for preferred stock was a better use of the funds.

Associated Press

U.S. Treasury Secretary **Henry Paulson** gives an update on the government's financial-rescue plan Wednesday. He said some of the money saved from not buying illiquid assets will be used to shore up the market for auto loans and student loans.

Mr. Paulson said he is "still comfortable" with the $700 billion price tag for the rescue plan and that he doesn't need to go to Congress for additional funds.

The secretary said he met with members of President-elect Barack Obama's economic team to discuss the rescue package this week.

Some of the money saved from not buying mortgage assets will be used to shore up the market for credit-card receivables, auto loans and student loans, Mr. Paulson said.

"This market, which is vital for lending and growth, has for all practical purposes ground to a halt," Mr. Paulson said.

Meanwhile, Treasury is considering requiring that firms seeking future government money raise private capital to qualify for public assistance, according to people familiar with the matter.

The move isn't expected to apply to the existing $250 billion capital-purchase program, which is already injecting money into banks. But Treasury is considering attaching such conditions to any of its future capital investments, these people said.

House Financial Services Chairman Barney Frank, meanwhile, disagreed with putting asset purchases on hold. "We have a need to use that funding" for that purpose, Rep. Frank, a Massachusetts Democrat, said at a hearing on Capitol Hill. Rep. Frank noted that Congress gave Treasury explicit authority to buy mortgage-backed securities and whole mortgage loans as part of TARP.

Treasury has just $60 billion left in its rescue fund, and either the current or next administration will have to turn to Congress to request the second half of the promised $700 billion. Treasury has so far committed $250 billion to banks and is spending an additional $40 billion to buy preferred shares in **American International Group** Inc., a big insurer.

In another step, U.S. bank regulators could announce guidelines by the end of this week designed to encourage U.S. banks to remain active lenders as financial markets are squeezed. Many U.S. companies and individuals have become dependent on bank credit lines as financial markets have tightened up. The regulatory guidelines could also address sensitive issues of bank dividend payments and executive pay.

The fact that Treasury may require firms to raise money marks a new phase for the government, which had resisted such a move. Before launching its $250 billion capital-purchase program last month, Treasury toyed with requiring banks to raise matching funds alongside government investment, but it thought that might discourage some firms from participating. It also worried that firms wouldn't be able to raise private money in the current market environment.

—Damian Paletta contributed to this article.

Fed official wary of industry aid

By Sudeep Reddy

A top U.S. Federal Reserve official said Wednesday that the central bank may need to take more steps to relieve strained credit markets but pushed back against the prospect of aiding specific industries.

In a speech in Luxembourg, Fed Vice Chairman Donald Kohn said "central banks should distance themselves from decisions about the allocation of credit among private parties" except in extreme cases when financial markets break down and "systemic risk reaches unacceptable levels."

The comments came as lawmakers and lobbyists in Washington stepped up calls for the Fed to support the ailing auto sector through special loans. Fed officials have resisted suggestions that the central bank should lend directly to the auto sector, hoping to defer to Congress and Treasury the channeling of credit to specific firms or industries. The Fed has expanded its reach in the past year to securities firms and an insurer amid concerns about the stability of the broader financial system.

Donald Kohn

In his speech, Mr. Kohn said some of the Fed's temporary lending programs, such as currency swaps with other central banks and auctions for credit at the Fed's discount window, might become permanent. He said some special lending facilities, such as a program for the commercial-paper market, "are clearly emergency operations only" and would be wound down.

Mr. Kohn indicated that the Fed's work through lending programs may not be completed. "Although we have seen signs of improvement, financial-market functioning remains impaired in many ways, and we will need to continue to consider whether additional steps are needed to reopen credit flows and support the economy," he said.

Mr. Kohn acknowledged the Fed's shortcomings in understanding the effects of the financial turmoil. "The recent experience indicates that we did not fully appreciate how financial innovation interacted with the channels of credit to affect real economic activity—both as credit and activity expanded and as they have contracted," he said.

The remarks came as government officials reevaluate their approach to the credit-market turmoil. Wednesday, U.S. Treasury Secretary Henry Paulson announced he would alter plans for a $700 billion financial-sector rescue to consider new approaches to support consumers' access to credit. At the same time, the Fed joined with other bank regulators in leaning on banks to maintain lending and in providing guidance on their dividend policies and management compensation.

"Banking organizations should strive to maintain healthy credit relationships with businesses, consumers, and other creditworthy borrowers to enhance their own financial well-being as well as to promote a sound economy," the Fed said in a joint statement with the other bank regulators. The bank regulators also said bank supervisors would be aware that tightening credit could worsen the economic downturn and would "encourage banking organizations to practice economically viable and appropriate lending activities."

On Other Fronts

Mining for particles

In quest for dark matter, some scientists go hunting for wimps > **Pages 16-17**

Russia may use reserves; Ukraine's outlook sags

A WSJ News Roundup

MOSCOW—Russia may have to tap into rainy-day reserves of billions of dollars to help state finances through the economic crisis and declining oil profits, while Ukraine unveiled new industrial production figures that showed the country moving quickly toward a recession next year.

Russian Finance Minister Alexei Kudrin's statement came as the ruble and Russian stocks continued to fall as the country struggles through its worst economic crisis in a decade and as the Central Bank said it will scale back its defense of the national currency. The country's two chief stock exchanges were again shut after sharp stock declines and the central bank spent about $2 billion defending the currency early Wednesday, traders said.

In remarks before the Russian upper house of parliament, Mr. Kudrin forecast oil prices to average $50 a barrel next year and $55 in 2010, but said "it would not affect the spending plans in any way."

The Russian government had previously forecast oil prices at $95 a barrel for the 2009 budget, but Urals blend crude—the primary kind of oil produced by Russia—was down to $53 Wednesday.

To make up for the state's lower oil profits, Mr. Kudrin said the government was considering tapping the massive Reserve Fund. The fund consists of oil taxes and was set up several years ago to give the government a cushion against economic blows. Before the crisis hit, talks of tapping the fund was all but taboo.

"We will be using the Reserve Fund if oil profits are less than they are described in the budget," Mr. Kudrin said.

Meanwhile, in neighboring Ukraine, industrial output plunged almost 20% in October from October 2007—the biggest drop since early post-Soviet days. The fall highlighted the decline in world demand for the country's steel exports and moves the country closer to a recession next year.

Ukraine agreed to a $16.5 billion loan from the IMF last month, but after the data analysts question whether that higher-than-expected amount would be enough to stop Ukraine's economy from entering free fall.

Political instability, almost constant since the 2004 "Orange Revolution" brought pro-Western politicians to power, showed little signs of abating. President Viktor Yushchenko acknowledged that a snap poll he called wouldn't take place by the end of the year and parliament sacked its chairman.

Other data Wednesday from the State Statistics Committee showed October industrial output plunged 19.8% year-on-year, the third month in a row output fell year-on-year.

Oil-field production drops are accelerating

As oil firms cut back IEA report warns of a new supply crunch

By Guy Chazan

Oil fields world-wide will experience faster production declines in coming years as the industry moves offshore and into smaller fields, in a further sign that future supplies could be tighter than previously thought, the International Energy Agency said Wednesday.

The Paris-based watchdog, which represents the interests of energy-consuming nations, made its prediction in a detailed analysis of 800 of the world's oil fields—the first report of its kind.

The IEA has a reputation as one of the few serious independent sources of energy data, and the results will be studied closely by big oil companies and by Wall Street. The report is likely to deepen the pessimism about long-term oil supply that is taking root among some oil executives, economists and market analysts.

The study, part of the IEA's annual World Energy Outlook, shows that the investment needed to increase overall oil production as well as offset falls at the world's aging fields may be much higher than initially estimated.

The world will have to invest $26.3 trillion by 2030, or more than $1 trillion a year, to ensure adequate energy supplies, the IEA said. That is $4 trillion more than its year-earlier estimate.

That estimate comes amid a global financial crisis that has reduced the appetite of energy companies to invest, setting the scene for a supply squeeze that could choke economic recovery.

Oil and gas firms world-wide are putting off major projects and curbing capital spending amid plunging crude prices and a slowdown that has slashed demand for oil. U.S. benchmark crude closed down $3.17, or 5.34%, on Wednesday on the New York Mercantile Exchange at $56.16 a barrel—its lowest close since Jan. 29, 2007.

"When demand starts to pick up, say in 2010, if the current investment plans are postponed we may see a supply crunch that is much stronger than what we saw last year, and prices that are much higher," said Fatih Birol, the IEA's chief economist and leader of the field analysis.

Opportunities to invest are more constrained than in the past. International oil majors such as **Exxon Mobil** Corp. and **Royal Dutch Shell** PLC are being squeezed out of the world's main oil-producing areas by national oil companies. It's uncertain whether these state-run behemoths are willing—or able—to make the kind of investments the world needs.

The American Petroleum Institute said the IEA's report underlined the need for the U.S. to develop its own oil and gas resources. "The new administration and Congress should not reimpose the ban on U.S. oil and natural gas development, or otherwise set restrictions that would keep off-limits some of our nation's most promising resources," it said.

Despite the short-term effects of the global slowdown, the IEA said energy demand would continue to grow 1.6% a year on average from 2006 to 2030—a total increase of 45%. Demand for oil is expected to rise to 106 million barrels a day in 2030—10 million barrels a day below what than the agency predicted last year—from about 85 million barrels a day now.

One of the most troubling trends identified in the IEA's report was that of declining production at the world's existing oil fields. The analysis, which included fields accounting for more than two-thirds of the crude oil produced globally in 2007, found that decline rates would rise in the long term, from an average of 6.7% today to 8.6% in 2030.

"Even if oil demand was to remain flat to 2030, 45 million barrels per day of gross capacity—roughly four times the current capacity of Saudi Arabia—would need to be built by 2030 just to offset the effect of oil-field decline," said IEA Executive Director Nobuo Tanaka.

Part of the problem is that a growing share of oil production is expected to come from smaller reservoirs and offshore fields, which tend to decline more quickly once they have reached their peak than big onshore fields. That is bad news for a world looking to big deepwater projects offshore Brazil, Angola and Nigeria to underpin future supply growth.

The bulk of the world's crude comes from a small number of very prolific fields. Some have been producing for many years, and in some cases, for decades. But the IEA found that output at 16 of the world's largest fields is below historic peaks. The biggest fall was at Samotlor, a massive Russian field in Siberia. Cantarell in Mexico, Ahwaz in Iran, and Greater Burgan in Kuwait also saw big drops.

The good news is that Ghawar in Saudi Arabia, the world's largest oil field, is still producing near its peak, though it entered production 57 years ago. Engineers have been able to keep output stable for longer by injecting seawater into the reservoir, pushing oil up toward producing wells. Enhanced oil-recovery techniques have been used to boost capacity in the mature parts of the field.

The IEA stressed that decline rates vary markedly by region, with the lowest in the Middle East and the highest in the North Sea. It said North Sea fields have declined 11.5% a year on average since their peak, while Middle East fields have averaged less than 3% a year.

Declining fields

The world's 10 biggest oilfields by production, in thousands of barrels per day

Field (country)	Year of discovery	Peak annual production	2007 production
Ghawar (Saudi Arabia)	1948	**5,588** (1980)	**5,100**
Cantarell (Mexico)	1977	**2,054** (2003)	**1,675**
Safaniyah (Saudi Arabia)	1951	**2,128** (1998)	**1,408**
Rumaila N&S (Iraq)	1953	**1,493** (1979)	**1,250**
Greater Burgan (Kuwait)	1938	**2,415** (1972)	**1,170**
Samotlor (Russia)	1960	**3,435** (1980)	**903**
Ahwaz (Iran)	1958	**1,082** (1977)	**770**
Zakum (Abu Dhabi, UAE)	1964	**795** (1998)	**674**
Azeri-Chirag-Guneshli (Azerbaijan)	1985	**658** (2007)	**658**
Priobskoye (Russia)	1982	**652** (2007)	**652**

Source: International Energy Agency's World Energy Outlook

U.S. aid official is killed by militants in Pakistan

By Zahid Hussain

ISLAMABAD, Pakistan—Suspected Islamic militants shot dead a U.S. aid official and his driver in the city of Peshawar on Wednesday, the latest incident in a wave of violence gripping Pakistan's volatile northwestern region.

Police identified the aid worker as Stephen Vance and said he was heading toward his office in the city's upscale University Town area when unidentified gunmen ambushed his vehicle. Police said the assailants opened fire with automatic weapons after blocking the car in a narrow street.

The U.S. Embassy in Islamabad confirmed an American had been killed, but withheld his name. "The attack is currently under investigation and we are coordinating with the local authorities," a spokesman said. He said the dead man wasn't part of the U.S. diplomatic corps in Pakistan, but was serving in the country in a "private capacity."

It was the second recent attack in Peshawar, the capital city of North West Frontier Province, to target a U.S. official. In August, Lynne Tracy, the top U.S. diplomat in northwestern Pakistan, narrowly survived a gun attack on her armored vehicle in the same area.

Mr. Vance worked for the Federally Administered Tribal Areas Development Authority, a Pakistani government organization that provides aid, including U.S. funds, and development to the violence-torn autonomous region bordering Afghanistan. The area has become the main stronghold of al Qaeda and Taliban militants.

The U.S. has provided millions of dollars for building roads, schools and hospitals in the region, but the work has slowed because of escalating violence.

No one has claimed responsibility but police suspect Tehrik-e-Taleban Pakistan, an outlawed militant outfit. The group has carried out a series of suicide attacks in Peshawar and other parts of the province.

Hours after the Peshawar shooting, a suicide bomber rammed his explosives-filled van into the gates of a school in the nearby Charsadda district, killing at least three paramilitary soldiers.

The school in Subhan Khaur village is being used by security forces battling Taliban militants in the region.

On Tuesday, a suicide bomber killed four people including a policeman outside Peshawar's sports stadium. At least 13 others were wounded in the bombing, which took place during the closing ceremony of a sports event attended by thousands of people including senior government officials and ministers. A spokesman for Tehrik-e-Taleban Pakistan claimed responsibility.

Pakistani troops also continued their search Wednesday for Humvee armored vehicles and other military equipment seized by militants when they ambushed a convoy of trucks carrying supplies for NATO forces in Afghanistan.

The ambush occurred Monday in the Khyber tribal agency near Peshawar, the main route through Pakistan for supplying NATO forces across the border.

Pakistani officials say more than 350 trucks daily carry an average of 7,000 tons of goods over the Khyber Pass to Kabul. So far, there is no trace of the goods or the 26 truck drivers taken hostage by militants.

Violence has escalated in northwestern Pakistan after thousands of Pakistani troops launched a massive operation in August against al Qaeda and Taliban militants in the Bajur tribal region that borders Afghanistan's Kunar Province.

Oil slump threatens Iran's plans

By Roshanak Taghavi

TEHRAN—Tumbling oil prices are posing a threat to Iran's ability to finance expansion plans in its petroleum industry, Iranian government officials said.

Falling oil revenues mean less government funding for the sector. And big Asian investors, who have poured billions of dollars into the industry recently, may be preoccupied with commitments closer to home as the global economic crisis washes up on Asian shores.

Dwindling oil investment is bad news for Tehran, which has struggled for years to boost hydrocarbon output. But it could also be trouble for consuming countries, which are depending on oil-production increases to meet demand growth expected beyond today's economic downturn.

As global oil prices fall, big producers in the Middle East have been revising spending plans. Iraqi officials this month cut next year's proposed budget, and Saudi Arabia this week said it is reviewing a big aluminum project. But so far, the region's petro-states have stood by plans to boost oil production.

Recently, Tehran has plowed much of its oil revenue back into the industry. That has helped to make up for natural decline rates characteristic of Iran's mature fields.

National Iranian Oil Co. is spending $16 billion on petroleum projects this year, up from $12 billion last year, according to government figures. With government coffers flush, parliament this year allocated an additional 3% of Iran's oil income to the South Pars offshore natural-gas development.

But that sort of increased government funding is now in danger as oil prices fall. Akbar Torkan, Iran's deputy oil minister for planning, said in an interview that Iran needs an oil-export price of about $90 a barrel to keep from running a budget deficit.

Assuming Iranian prices average just $60 a barrel for the second half of the year, the full-year average would still be between $92 and $93 a barrel, according to Iranian figures.

While this year's spending looks safe, oil-industry investment next year could suffer because of the drop in crude prices, Mr. Torkan said.

"The first effect of this reduction of the income will be on projects in the field of oil development and gas development," he said.

U.S. benchmark crude traded Wednesday down $1.83, or 3.08%, at $57.50 a barrel, down well over half from its July high above $147 a barrel. (Iranian crude sells at a discount to U.S. crude.)

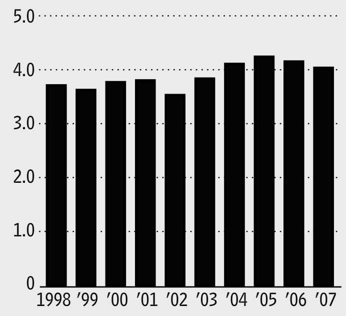
While U.S. and United Nations sanctions have all but shut out American and Western European companies, Asian investors have provided another source of cash lately. Last year, China said it will invest $2 billion in an Iranian oil field, and a Malaysian company committed to investing in a $16 billion natural-gas project.

These and other potential Asian partners are now bracing for fallout from today's global economic crisis, making further commitments less likely, economists and officials said.

"It is harder [for oil producers] to get money from the international market," said Hojatollah Ghanimifard, the NIOC'S deputy director for investment affairs.

Cash pipeline

Iran's total oil production, in thousands of barrels per day



Source: U.S. Energy Information Administration