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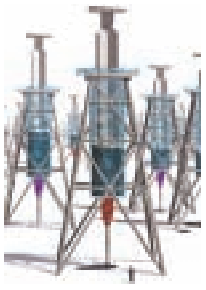

How to kick oil addiction despite plunging prices

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Euro zone's recession puts pressure on global leaders

NEWS IN DEPTH | PAGES 16-17

U.S. banks boost lending, but economy still slumps

Offering more loans doesn't fix problems in securities markets

By Jon Hilsenrath

All around Washington, policy makers are scrambling to figure out how to get banks lending again. Lawmakers have criticized banks for not using new federal money to make loans and have threatened to place conditions on additional money. Regulators last week sent out a directive, encouraging banks not to hold back on lending.

But there's a flaw in that logic. Banks actually are lending at record levels. Their commercial and industrial loans, at $1.6 trillion in early November, were up 15% from a year earlier and grew at a 25% annual rate during the past three months, according to weekly Federal Reserve data. Home-equity loans, at $578 billion, were up 21% from a year ago and grew at a 48% annual rate in three months.

THE OUTLOOK

The numbers point to one of the great challenges of the crisis. The credit crunch is surely real, but it is complex and not easily managed. Banks are lending, but they're also under serious strain as they act as backstops to a larger problem—the breakdown of securities markets.

The worst of the credit crisis is being felt not in banks but in financial markets. Loans from a bank might stay on its books. Increasingly in the past decade, loans were packaged into securities and sold to investors around the world—pension funds, endowments, mutual funds, hedge funds and others. Institutional investors gobbled up this and other kinds of credit that didn't come via traditional commercial banks, such as junk bonds or commercial paper.

To get credit flowing, policy makers need to repair financial markets as well as banks. But investor confidence in credit markets has been shattered, in part because many debt securities performed so much worse than their credit ratings suggested they would.

Issuance of asset-backed securities—instruments used to package credit-card and auto-loan debt during the boom—was down 79% in the

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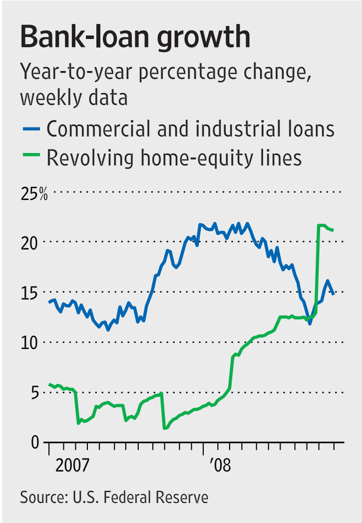

What's News—

Business & Finance

U.K. auto makers appealed to the government for help on their financing of car loans, as forecasts for Britain's economic outlook darkened. Meanwhile, British business groups warned the country's recession will be worse than previously expected. Page 1

■ **Mining firms are shuttering** operations and firing thousands of workers as metals prices tumble amid the global economic slowdown. Page 1

■ **Most of Europe officially** fell into recession in the latest quarter, raising pressure on G-20 leaders, who held an emergency summit over the weekend. Page 16

■ **The bear market provides** an opportunity to buy blue chips at bargain prices, investment advisers say. Page 20

■ **The cellphone industry** is poised for its first big shake-up since the start of the decade as the global economic downturn hurts sales of handsets. Page 4

■ **GM has begun telling** U.S. officials a bankruptcy filing by the car maker would set off a chain reaction hammering suppliers and dealers. Page 4

■ **Auto-parts makers want** access to the U.S. financial-rescue fund even as lawmakers back tough conditions on a proposed Detroit aid package. Page 5

■ **Citigroup plans** to cut at least 10,000 more jobs and will raise interest rates on credit-card customers. Page 22

■ **InBev earned approval** from the U.S. Justice Department to buy Anheuser-Busch by agreeing to sell Labatt USA. Page 5

■ **Sun Microsystems will cut** up to 6,000 jobs and reorganize operations. Page 6

■ **Airbus parent EADS** swung back to profit in the third quarter despite a $432.7 million charge. Page 7

■ **Boeing reached** a tentative four-year contract with its engineers union. Page 7

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8497.31	-337.94	-3.82
Nasdaq	1516.85	-79.85	-5.00
DJ Stoxx 600	205.56	+1.48	+0.73
FTSE 100	4232.97	63.76	+1.53
DAX	4710.24	+60.72	+1.31
CAC 40	3291.47	+22.01	+0.67
Euro	$1.2672	+0.0113	+0.90
Nymex crude	$57.04	-1.20	-2.06

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World-Wide

G-20 leaders meeting in Washington ordered an immediate clampdown on reckless market behavior, steps they predicted would help prevent the next credit crisis. The question now is whether they may have inadvertently taken steps that could worsen the current one. Page 3

■ **Iraq's cabinet approved** a security deal that calls for U.S. troops to withdraw from the country at the end of 2011. The agreement now faces a major test in Iraq's Parliament. Page 12

■ **Obama is set to meet** with McCain in Chicago on Monday, as both men have much to gain from a swift reconciliation after the bitter U.S. election. Page 8

■ **Some Obama advisers** are pushing for Hillary Clinton to be named secretary of state. Page 8

■ **Russian liberals launched** a pro-Kremlin party promising to defend middle-class values, but rivals said it would take support from genuine opposition groups.

■ **France's Sarkozy called** for a temporary moratorium on stationing new missiles in Europe and backed Russian calls for a security summit next year. Page 12

■ **Supplies for coalition troops** in Afghanistan were held up after Pakistan temporarily barred some trucks from a major supply route following militant attacks.

■ **Congo's main rebel leader** promised a U.N. envoy to support a cease-fire and U.N. efforts to end fighting in the east.

■ **Somalia's president told** lawmakers that Islamic insurgents now control most of the country and raised the prospect that the government could collapse.

■ **Flames pushed by dry winds** raged in Southern California, destroying hundreds of homes, and a state of emergency was declared in three counties.

■ **An Israeli airstrike killed** four Palestinian militants as they were firing mortars from Gaza, the latest in a surge of clashes.

■ **The EU banned** Cambodia's Siem Reap Airways from flying to Europe on safety concerns, and banned all Angolan airlines.

■ **A party led by defectors** of South Africa's ruling ANC applied to be officially registered and vowed to contest 2009 elections.

Editorial & Opinion

Recession

'Breaking windows' may soon be in vogue to revive the economy. Review & Outlook. Page 13

A Chinese migrant worker walks on a street bridge near Beijing South Railway Station, China
Photo: Associated Press

Economic downturn puts miners in a deep hole

Mining companies—which couldn't dig minerals out of the earth fast enough just a few months ago—now are struggling to climb out of a very deep hole.

Few industries have been whipsawed by the economic slowdown

By Patrick Barta in Bangkok, Robert Guy Matthews in Washington, D.C., and Andrew Batson in Beijing

as brutally as the giant firms that feed the world's appetite for iron, copper and other staples of industry. They earned piles of money as commodities prices soared the past few years. But those days are over for now.

The latest sign: On Friday the world's biggest miner, BHP Billiton, said major Chinese customers are trying to delay purchases of iron ore as China's building boom takes a breather. As a result, BHP Billiton's deliveries from now until the end of the year could fall by at least 20%.

Metals prices already fell 35% in just four weeks last month—the steepest decline ever recorded, according to Barclays Capital. Prices for palladium, a key ingredient in automobile catalytic converters, are down 70% since midyear as car buyers make themselves scarce. Half or more of the world's aluminum production is now unprofitable.

Mining companies, a significant

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Car makers, consumers await U.K. aid

As forecasts for Britain's economic outlook darkened, U.K. auto makers appealed to the government for help on their financing of car loans.

The U.K. association of car manufacturers, largely local units of such international giants as Ford Motor Co. and General Motors Corp., Sun-

By Alistair MacDonald, Jeffrey Sparshott and Joe Parkinson

day said the auto makers' finance arms want government help to offer cheaper auto loans to consumers, aiming to spur demand and help their franchise networks during the economic downturn.

U.K. new car registrations fell 23% on the year in October, following big falls in September and August, as consumers stopped buying big-ticket items due to a collapse in confidenceand sharply falling house prices. The Society of Motor Manufacturers and Traders said it expects registrations to fall a further 11% in 2009.

The government hasn't responded to the appeal, which differs somewhat from calls in the U.S. for direct support of auto makers. Both the U.S. and countries in continental Europe are debating possible help for their beleaguered motor industries.

Meanwhile, British business groups warned the country's recession will be worse than previously expected, causing unemployment to rise and driving down in-

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THE WALL STREET JOURNAL.

LEADING THE NEWS

In Germany, a minority wins a major role

Greens name a son of Turkish migrants to be party's leader

By Marcus Walker
And Almut Schoenfeld

BERLIN—Germany's Green party elected a son of Turkish immigrants, Cem Özdemir, as one of its leaders at the weekend, making him the country's first party chief from an ethnic minority.

The move represented a small but important breakthrough in a country where—as in most of Europe—top politicians from ethnic minorities are rare. U.S. President-elect Barack Obama's victory has sparked discussion in Europe about the lack of public figures among the Continent's growing minority populations.

While no minority candidates for national leadership are in sight, the growing immigrant populations of Germany, France and some other European countries are beginning to make inroads in parliaments and cabinets. Small, left-leaning parties like Mr. Özdemir's Greens tend to have more minority faces than the far larger governing parties, such as German Chancellor Angela Merkel's Christian Democrats.

Germany, Western Europe's most populous country, is particularly difficult territory for would-be European Obamas: Millions of immigrants and their children, even if born in Germany, can't vote because they aren't citizens, blocked by strict citizenship laws. And Germany has just made getting a passport harder by introducing a controversial citizenship exam.

Immigrants and their children number about 15 million, or about 18% of Germany's total population of 82 million. There are about 2.5 million people in Germany of Turkish descent, according to the German government. But only 800,000 of those are German citizens and have the right to vote. Unlike in the U.S. or France, Germany has traditionally awarded citizenship based on bloodlines rather than place of birth.

"Political participation is hardly possible without citizenship," says Kenan Kolat, chairman of the main lobby group for Germany's large Turkish minority. "And without political participation, integration into society can't work."

The new federal citizenship exam replaces citizenship tests instituted in the past few years by some German states that appeared to be targeted at Muslims in particular. The tests asked applicants for their views on the Sept. 11 terrorist attacks on the U.S., or on women's equality or homosexuality.

The new exam is less political, asking basic questions about Germany's constitution and history. It also includes some obscurely bureaucratic questions, such as how to protect a local bus route from being discontinued or where to register a dog. German Interior Minister Wolfgang Schäuble has defended the test, saying it is simpler than applying for a fishing license. Minority groups say it is another hurdle that is likely to slow naturalizations.

Citizenship rules vary greatly around Europe, but black or Asian faces are rare in parliaments, even in countries with large minority populations such as the U.K. and France. Only 15 minority lawmakers sit in Britain's parliament; if membership reflected the proportions in the British population, the number would be closer to 60.

The only British cabinet member from an ethnic minority, attorney general Baroness Scotland, is an appointee rather than an elected politician. There is only one black lawmaker in Italy's parliament and, in France, one from the country's mainland (though there are several from overseas territories such as Guadeloupe). French President Nicolas Sarkozy—the son of a Hungarian immigrant—has appointed three women with African backgrounds to his cabinet.

Agence France-Presse/Getty Images

Cem Özdemir, at **the Greens' conference** in Erfurt, was elected first German political-party leader from an ethnic minority.

CORRECTIONS & AMPLIFICATIONS

In Tuesday's stock-market trading, 29 of the 30 components of the Dow Jones Industrial Average finished lower, with **Pfizer** Inc. registering a gain. A Money & Investing article Wednesday incorrectly said all 30 components fell.

On average, about 200 watts of sunlight fall on each square meter of the Earth's surface, according to the National Aeronautics and Space Administration. A Nov. 11 News in Depth article incorrectly said an average of 1,366 watts of sunlight fall on each square meter of the Earth's surface.

A poll of voter attitudes in a Nov. 11 Economy & Politics article on voter reaction to Barack Obama should have been identified as a USA Today/Gallup poll. It was incorrectly identified as a Gallup poll.

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

Economic leaders call for more caution

G-20 members urge further regulation; paradox of crunches

By Michael M. Phillips, Alistair MacDonald and Kara Scannell

WASHINGTON—In a weekend summit, leaders from the world's biggest economic powers ordered an immediate clampdown on reckless market behavior, steps they predicted would help prevent the next credit crisis.

The question now is whether the Group of 20 leaders may have inadvertently taken steps that could worsen the current one. With the ink barely dry on the G-20 statement, some economists now warn that the leaders ignored the fundamental paradox of credit crunches: Getting out of a crisis requires financial institutions to take the same kind of risks that created the crisis in the first place.

Instead, the G-20 leaders told financial regulators to demand that banks create bigger liquidity cushions, assess their risk-management practices to guard against trouble and boost capital requirements for structured credit and securitization activities. The group set a March 31 deadline for these and other measures, while putting off many major regulatory decisions for the months that follow.

"This is a big signal to everybody to clamp down on their banks to tighten lending standards," said Simon Johnson, a former chief economist at the International Monetary Fund. "The last thing you want to do in a global credit crunch is go around and basically tell people to tighten, tighten, tighten."

Mr. Johnson, now a business professor at the Massachusetts Institute of Technology, argued that such moves would make sense only once the crisis has passed. But the leaders, he said, were eager to take action.

U.S. President George W. Bush, U.K. Prime Minister Gordon Brown, Chinese President Hu Jintao, French President Nicolas Sarkozy and the other G-20 leaders vowed to take necessary steps—be they government spending programs, tax cuts or interest-rate reductions—to restart a global economy teetering on the edge of recession.

"This would not have been said a week or two ago," said European Commission President José Manuel Barroso. "There is an increasing awareness of the risk of recession."

The leaders also embraced a renewed effort to unblock global trade talks and promised that, at least for the next year, they would refrain from using commercial barriers to protect their own industries at the expense of other countries.

But much of the summit's final communiqué, which came out on Saturday, focused on financial regulatory and supervisory steps to prevent a recurrence of the world-wide crisis that sprang from the collapse of trillions of dollars in securities backed by high-risk, U.S. subprime mortgages. The chaos that ensued has led the U.S. and other governments to pledge hundreds of billions of dollars to rescue banks, investment firms and insurance companies.

Credit markets have seized up, leaving many companies, banks and consumers unable to get the financing that keep the economy moving. Most of Europe is now in recession, while the U.S. economy shrank at an annualized 0.3% in the third quarter of the year and faces a possibly deep contraction.

"I'm a free-market person—until you're told that if you don't take decisive measures then it's conceivable that our country could go into a depression greater than the Great Depression," Mr. Bush told reporters after the summit ended.

The G-20 leaders endorsed a series of principles for action, such as promoting financial-market transparency, sound regulation and international cooperation. They assigned their finance ministers the task of taking immediate regulatory steps before the next summit in April, including registering credit-rating agencies, developing accounting guidelines for valuing complex securities when the market for them has dried up and establishing "colleges" that bring together supervisors from different countries to swap notes on the global financial institutions that they all oversee independently.

Many of the measures had already been in the works for months. The supervisory colleges, for instance, are already being assembled by the U.S. Federal Reserve Board and its foreign counterparts. The G-20 endorsed initiatives already under way by U.S. regulators to clean up lax practices at credit-ratings firms that contributed to the credit crisis. The U.S. Securities and Exchange Commission is expected to finalize rules Wednesday to reduce conflicts of interest, banning ratings-agency officials from negotiating fees with clients and then rating their debt.

The G-20 also called for global accounting standard-setters to issue guidance to help financial institutions value complex instruments. It also called for one global accounting standard. These efforts are currently under way.

The G-20's stamp of approval, however, is expected to give new momentum to the regulatory changes. But the group's joint communiqué reflects the underlying tension between reducing risk and increasing lending.

"Recognizing the necessity to improve financial-sector regulation, we must avoid overregulation that would hamper economic growth and exacerbate the contraction of capital flows, including to developing countries," the leaders said.

London bankers are already up in arms over a European Union proposal—similar to one the G-20 is endorsing—that would force them to keep extra money behind to cover potential losses on structured credit and securitization activities, debt products that are at the root of the credit crunch. The banks argue it would make raising cash far much more expensive for them, and thus discourage lending.

Along with the talk of new regulation, the leaders reiterated their belief in the power of free markets, property rights and the rule of law to generate economic expansion.

In particular, the G-20 promised to take another stab at a global trade agreement, despite popular antitrade sentiment in the U.S., China and elsewhere.

"We agreed on the importance of rejecting protectionism," Prime Minister Brown said. "It is the first time that a meeting of world leaders has instructed ministers to come to an agreement and I think we will see an agreement in the next few weeks."

—John W. Miller in Brussels and Sudeep Reddy in Washington contributed to this article

CORPORATE NEWS

GM blitzes Washington to secure aid

Auto maker argues ripple effects of bankruptcy would slam parts suppliers and endanger Ford, Chrysler

BY JEFFREY MCCRACKEN AND JOHN D. STOLL

General Motors Corp., hoping to sway the battle in Washington over an auto-industry bailout, has begun telling U.S. officials that a bankruptcy filing by the car maker would set off a chain reaction hammering hundreds of suppliers and dealers—and in turn the company's Detroit rivals.

GM is attempting to set the terms for what looks to be a showdown among the lame-duck U.S. Congress, President George W. Bush and the incoming administration of President-elect Barack Obama. On Friday, Senate Majority Leader Harry Reid signaled he will move forward Monday with a bill giving the industry access to the $700 billion Troubled Asset Relief Program. That entity, known as TARP, was set up by the government in October to help ailing banks and other financial firms.

The Bush administration and many Senate Republicans oppose giving auto makers access to TARP. Instead, Mr. Bush on Friday urged Congress to speed up the release of $25 billion in already-approved loans to the auto industry. He asked Congress to drop requirements that those loans be used to help the industry retool to meet higher fuel-economy standards, a step many Democrats oppose. The Republicans have enough votes to block a deal in the Senate.

Amid the political horse trading, GM was holding meetings over the weekend with U.S. congressional leaders, the Bush White House and members of the Obama transition team, according to people familiar with the situation. The efforts are an attempt to show policy makers how a GM bankruptcy filing would unleash unintended consequences that could cripple the country's industrial base.

GM's board is composed of several people considered influential in Washington circles, and some of them are pitching in on the lobbying effort, said people familiar with the

Associated Press

process. Among these directors are Erskine Bowles, Bill Clinton's former chief of staff; Phil Laskawy, recently named as the non-executive chairman of Fannie Mae; John Bryant, a key Obama fund-raiser; and Armando Codina, who is a close personal friend of Mr. Bush. Through a spokesman, Mr. Codina declined to comment. The other directors couldn't be reached.

Warning of systemic risk may seem like a self-serving step for a company seeking a government bailout. But GM's new lobbying nonetheless raises the political stakes for Congress and Mr. Obama.

A bailout would be a boon both to the companies and, by saving jobs, to organized labor, a major supporter of Mr. Obama in the election. Auto-related industries employ 3.1 million people around the country, encompassing everything from car-seat makers to auto dealers to auto-parts stores. GM itself employs 123,000 in North America and does business with thousands of North America suppliers.

Part of GM's premise is that a bankruptcy would threaten both jobs and the health of the government's pension-benefit insurance arm, which covers millions of workers not in the auto industry.

A GM bankruptcy would swamp the fund, the argument goes, placing another burden on the strained federal budget.

"There is no Plan B being discussed beyond a government bailout," one top GM adviser said Friday. Another person close to GM said executives recently told GM's board they are "increasingly optimistic" that GM will receive a liquidity injection before the end of the month.

To whip up support for a bailout, GM has been sending letters to tens of thousands of dealers, supplier executives, employees and union members. The letters have encouraged them to call and write Congress, and to contact local media with various "talking points" about the effects of a GM bankruptcy.

Detroit's three auto makers—GM, **Chrysler** LLC and **Ford Motor** Co.—share many of the same suppliers for such parts as instrument panels, wheels and electronics. A recent analysis by Chrysler found that 96% of its largest suppliers also do business with GM, Ford or both.

Advocates of a bailout point to the complexity and impact of a GM bankruptcy. But New York University business professor Edward Altman, a longtime analyst of corporate bankruptcies, said the federal government should only put money into GM through a preplanned bankruptcy process that knocks out GM shareholders, rolls bondholders into equity and renegotiates union labor contracts.

Mr. Altman recommends the government provide financing to help GM only after it files for protection from creditors.

"I do not think putting more money into the failed business strategy there makes sense," Mr. Altman said. "The government should help, but it should use bankruptcy as part of the more-efficient process that also limits exposure to taxpayers." Such an approach, Mr. Altman said, would also avoid risk to the broader industry, because GM could use the process to keep paying its most critical vendors. (Please see related article on page 5.)

A GM bankruptcy could create a cascading set of bankruptcies among these part suppliers, other auto makers and suppliers. That's because a bankrupt company could take months, if ever, to pay its pre-bankruptcy bills. Such delays would put stress on suppliers that already run on thin working capital, they argue.

This spillover would most directly hit Chrysler and Ford, which have greater GM overlaps. GM officials are telling lawmakers that the failures at the parts makers would bring them down, too.

The failures also could hit Asian car makers such as **Toyota Motor** Corp. and **Honda Motor** Co., say automotive experts, who estimate 20% to 25% of suppliers are shared by those two auto makers and Detroit's Big Three.

In all, as many as 5,000 parts suppliers dot North America, with combined annual sales around $150 billion to $200 billion, according to Craig Fitzgerald, a partner at accounting firm Plante & Moran, which advises parts makers.

In addition, the parts business has three times as many workers as the auto makers. There were approximately 489,500 auto-parts production workers at the end of last year, a figure that fell to 415,700 at the end of September, according to the Department of Labor. There were approximately 151,000 auto-assembly workers in the U.S. at the start of 2008, a number that slid to 127,300 at the end of September.

Beyond suppliers, a collapse at GM also carries a risk to thousands of auto dealerships and to the government's pension-benefit insurance arm. On average, auto dealerships employ 7.3% of a typical state's payroll, and 740,000 dealership jobs nationwide come from the Big Three makers.

One of the biggest fears in Washington is how a bankruptcy filing by one or all of the auto makers would affect the federal agency that insures the retirement savings of nearly 44 million Americans. The Pension Benefit Guaranty Corp. ended 2007 with a $14 billion deficit, though that shortfall was expected to shrink to about $11 billion. Were GM to place its pension burden on PBGC, it would more than double the agency's current shortfall.

GM's pension fund has enough money to meet obligations now, but a Deutsche Bank report estimates it could be underfunded by $18 billion at the end of 2008.

—Elizabeth Williamson contributed to this article.

Economic tumult promises to shake up cellphone industry

BY AMOL SHARMA AND SARA SILVER

The cellphone industry is poised for its first major shake-up since the beginning of the decade as the global economic downturn hurts sales of handsets and components, leaving some companies better protected than others.

One bellwether of the slowdown is **Nokia** Corp., which makes one in four cellphones sold world-wide. The company warned last week that it expects tepid demand during the holiday season and a shrinking global handset market next year as consumers cut spending.

That news follows a range of other sobering developments in all sectors of the wireless industry. **Qualcomm** Inc. recently projected a dramatic contraction in its sales of cellphone chips, and wireless operator **Vodafone Group** PLC warned that its full-year revenue will fall short of previous forecasts.

Handset manufacturers are a leading indicator of the downturn, analysts said, because consumers during tough times are less likely to upgrade their phones when their existing ones work fine. Replacement cellphones make up 75% of overall sales. After 15% growth in handset sales during the first half, demand is falling off. Shipments are expected to decline 1% next year, according to market-research firm Strategy Analytics. Wall Street analysts are predicting steeper declines—as much as 9%.

"This slowdown presages shakeout, especially among companies whose balance sheets were not in great shape to begin with," says Deutsche Bank telecom analyst Brian Modoff. "This exacerbates the pressure on the weaker players throughout the industry."

The downturn won't affect all handset makers equally. Those with a strong stable of low-priced phones aimed at emerging markets and those with high-end do-everything smart phones with the latest features, like touch-screens and fancy Internet capabilities, are forecast to weather the storm best. Companies that make most of their profits in midtier phones, those with ordinary features such as a built-in camera, will have a harder time luring consumers to upgrade, analysts say.

Among the companies better positioned for the shake-up include BlackBerry-maker **Research In Motion** Ltd., which this week is releasing the touch-screen Storm through Verizon Wireless. **Apple** Inc., whose iPhone continues to sell rapidly around the world, also is situated well. Analysts also cite **HTC** Corp., maker of the touch-screen G1 phone, the first based on **Google** Inc.'s Android software. Companies that could have a tougher time include **Motorola** Inc., of Schaumburg, Ill., and Sony Ericsson.

Sony Ericsson, a joint venture of Japan's **Sony** Corp. and Sweden's **Telefon AB L.M. Ericsson**, banked on customers paying a premium for its CyberShot camera phone and Walkman music phones. "But at the beginning of 2008, customers shifted to phones offering new display technologies and suddenly decided they weren't willing to pay that premium anymore," says Tero Kuittinen, senior analyst at Global Crown Capital LLC.

"We were among the first companies to raise the flag in mid-July about the challenging economic conditions and announced a restructuring to position ourselves for growth," said Aldo Liguori, global spokesman for Sony-Ericsson.

In Motorola's case, more than half its sales come from its midrange W-series phones. Management turmoil and steep cost cuts have stymied the company's ability to roll out lower-end devices or newer email phones to replace the Q, which has sold poorly. Motorola declined to comment. In response to shrinking demand, the company last month announced it would focus on making phones for the Americas and parts of Asia as part of a major restructuring.

Nokia, based in Espoo, Finland, and which has a large and diverse portfolio from low-end phones in India to ultrahigh-end devices such as the N-96, also is in a relatively strong position, even though its smartphone offerings have lost ground to Apple and RIM.

Components makers already are feeling the heat. Motorola's former chip maker, Freescale Semiconductor Inc., has decided to exit the cellphone-chip business. Texas Instruments Co. has decided to stop making all but custom-ordered cellphone chips.

Wireless-service providers such as **AT&T** Inc. and Vodafone, which shares ownership of Verizon Wireless with **Verizon Communications** Inc., are somewhat insulated from the immediate turmoil, because they don't rely on consumers upgrading handsets for their profits. "Consumers aren't going to stop using their phone, so the impact on carriers will be less extreme," says Charles Golvin, a Forrester Research analyst.

CORPORATE NEWS

U.S. clears InBev deal

Brewer to sell unit to secure approval of Anheuser purchase

BY DAVID KESMODEL

InBev NV secured approval from the U.S. Justice Department to buy **Anheuser-Busch** Cos. by agreeing to sell Labatt USA, a small, 55-person sales arm of the Belgian-Brazilian beer titan.

The decision moved InBev another step closer to acquiring the iconic American brewer for $52 billion in an all-cash deal that will create the world's largest brewer by sales.

InBev, of Leuven, Belgium, said it expects to complete the transaction "as soon as practicable." Analysts say it could happen as soon as this week. Regulators in the U.K. and China have yet to give their blessing.

Shareholders of St. Louis-based Anheuser, the largest U.S. brewer by revenue, approved the deal Wednesday. InBev shareholders approved it in September.

The companies, whose combined business will be called Anheuser-Busch InBev, have little overlap in most of the U.S. But the Justice Department said it required InBev to shed its Labatt USA division because, otherwise, the combination likely would have curtailed competition and prompted higher beer prices in three cities in upstate New York where Labatt's brands are popular.

The Justice Department said those cities make up about half of all U.S. sales of Labatt Blue and other Labatt brands, which are imported from InBev's Canadian unit, Labatt Brewing Co. InBev will retain the Canadian operation.

Labatt USA, based in Buffalo, accounted for 0.7% of the U.S. beer market in terms of barrels shipped in 2007, according to industry newsletter Beer Marketer's Insights. Anheuser accounted for 48.2%. Anheuser has imported many of InBev's European brands, such as Beck's and Stella Artois, since early 2007.

The U.S. Justice Department, in a filing in federal district court in Washington, said the proposed deal would have raised Anheuser's share of the beer market in both Buffalo and Rochester to about 45% from about 24%, resulting in a highly concentrated market dominated by Anheuser-Busch InBev and MillerCoors LLC, which has about 26% of those markets. In Syracuse, Anheuser-Busch's market share would have jumped to 41% from about 28%, with MillerCoors, a joint venture of **SABMiller** PLC and **Molson Coors Brewing** Co., controlling about 28%.

Under terms of the proposed settlement, which requires court approval, InBev must sell Labatt USA and grant a license to the acquirer to brew and sell Labatt brands for consumption throughout the U.S.

"This divestiture will ensure that consumers will continue to benefit from the significant competition between the merging companies in upstate New York," Deborah Garza, deputy assistant attorney general of the Justice Department's Antitrust Division, said in a statement.

InBev said the divestiture won't have a material impact on its earnings. The divestiture will happen after InBev and Anheuser close their deal.

—Fawn Johnson contributed to this article.

InBev

The U.S. Justice Department required InBev to shed its **Labatt USA division** amid concerns over prices in three New York state cities where Labatt's is popular.

Richemont sales growth slows sharply, to 1.6%

BY CHRISTINA PASSARIELLO

Compagnie Financière Richemont SA, the world's second biggest luxury-goods group, on Friday reported a sharp slowdown in October sales, in one of the clearest signs yet that the luxury-goods sector is heading for a major downturn.

Richemont, the parent company of brands such as Cartier, Vacheron Constantin and Chloé, said sales in October rose 1.6%. In the six months ended Sept.30, sales had risen 10% to €2.8 billion ($3.55 billion). First-half net profit increased 4.9% to €864 million.

After holding up well through the summer, sales of luxury goods have begun to slump in response to the economic crisis. "October showed a significant change of mindset" from earlier in the year, said Richard Lepeu, the Swiss group's finance director.

He said the "feel-good factor," which prompts people to splurge on luxury, has vanished among the world's wealthiest consumers. Richemont is the first in the sector to report October sales.

Richemont said sales declined in the Americas and in Europe, two key luxury-goods markets. Emerging markets including Russia, China and the Middle East continued to grow.

Associated Press

Baume & Mercier watches could add to Richemont's vulnerability in a slowdown.

Richemont is considered more vulnerable in a slowdown than industry leader **LVMH Moët Hennessy Louis Vuitton** because it is focused on hard luxury—watches and jewelry—rather than accessories.

"The unfolding economic slowdown has begun to impact demand for high-end hard luxury," said Sanford Bernstein analyst Luca Solca.

Watch and jewelry makers sell a large proportion of their products through wholesale clients. Those clients have "drastically" reduced their orders because of the reduction in sales, Mr. Lepeu said.

Auto-parts firms ask to tap aid

BY ELIZABETH WILLIAMSON AND GREG HITT

WASHINGTON—Automobile-parts makers are requesting access to the $700 billion financial-industry rescue fund, even as Democratic lawmakers embrace tough conditions on a proposed aid package for Detroit's troubled auto companies.

Democratic lawmakers Monday plan to unveil a bill that would give the Big Three auto makers access to the $700 billion Troubled Asset Relief Program set up in October to help ailing banks and other financial firms. As written, the legislation wouldn't include auto-parts makers.

Parts makers are seeking to change that in a letter signed by nearly 100 companies and being sent to the House and Senate on Monday. In the letter, the Motor and Equipment Manufacturers Association, a trade group, will ask that its members get equal access to TARP funding sought by the car makers.

General Motors Corp., **Ford Motor** Co. and **Chrysler** LLC are seeking $25 billion in new loans, on top of $25 billion they will receive in already-approved loans. The latter were originally intended to help the car makers retool their fleets and make more energy-efficient vehicles.

Lawmakers and congressional aides said the bill to assist the auto industry will include more-stringent limits on pay for auto executives than have been imposed on executives of finance firms using the TARP funds. Among other things, TARP rules bar firms from giving "golden parachute" exit payments to executives and restrict compensation above $500,000 from being tax-deductible.

The legislation would also require the auto makers and their unions to draw up plans on how the companies would return to financial health in the longer term.

The bill would "provide immediate, targeted assistance" in return for industry commitments to meet "new fuel-efficiency standards" and develop next-generation technologies that would allow the industry to compete in the global marketplace, House Speaker Nancy Pelosi (D., Calif.) said on Saturday.

The legislation also calls for the establishment of a government-oversight board that "could veto ventures," House Financial Services Chairman Barney Frank said.

Democrats hope to force action on the bill this week, but the Bush White House and many Republican lawmakers are reluctant to give the industry access to the rescue fund. Instead, they want Congress to speed release of the $25 billion in already-approved loans.

Sunday, Alabama Sen. Richard Shelby, the senior Republican on the Senate Banking Committee, suggested bankruptcy court would be a better option to help the industry restructure and argued that government aid isn't going to halt the industry's long-term decline.

"Should we intervene to slow it down, knowing it's going to happen?" Sen. Shelby said on NBC's "Meet the Press." "I say no."

Auto-parts suppliers—who employ 600,000 people concentrated in seven states, nearly triple the number working for the Big Three auto makers—said the Big Three's woes are already being felt downstream. Their request for equal access to any new loans made to the car companies shows the challenges Congress faces in drawing the line on which sectors to assist as the economy continues to weaken.

In its letter, the Motor and Equipment Manufacturers Association argues aiding auto makers won't address the difficulties facing suppliers. Even if auto makers get government aid, it said, their factories won't necessarily be running at full capacity as long as consumer demand remains low.

"We have some suppliers in immediate need of a cash infusion. For them to go down will cause a severe shortage all over the industry," said Ann Wilson, the association's senior vice president of government affairs.

Parts makers supply auto makers beyond the Big Three, including foreign-owned manufacturers with operations in the U.S.

—John D. Stoll in Detroit and Louise Radnofsky in Washington contributed to this article.

OMV cuts production goals, spending on energy projects

BY FLEMMING E. HANSEN AND BENOIT FAUCON

LONDON—Faced with lower oil prices and the global economic turmoil, Austrian oil and gas company **OMV** AG on Friday downgraded its production and refining targets and deferred spending in projects including exploration and power.

The announcement underscores how the new environment is starting to hit large, cash-rich oil companies, which have so far been shielded from the economic crisis.

OMV now expects 2010 refining volume to reach 25.8 million metric tons, down from a previous forecast of 26.4 million tons. The company also lowered its target for production generated within its existing portfolio to between 350,000 and 360,000 barrels of oil equivalent a day, Chief Executive Wolfgang Ruttenstorfer said at a conference in London. OMV previously had aimed for output of 400,000 barrels a day.

In addition, the company cut the target for gas marketing volume to 18 billion cubic meters for 2010 from 20 billion cubic meters.

However, OMV said there might also be some benefits from lower oil prices, as they drive down project costs and stimulate demand. CEO Ruttenstorfer said the company has rearranged its list of priorities, postponing refinery investments as well as production and exploration projects.

Capital expenditure "will be reduced and deferred to reflect lower operating cash flow," said Chief Financial Officer David Davies, adding that OMV still targets a 30% dividend payout.

The speed of the recent drop in the price of oil has been a great surprise, said Mr. Ruttenstorfer. Although he said that the international economic crisis might keep the oil price between $60 and $80 a barrel for some time, he expects prices to stabilize at between $80 and $100 a barrel in the long term.

CORPORATE NEWS

PC sales slump

U.S. PC shipments are expected to decline to about 18.4 million units in the fourth quarter.

Change from a year earlier

*Forecast
Note: Includes desktops and notebooks
Source: IDC

Getty Images

A Dell Inc. employee, assembles a desktop computer at the company's facility in the U.S.

PC firms overhaul plans

Dell, other makers trim notebook prices as demand withers

By Justin Scheck And Yukari Iwatani Kane

Computer makers are scrambling to adjust to rapidly deteriorating demand for personal computers, cutting prices as they brace for what is quickly shaping up to be a cheerless holiday season.

Dell Inc. and some retailers are even offering discounts of 20% to 30% on new notebook computers, chipping away at profits in a segment that has enjoyed healthy demand.

Until now, the $263 billion PC sector had shown resilience amid a slowing economy: World-wide PC shipments rose at least 12% in each of the first three quarters of the year. But PC sales have stalled in recent weeks as consumer spending has plunged.

Research firm IDC is preparing revised numbers that project a 1% drop in U.S. PC shipments for the fourth quarter compared with a year earlier. IDC previously had expected U.S. shipments to rise 6% in the typically robust holiday sales period.

Signs of the reversal are starting to surface. In the past week, major PC retailer **Circuit City Stores** Inc. filed for bankruptcy protection and rival **Best Buy** Co. slashed sales expectations. On Wednesday, chip maker **Intel** Corp., which just a month ago was projecting 3% growth, warned of sharply lower fourth-quarter sales "in all geographies and market segments."

The deteriorating PC climate portends poorly for **Hewlett-Packard** Co., the market leader with a 19% global share in PC shipments, and Dell, which has a roughly 15% share, according to IDC. While H-P—which is to report quarterly earnings Nov. 24—has businesses such as printers and information-technology services that may help buffer it from the PC slowdown, analysts say disappointing October PC sales will hurt its earnings.

On Thursday, Citigroup reduced its revenue estimate for H-P and Dell in a research note titled "The PC Industry Slips Into Recession." Analyst Richard Gardner wrote that "lack of credit, declining corporate profit margins, rising unemployment and a stronger dollar are all negatively affecting corporate and consumer PC growth."

Any comedown for H-P's PC sales would mark a major reversal for the business, which has been growing robustly for the past few years. H-P has expanded its PC business's profit margins, but retailers have started selling its computers at sharp discounts. At Best Buy in the U.S., an H-P laptop with a 15.6-inch-screen recently was selling for a nearly 25% discount at $549.99.

An H-P spokeswoman declined to comment.

Dell, which gets comparatively little revenue from its services and printer business, recently began offering on its Web site an Inspiron laptop computer with a 13.3-inch screen that previously had cost $984 for a 24% discount at $747—plus a free printer. On Tuesday, the company also cut prices of a netbook, which is a minicomputer, in Japan by more than 20%.

Kyp Walls, head of **Panasonic** Corp.'s Toughbook corporate notebook division, said Panasonic executives met this past week to discuss how "we're going to see some slowness for the next four to six quarters."

Some customers are delaying planned fourth-quarter purchases until next year and he expects some of those orders to be canceled entirely, he said. As a result, the company will have to "aggressively pursue cost reductions," he said.

In addition to cutting prices, mininotebook maker **Asustek Computer** Inc. hopes to fuel holiday sales by selling its low-priced machines in nontraditional places such as **Toys "R" Us** Inc. and **Target** Corp. stores, in order to appeal to children and women, said Jackie Hsu, president of the company's Americas division.

Last quarter, he said, the company decided to drop prices of its mininotebooks, some of which sell for less than $300.

Telefónica earnings tumble 50%

By Jason Sinclair

MADRID—**Telefónica** SA, one of the world's biggest telecommunications companies, said Friday that third-quarter net profit fell 50% from a year earlier, when earnings were boosted by an asset sale.

The Madrid-based company eased concerns about the impact of the economic slowdown on its business, confirming its 2008 growth targets as continued strength in Latin America and resilient domestic fixed-line operations supported revenue.

Telefónica reported net profit of €2 billion ($2.54 billion), down from €4.02 billion. The company booked a €1.37 billion gain in the year-earlier quarter related to the sale of Dutch production company Endemol NV.

Total revenue rose 5.7% to €14.99 billion.

Analysts have been concerned that a consumer-spending slowdown would hit mobile revenue as customers make fewer calls and replace their handsets less frequently. They also worry that stellar growth may be easing in emerging markets, which European operators have been banking on to offset weakness in mature markets.

Telefónica's Spanish cellular revenue dropped 2.1%, while total revenue in the country rose 2% to €5.38 billion. Revenue in Latin American rose 15% to €5.78 billion, although analysts say recent currency fluctuations are likely to decrease the region's contribution in coming quarters.

"The mix is a bit weaker than in previous quarters, but the overall picture is solid," Morgan Stanley said in a research note.

Telecommunications analysts have been especially concerned about the outlook for fast-growing emerging markets, which European operators have been banking on as mature markets stagnate. Last week, U.K.-based Vodafone Group PLC put the brakes on its expansion in emerging markets and laid out a new cost-cutting plan to compensate for declining revenue.

Telefónica is undergoing a restructuring program as it makes cuts in its shrinking domestic wireline business and refocuses on mobile telephony and high-speed Internet to support revenue. The company has begun rolling out a fiber-optic network to ramp up Internet speeds and improve its Internet-based television offer in Spain.

Telefónica had nearly 252 million customers world-wide at the end of September, 15% more than a year earlier.

The company said it expects 2008 revenue growth of between 6% and 8%, with growth in operating income before depreciation and amortization between 7.5% and 11%, excluding exceptional items and in constant currencies.

Heinz results to show answer to price increases

By Julie Jargon

Investors will be looking for indications of just how much supermarkets have been pushing back on price increases when **H.J. Heinz** Co. reports earnings Friday.

Retailers in the U.K., where the ketchup maker generates about 18% of its revenue, have been particularly resistant to accepting price increases as the cost of such commodities as corn and fuel have fallen from their peaks and consumers have become more price-sensitive amid the slowing economy.

Heinz so far hasn't commented on what kind of pushback, if any, it has gotten, but a Credit Suisse analyst recently said the Pittsburgh-based company has been offering overseas retailers more promotional allowances, such as buy-one-get-one-free deals.

"I feel the general window for pricing has closed," says Edgar Roesch, an analyst with Soleil Securities.

There already is evidence that higher food prices have turned off shoppers. In August, Heinz raised ketchup prices, according to Credit Suisse, and many consumers have since switched to private-label ketchup as a result. Heinz also has experienced a slowdown in its Weight Watchers frozen-meals business as rival **Nestlé** SA slashed prices on its Lean Cuisine frozen dinners.

Unlike some food companies that locked in prices for corn and other ingredients when those commodities were at their peak this summer, Heinz locked in prices in early 2008 and isn't expected to take the kind of earnings hit that some food makers have. Heinz won't enjoy a bump from foreign-exchange rates now that the U.S. dollar has grown stronger. However, "we recently hedged our foreign-exchange translation exposure on key currencies for the balance of our fiscal year, which ends in April," Heinz Chief Financial Officer Art Winkleblack told investors last month.

Analysts are expecting Heinz's profit to have increased 4% to 74 cents a share in its second fiscal quarter.

Novartis's research update to shed light on retooling

By Jeanne Whalen

Six years ago, Swiss drug giant **Novartis** AG hired a new head of research and began retooling its search for new medicines. Wednesday, investors will get an update on how that work is progressing.

Mark Fishman, a geneticist and former professor of medicine at Harvard University, will give analysts his first major research update in two years, focusing on experimental drugs that the company plans to bring to market in 2011 or later. Novartis's largest product, the hypertension pill Diovan, will face generic competition and is expected to lose most of its sales around that time, making it crucial for the company to find new medicines to fill the void.

Dr. Fishman and his team are focusing on the genetic underpinnings of disease, attempting to find, and fix, the molecular pathways that make people ill. Previously, Novartis and most other drug makers discovered medicines almost by happenstance, bombarding diseases with different chemicals until they found a combination that worked.

Novartis is betting that if it can fix the genetic flaws that make people sick, it will find truly effective drugs that patients need—and that insurers are willing to pay for.

Some of Dr. Fishman's experimental drugs focus on rare diseases such as Muckle-Wells Syndrome, an inflammatory condition affecting a few thousand patients world-wide. But because the genetic switches underlying that disease are common to other inflammatory diseases, Novartis believes it might be able to broaden its work to more common conditions.

When Novartis hired Dr. Fishman, it moved its research headquarters to Cambridge, Mass., from Switzerland and gave him carte blanche to hire the best scientists he could find. His group now numbers 1,700. "We've actually begun to have the meal move through the snake," he said. "I think we've got the best discovery engine in the world."

Sun to cut as many as 6,000 jobs

By Don Clark

Sun Microsystems Inc., responding to a technology-spending slowdown and pressure from impatient investors, announced the latest in a series of restructuring moves aimed at restoring the onetime Internet star's momentum.

The Silicon Valley computer maker said it will cut 5,000 to 6,000 employees, or 15% to 18% of its work force. The company on Friday also announced organizational changes to align its business with what the industry calls open-source software, along with the departure of an executive credited with building some of those products.

"We are adapting the company to the global economy as we and our industry see it," said Jonathan Schwartz, Sun's chief executive.

The size of the job cuts—after eight prior restructuring actions—was widely viewed as overdue. "They are finally realizing they have to get a lot more aggressive in bringing cost down," said Lou Miscioscia, an analyst at Cowen & Co. Some analysts have been pushing for even more dramatic action, such as selling some or all of the company.

But Sun's depressed stock—which hit its lowest level in 14 years Thursday—has attracted some big investors.

Sun's shares Friday rose 1%, or 4 cents, to $4.12 in 4 p.m. trading on the Nasdaq Stock Market.

—Christopher Lawton contributed to this article.

CORPORATE NEWS

Airbus parent EADS rebounds to post profit

Military program prompts a charge, but dollar offers lift

By David Pearson

PARIS—**European Aeronautic Defence & Space** Co. said Friday it swung back to a profit in the third quarter despite a €341 million ($432.7 million) charge on its troubled A400M military-transporter program, and said that it faces continued challenges developing the plane and other critical programs.

For the three months ended Sept. 30, the European aerospace company posted a net profit of €679 million, compared with a loss of €776 million a year earlier. Revenue rose 5.5% to €9.7 billion.

EADS said the appreciation of the U.S. dollar had a positive impact of €965 million on third-quarter earnings before interest and taxes, or EBIT, thanks to a revaluation of unprofitable contracts. For the quarter, EADS posted EBIT of €860 million, before goodwill and exceptional items, compared with a year-earlier loss of €711 million.

Chief Executive Louis Gallois said that, barring additional costs related to the A400M program, 2008 EBIT will exceed the €1.8 billion EADS previously forecast. Mr. Gallois reaffirmed EADS's forecast for 2008 revenue of more than €40 billion, based on 470 jetliner deliveries from its Airbus commercial-aircraft unit. Free cash flow is expected to top €2 billion for the year.

The company said it is in good shape to face the deteriorating economic and financial environment.

Chief Financial Officer Hans Peter Ring said EADS has no short-term refinancing needs.

Sandy Morris, aerospace analyst at Royal Bank of Scotland in London, said the strong cash figure is particularly heartening. "In an environment where cash is king, that's a very good thing indeed," he said.

EADS said Airbus posted EBIT of €1.5 billion for the first nine months of 2008, compared with a loss of €677 million a year earlier. The shift reflects a continuing cost-reduction plan, lower charges and a high level of predelivery payments from customers, officials said.

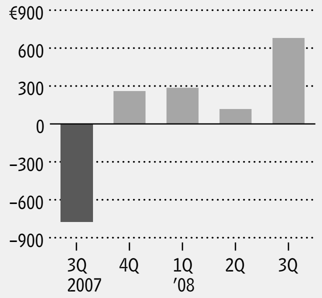
Airbus's solid performance came despite increased but undefined costs related to the production ramp-up of the A380 superjumbo program. Mr. Gallois said Airbus will deliver 12 of its flagship aircraft this year but said that a couple of the 21 scheduled A380 deliveries for 2009 could slip into 2010.

Airbus said its forecast that it will book orders for more than 850 planes this year. Airbus Chief Operating Officer John Leahy said at a conference in Taipei that next year's order tally will be significantly lower but wouldn't give a figure.

—Alex Pevzner contributed to this article.

European Aeronautic Defence and Space Co.

Net profit/loss, in millions



Source: the company

Boeing averts another strike at its commercial-plane unit

By August Cole

Boeing Co. of the U.S. and its engineers union reached a tentative deal on a new four-year contract, averting another work stoppage at the Boeing commercial-airplane unit that just endured a 57-day strike by union machinists.

The agreement with Boeing's 21,000 workers covered by the Society of Professional Engineering Employees in Aerospace IFPTE Local 2001, comes ahead of the Dec. 1 expiration of the current contract.

In a statement, the union said its negotiators "are recommending members approve the agreements." Details of the deal weren't immediately available. Union officials in Seattle said ballots would go out to members this week, with vote counting set for Dec. 1.

The union had said Thursday it wanted members to vote on authorizing a strike in order to raise the pressure on Boeing management, which is hustling to get its new plane, the 787 Dreamliner, back on track to meet an order book filled with some 900 aircraft.

Negotiations between the company and the union started late last month after the machinists' strike halted commercial-airplane production. At issue for both unions are worker concerns over outsourcing, job security, wages and benefits. Pay and benefits were a particular concern to the engineers.

The company's 27,000 machinists, represented by the International Association of Machinists and Aerospace Workers, returned to the job earlier this month after the longest walkout at Boeing in a decade.

Boeing also said Friday that it is pushing back the delivery schedule for updated versions of its 747 freighters and passenger jets because of delays brought on by design changes for the aircraft.

Delivery of the first 747-8 freighter will move to the third quarter of 2010 from late 2009, and the first Intercontinental jetliner will be delivered in the second quarter of 2011, rather than late 2010.

Separately, Randy Tinseth, vice president for marketing at Boeing's commercial-aircraft division, said at a conference in Taipei that the company "will probably feel downward pressure in terms of orders next year," because of the weak global economy.

—Kerry E. Grace contributed to this article.

GLOBAL BUSINESS BRIEFS

Virgin Mobile USA Inc.

Finance chief will remain rather than join LifeLock

Virgin Mobile USA Inc. Chief Financial Officer John Feehan, who said two months ago he was leaving to become financial chief of identity-theft services company **LifeLock**, has decided to stay put. Mr. Feehan has been with Virgin Mobile since its launch, joining as one of its first employees in 2001, and he was named finance chief in 2006 after almost five years as vice president of financial operations. Virgin Mobile last Monday reported it swung to a third-quarter profit as its $39 million Helio acquisition boosted subscribers and revenue. Revenue at the pay-as-you-go wireless provider rose 1.2%. Closely held LifeLock has suffered a litany of bad press and a mushrooming number of lawsuits, although Chief Executive Todd Davis says the company plans on an initial public offering.

UBS

Citing further deterioration of consumer spending, **UBS** has slashed its global and U.S. advertising forecasts. Analyst Matthieu Coppet suggests U.S. ad spending in 2009 will plummet 8.7% to $175.5 billion, worse than the 5.7% the firm predicted a month ago. Globally, Mr. Coppet says, ad spending will likely slide 3.9%. Traditional ad spending is expected to take the brunt. UBS predicts an 11% drop in traditional media. That is worse than the 9.8% decline in the 2001 recession, which was exacerbated by the Sept. 11 terror attacks. "Tightening access to bank financing is now hurting" small and midsize businesses and supplier credit is a looming concern, Mr. Coppet wrote in a note to investors.

Continental AG

Closely held German engineering company **Schaeffler Group** KG on Friday said it filed for European Union approval for its acquisition of just under 50% of auto-parts and tire maker **Continental** AG. Shares in Continental surged as much as 52% after the announcement, which has taken pressure off the Hannover-based company in a market strained by the financial crisis and dropping sales. Continental shares rose 27% to close at €37.27 ($47.30), up €7.92 in Frankfurt. In August, Continental accepted an unsolicited bid from Schaeffler, which valued the company at €12.1 billion. Schaeffler made several concessions to win over Continental's management, including a raised offer of €75 a share and a guarantee not to take a majority stake before 2012.

Cypress Semiconductor Corp.

Cypress Semiconductor Corp. cut its fourth-quarter performance forecast, citing declining orders in the markets for its products, rising cancellations and a weaker backlog. The San Jose, Calif., circuit maker said Friday that it expects a loss ranging from 3 cents to 12 cents a share for the quarter on revenue of $165 million to $180 million. Analysts polled by Thomson Reuters had expected earnings of 4 cents on revenue of $199 million. Cypress said margins will fall to between 41% and 45% on "significantly lower" factory use and higher fixed costs as it tries to manage inventory. Analysts had expected margins of 47.5%. The company said its balance sheet is strong and it remains optimistic about its competitive positioning in the market.

Renault SA

Renault SA of France and **Nissan Motor** Co. of Japan said Friday they are cutting production as they face a rapid decline in automotive markets. The French car maker said that by year end it aims to bring inventories down to the same level as at the end of 2007. Earlier Friday, Renault posted a 14% drop in world-wide vehicle sales in October. The auto maker said it sold 188,116 vehicles last month. Nissan, in which Renault owns a 44% stake, said it will cut output in Japan by 75,000 vehicles a month from December. A slump in the auto markets in the U.S. and Europe, as well as Japan, have combined with the strength of the yen and high raw-materials costs to dent profits at all of Japan's auto makers.

TUI AG

Tourism-and-shipping company **TUI** AG Friday posted a 42% drop in third-quarter net profit, which was weighed down by the merger of TUI's travel operations with those of U.K. travel company First Choice Holidays PLC to form TUI Travel PLC. The combination of the two businesses cut TUI's slice of the new company's profit in half, triggering its third-quarter net profit to fall to €256.1 million ($329.2 million) from €440.9 million a year earlier. Sales, meanwhile, benefited from the consolidation and rose 18% to €6.87 billion from €5.84 billion. The company's third-quarter figures don't include container-shipping business Hapag-Lloyd, which TUI agreed to sell to a division of Hamburg-based consortium Albert Ballin KG for €2.45 billion last month. Despite the slowing economy, the Hannover-based company said it still expects a substantial increase in operating earnings for the year.

UniCredit SpA

Shareholders of Milan-based lender **UniCredit** SpA approved a €3 billion ($3.86 billion) capital increase, part of a €6.6 billion capital-strengthening plan designed to boost the bank's capital ratio to 6.7% this year. Nevertheless, several shareholders Friday criticized the management for disclosing the capital-strengthening plan in October, which also involves scrapping a dividend payment for 2008. UniCredit Chief Executive Alessandro Profumo on Friday said the decision to launch the plan was taken "after financial markets reacted in a dramatic way to the collapse of Lehman Brothers." The €3 billion capital increase is expected to start in early December.

EasyJet PLC

EasyJet PLC said its founder, Stelios Haji-Ioannou, on Friday raised his stake in the U.K.-based budget airline to 26.9% from 15.6% and demanded that it restrict plane orders and instead start paying a dividend. A stake above 25% entitles Sir Stelios—who founded easyJet in 1995 but stepped down from the chairman role in 2002—to nominate two nonexecutive directors to the board. In an email sent to easyJet's board, Sir Stelios said that if the directors he has chosen aren't appointed, he reserves his rights to appoint himself as chairman once more. EasyJet chairman Colin Chandler said he supported the management team's current strategy, although the board was discussing the future strategic direction of the company.

Scor SE

French reinsurer **Scor** SE on Friday said third-quarter net profit fell 72%, hit by high natural-catastrophe claims and investment losses. Net profit fell to €38 million ($48.8 million) from €135 million a year earlier, as the firm booked a €50 million charge related to hurricanes Ike and Gustav. Scor's investment portfolio was affected by a total of €127 million in asset impairments and write-downs, only partly offset by €62 million in net gains. The company said market turmoil may continue to hamper its investment portfolio in future quarters but, with a cash position of €3.2 billion, it is sufficiently guarded against the current challenging market environment. Scor is the latest in a string of reinsurers to reveal problems caused by the current financial crisis and hurricane claims.

Havas SA

French advertising and marketing company **Havas** SA Friday lowered its full-year organic revenue-growth target as the financial crisis-crimped advertising spending in the third-quarter. Revenue for the quarter ended Sept. 30 was €362 million ($465 million), down 1.6% from €368 million a year earlier. For the full year, the company now aims to achieve organic revenue growth—which strips out acquisitions, disposals and currency movements—between 4.5% and 5%, said Chief Executive Fernando Rodes Vila. This compares with a previous target of 5% to 6% organic revenue growth. At the end of the third quarter, organic revenue growth stood at 1.5%, sharply down from 9.3% a year earlier. Havas blamed the loss of the Dell Inc. account in Asia and lower investments in the U.S. for the slowdown.

Parmalat SpA

Italian dairy company **Parmalat** SpA Friday reported that its net profit in the first nine months of the year rose to €614.2 million ($778.1 million) from €199.4 million a year earlier, boosted by €639 million in proceeds from legal settlements related to its 2003 bankruptcy. But it also said the worsening global economy had forced it to cut its 2008 guidance. It now expects earnings before interest, taxes, depreciation and amortization of between €310 million and €315 million, against a previous forecast of €350 million. The dairy company also cut its full-year revenue growth outlook to 2.4%, against a previous target of 3% growth. Following Parmalat's collapse in 2003, thousands of investors have piled into Parmalat shares since the company was relisted in 2005.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Obama faces political minefield in picks

Cabinet appointments must balance pledges of bipartisanship with the needs of groups that helped in victory

By Jonathan Weisman

U.S. President-elect Barack Obama has set ambitious goals for assembling his government, vowing to name appointees at a record pace while balancing pledges of post-partisanship with the needs of the groups that helped deliver his victory.

So far, the process is going smoothly, thanks in part to remarkable cooperation from a Bush White House that Mr. Obama spent two years bashing. But the politics remain thorny. The intricate scheming and speculating surrounding cabinet choices was on full display Friday, a day after Mr. Obama met in Chicago with onetime rival Sen. Hillary Clinton. Some top Obama advisers are pushing her for secretary of state. Neither side would discuss the details of the conversation.

Amid two wars and an economic crisis, Mr. Obama must placate liberal activists and minority groups whose electoral boost was crucial, and form a government that looks like the change he promised.

"Obama has the most complicated calculus for selecting a cabinet of any recent president," said Paul Light, a public-policy professor at New York University and longtime adviser on presidential transitions.

Nearly two weeks after his election victory, Mr. Obama's team is further along than outward appearance might suggest, said Clay Johnson, a deputy White House budget director who was executive director of President George W. Bush's 2000-01 transition and is helping Mr. Obama's. Mr. Bush and President Ronald Reagan set a record of 25 cabinet and subcabinet posts filled by April 1 of their first years in office. The Obama team is aiming for 100 to 150 by that date.

To help get them there, the Bush team has worked with the Federal Bureau of Investigation to expand its capacity to do background checks. In 2001, it took an average of 60 days to get a nominee's name to the Senate after presidential approval. The Obama team, with White House assistance, is aiming for a maximum of 30 days.

"There will be three times to four times more personnel decisions in the opening weeks of this transition than any president-elect has ever faced," Mr. Johnson said.

More than 300 cabinet secretaries, deputies and assistant secretaries and more than 2,500 political appointees will be picked. About 144,000 applications came in through the Obama transition team's change.gov Web site within five days of its creation.

All incoming presidents face a tricky balancing act as they build their government. But Mr. Obama's task is especially tough, in part because he was politically adept at appealing to partisan Democrats and centrists alike. If he keeps Republican Robert Gates as secretary of defense, for instance, he will likely have to placate angry liberals with a more left-leaning secretary of state. Sen. Clinton, of New York, could be a crowd-pleaser in that role, and she has staunch advocates in Rahm Emanuel, the new chief of staff, and transition director John Podesta, according to Democrats familiar with the transition process.

AFP

President-elect **Barack Obama** has 'complicated calculus' in making his picks, one observer said.

But Mr. Obama risks alienating Latino supporters if he passes over New Mexico Gov. Bill Richardson, currently the subject of a lobbying campaign by Hispanic activists, for the State Department job.

"It leads you into a downward spiral that ends up pleasing nobody," said Leon Panetta, a chief of staff in the Clinton White House.

Two other Bush appointees, Director of National Intelligence Mike McConnell and Director of Central Intelligence Michael Hayden, also would like to stay on in their jobs. But some Senate Democrats are pushing hard for their removal, citing policy disagreements over warrantless surveillance and interrogation policies.

Even before a single name has emerged, Mr. Obama's would-be cabinet is under fire. The liberal Web site Huffington Post is waging war on the idea of keeping Mr. Gates at the Pentagon.

Perhaps no potential nominee is taking more heat than Harvard University economist Lawrence Summers, a potential pick as Treasury secretary. Mr. Summers served in that post for President Clinton and has moved to a position of prominence in Mr. Obama's economic team. Women's groups are particularly distressed about his possible appointment, recalling comments he made as Harvard president that innate characteristics may prevent women from achieving more prominence in science.

"The American electorate has changed the course of history by demonstrating that an African-American can do anything. We hope that the messages of the Obama presidency will be broader than that—that any American can do anything. That includes women," said an anti-Summers broadside from the Rosalind Franklin Society, an honors group for women in biosciences.

Labor groups and liberal economists are suspicious of Mr. Summers's free-market principles, which helped guide a deregulation of the financial-services industry at the end of the Clinton era.

"It would be a really bad start to his administration if President Obama picked a Treasury secretary who shares a substantial part of the blame for the bubble economy and the financial crisis," liberal economist Dean Baker recently wrote.

But Andy Stern, president of the Service Employees International Union, took a swipe at Mr. Summers's chief rival for the post, New York Federal Reserve Bank President Timothy Geithner, who, he made clear, is an unknown quantity to labor.

Ex-rivals stand to gain from talks

By Jonathan Weisman And Laura Meckler

Less than two weeks after Barack Obama's decisive victory over Sen. John McCain, the men are scheduled to meet Monday in Chicago. Both have much to gain from swift reconciliation after a bitter contest.

Mr. Obama's pledge to move beyond the partisan bickering requires Republican partners. Sen. McCain would be a potent symbol—and one with a long history of working with Democrats on key issues on the president-elect's agenda: climate change, energy efficiency and national service.

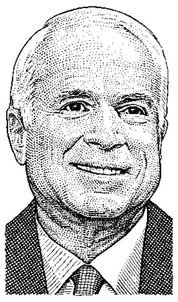
With strong Democratic majorities in Congress, Mr. Obama should have little trouble winning passage on some of the smaller issues. But the biggest items on his agenda—from universal health-insurance coverage to combating global warming—will take an environment of cooperative goodwill.

And Mr. Obama appears intent on fostering that, not only with the McCain meeting Monday but his Chicago rendezvous Thursday with New York Sen. Hillary Clinton, where he discussed possible roles in his administration with his onetime rival for the Democratic nomination. Mr. Obama has also encouraged rapprochement with independent Sen. Joe Lieberman, who offended many Democrats with his staunch backing of Sen. McCain.

"If I could quote Mario Puzo, 'Keep your friends close and your enemies closer,' " said Phil Singer, a former Clinton campaign spokesman.

Obama aides stress the opportunity the president-elect is offering Sen. McCain. The senator turned off some independents and Democrats who had admired him with his tack rightward to win over his base. He now can reclaim his maverick, bipartisan mantle if he wants to.

The benefit to Mr. Obama of rapprochement with Sens. McCain and Lieberman may be more immediate. The pair have already teamed up on legislation to cap the emissions of greenhouse gases and allow companies to buy and sell emission rights on the open market, a key proposal of the president-elect's.



John McCain

Obama chief of staff Rahm Emanuel has praised a McCain-Lieberman proposal to establish a commission, modeled after the military base closing commission, to identify so-called corporate welfare, and then eliminate it all with a yes or no vote.

Sen. McCain has worked with Democratic Sens. Evan Bayh on national service and with John Kerry on legislation to raise automotive fuel-efficiency standards. Mr. Obama shares both those goals.

After his 2000 loss to President George W. Bush in the Republican presidential primaries, Sen. McCain carved out a deal-making role for himself, often taking on his party and president on issues such as tax cuts and torture. At other times, he worked with Mr. Bush, such as comprehensive overhaul of the nation's immigration laws, knowing he would be punished in the Republican primaries for it.

Obama aides say the president-elect is serious about passing an immigration bill, just one example of an area where Sen. McCain could be invaluable.

"The old John McCain is needed in the Senate right now. There's no other Republican with the same kind of reach," said Democratic Sen. Charles Schumer of New York.

It is still unclear whether Sen. McCain wants that role. During the final stretch of his presidential campaign, Sen. McCain emphasized areas where he was in agreement with most Republicans, such as the need for more oil drilling, tax cuts and free-market health care.

But those ideas aren't likely to gain much traction in the Democratic Congress. Sen. Susan Collins, a Maine Republican who is close with Sen. McCain, said she can't see him playing the obstructionist and anticipates he will resume the role of bipartisan deal maker.

"That's a role that he relishes and it's a role that comes naturally to him," she said.

Climate group's remedy to be short on specifics

By Jeffrey Ball

A motley crew of corporations and environmental campaigners is scheduled to call on the U.S. government Tuesday to press forward with legislation to curb global-warming emissions despite the tough economic times.

The U.S. Climate Action Partnership is such a strange-bedfellows group that, when its members speak with one voice, policy makers take note. But what its leaders don't say at their scheduled Washington news conference this week is likely to be more telling than what they do say.

The group, known as USCAP, is about as close to a cross-section of the American economy as a Washington interest group gets. Its members include such corporate heavyweights as Detroit's Big Three, several coal-fired power companies and three oil multinationals. Also aboard are a few of the nation's most prominent environmental groups. To put it mildly, these players are seldom on the same team.

USCAP made waves when it made its debut in January 2007, calling on the government to cap U.S. industry's greenhouse-gas output, though President George W. Bush had made it clear he had no such intention.

Its rationale was twofold. Major polluters in the group figured it was only a matter of time before a Bush successor hit them with an emissions cap, so they wanted to try to shape the regulation to minimize their costs in complying. Members such as **General Electric** Co., which makes and sells wind turbines, figured a carbon cap would help it sell more such widgets.

President-elect Barack Obama and congressional Democrats have said they will move forward with instituting a cap on greenhouse-gas emissions. The debate will be over the specifics that will determine which industries, and which companies, get stuck with the bill.

The USCAP coalition's players are seldom on the same team.

Don't expect much clarity on that this week. Says a USCAP spokesman: "That's not the purpose of the press conference, to get into the details."

So far, USCAP has given momentum to the broad idea of a U.S. global-warming mandate. The idea remains mushy, though, because the group's members disagree about what a mandate should say. That's a harbinger of the slugfest that lies ahead over what the U.S. should do about energy and the environment.

SPECIAL ADVERTISING SECTION

BALKANS

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Under the stewardship of its Bucharest-based government, Romania achieved record FDI inflows for 2007 due to economic growth, stability, EU membership and a privatization program.

Region strives to improve its business climate

Differences persist, but all countries of the region have made great gains in attracting foreign investment

AS THE COUNTRIES of southeastern Europe, or the Balkans, groom themselves to join the European Union, they are attracting foreign investment and racking up solid economic growth.

Challenges remain. Aside from Romania, Bulgaria and Greece (all of which already are in the EU), other countries in the region — Albania, Bosnia and Herzegovina, Croatia, the Republic of Macedonia, Serbia and Montenegro — have small populations; the small domestic markets mean they need to focus on exports to drive growth, which they haven't yet done. In addition, they are late starters, having lost valuable years to political turmoil.

"There is a huge difference between countries that jumped on the European Union train, like Bulgaria, vs. laggards not only economically but politically, like Serbia," says Verena Knaus, senior analyst with the European Stability Initiative think tank, in Vienna.

One thing they have in common, however, is that recently they have all made great efforts to change their countries' business climates. Here is an overview:

ALBANIA

Albania has had a trade pact with the EU since 1992 and a Stabilization and Association Agreement — the first step toward becoming a candidate for EU membership — since 2006. The country, with a population of just over three million, averaged 5.3% annual growth in gross domestic product between 2000 and 2007, according to the World Bank. The improved economy lifted about a quarter of the poor out of poverty between 2002 and 2006, the World Bank says.

The World Bank's Doing Business 2009 report ranked Albania the second-best reformer during the previous year, and for ease of doing business the country moved up the rankings to 86 out of 181 countries world-wide, from 135 a year earlier. Last year, Albania cut the time to start a business to seven days from 36. It also improved investor protections and access to credit.

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BALKANS

Montenegro attracts international interest

MONTENEGRO may be one of the smallest countries in Europe — about a third the size of Switzerland and less than one-tenth its population — but it is one of the biggest destinations for tourism and foreign direct investment in southeastern Europe.

Last year, Montenegro attracted about a million foreign tourists, up 16% from the year before and more than its population of around 650,000. As for FDI, it brought in a record €644 million in 2006, or €1,031 per capita, making it the region's leading recipient of FDI, says Verena Knaus, senior analyst with the European Stability Initiative think tank in Vienna.

Little Montenegro is all the more surprising because it is so new as a country. It declared independence from Serbia in June 2006, making it the only country to emerge from the former Yugoslavia without a conflict. In a region where wars have been fought over religion and ethnicity, Montenegro is even more of a melting pot than its neighbors, with Montenegrins accounting for 43.2% of the population, Serbs 32%, Bosnians 7.8%, Albanians 5% and Croats 1.1%.

Montenegro has enjoyed trade preferences with the European Union since 2000. In March 2007, it signed a Stabilization and Association agreement with the EU, the first step toward becoming a candidate. Montenegro hopes to join by 2012.

Like some other very small states that aren't part of the EU — Andorra, for example — Montenegro uses the euro, though it isn't officially allowed to. That has caused consternation at the European Central Bank, but it has helped Montenegro avoid rampant inflation.

In fact, the economy has been moving along, with a 7.5% growth in gross domestic product in 2007, according to the World Bank. The IMF estimates that this year's GDP growth will be 7.5%, and predicts it will slow to about 5% next year as economies world-wide put on the brakes, though Montenegro's growth is expected to outpace the IMF's projection for 2.2% growth world-wide.

Tourism is estimated at 25.6% of GDP this year, according to the London-based World Travel and Tourism Council, which predicts that this will rise to 28.5% by 2018. The WTTC also expects Montenegro to be the fastest-growing tourism economy in the world during the next decade, out of 174 countries surveyed. Today, tourism provides one in every 4.8 jobs in Montenegro.

REUTERS/Stevo Vasiljevic

Montenegro declared independence from Serbia in June 2006 — the only country to emerge from the former Yugoslavia without a conflict.

Tourists last year included members of the Rolling Stones, who gave a concert on the beach near the town of Budva last summer. Madonna played the same venue in August. Montenegro has more tourists per capita than France, Switzerland or Italy, countries known for tourism, says Ms. Knaus of ESI. Though known for its Adriatic coastline, Montenegro is mountainous — its name means Black Mountain — and it also offers skiing.

Tourists come to Montenegro and decide to buy a piece of the place. The biggest chunk of FDI in 2006, at €257 million, was in real estate, especially along the coast.

Canadian Peter Munk, founder of Barrick Gold Corp. of Toronto, the world's biggest gold-mining company, bought the naval base at the town of Tivat in 2006 for more than €18 million, with plans to turn it into a luxury port for Mediterranean cruise ships at an estimated cost of more than €600 million.

Prices of hotels, apartments and other properties have risen sharply, Ms. Knaus says, and have led to "an incredible boom in construction." The building activity has brought in a flood of guest workers from Kosovo and other countries to work on construction sites, she adds. "Montenegro is playing a role like that of Switzerland and Germany in attracting guest workers."

The other pillar of the economy is aluminum, thanks to deposits of bauxite, a key raw material. Aluminum accounted for 30.9% of Montenegro's total exports in the first six months of 2007, according to the World Bank.

Montenegro has won praise for its tax system, with a flat 9% corporate tax and a flat 15% personal income tax. This puts Montenegro at a level with top tax reformers such as the Baltics or Slovakia. Despite these substantial tax cuts, the 2006 government budget reached a surplus of 1.3% of GDP. Official unemployment has halved in four years to 14.7%.

Montenegro's big leaps forward, particularly its success in tourism and in attracting FDI, "are a reflection of its good reputation abroad," says Ms. Knaus of ESI.

Region strives to improve its business climate

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BOSNIA AND HERZEGOVINA

Picking up after its 1992-1995 war, Bosnia posted 5.2% average annual GDP growth between 2000 and 2007, according to the World Bank. In June, Bosnia signed a Stabilization and Association Agreement with the EU to put it on the road to membership.

The country of four million people is the poorest of the former Yugoslavia, with 20% of the population under the poverty line and 40% near it. Unemployment is officially 44% of the working-age population (although it may be considerably less if the gray economy is taken into account) but wages have been rising quickly.

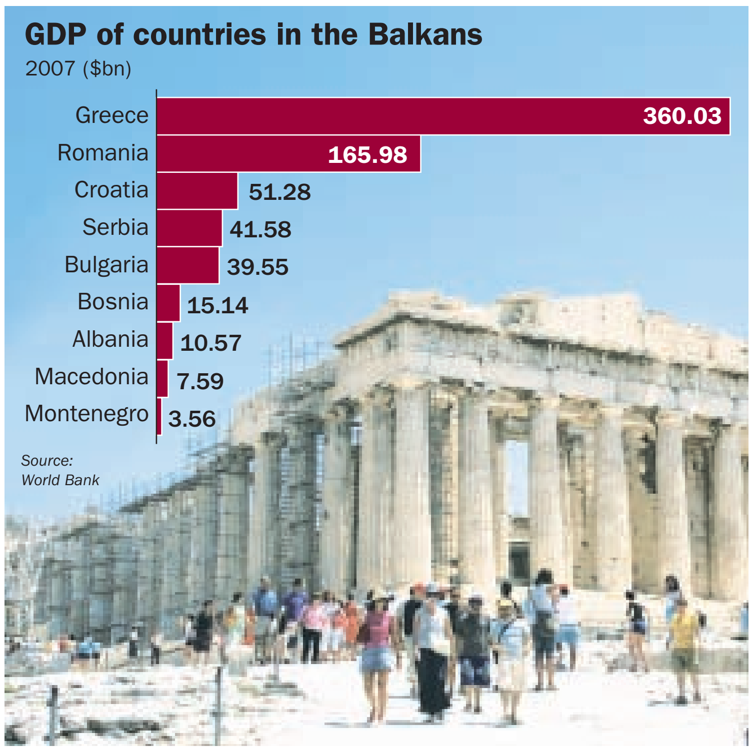
Bosnia slipped two notches to No. 119 for ease of doing business in the World Bank's 2009 report. While it made reforms, such as cutting corporate income taxes to 10% from 30%, other countries did more.

Remittances from emigrants account for about 20% of GDP, according to the Organization for Economic Cooperation and Development.

BULGARIA

An EU member since Jan. 1, 2007, Bulgaria has tallied 5.7% average annual GDP growth between 2000 and 2007, according to the World Bank. It is one of the bigger countries in the region, with a population of 7.6 million, making it attractive for foreign investors. Last year, foreign direct investment was 20% of GDP — which was a far bigger chunk than in surrounding countries. FDI has risen more than eightfold since 2002.

Bulgaria also has attracted investment by improving its business regulations. The country was one of the top 10 reformers between June 2007 and June 2008, according to the World Bank, and maintained its rank of 45 in the Doing Business 2009 report — ahead of EU members Romania, Slovenia, Poland and Italy.



CROATIA

Croatia, a country of 4.5 million, has been an EU candidate since 2004, and is expected to join in 2010. Its GDP averaged 4.8% annual growth between 2000 and 2007, according to the World Bank.

Croatia was one of the top 10 reformers in the 2007 and 2008 Doing Business reports, and continued to implement investor-friendly regulations, giving it a rank of 106 in the 2009 report. A new building code streamlined the process for construction permits, and port improvements have cut two days off the time for handling exports. Registering a property takes 174 days, compared with 956 days in 2005.

GREECE

A member of the EU since 1981, Greece is the only country in the region to belong to the euro zone. The economy grew 4.3% a year between 2000 and 2007, according to the World Bank, boosted in part by the 2004 Olympics in Athens. While the country of 10 million is one of the EU laggards in terms of budget deficit, inflation and unemployment, it is leagues ahead of its neighbors. Tourism is one of the biggest industries, accounting for 15% of GDP, and exports have kept the trade deficit to about 14% of GDP in 2007.

Its Achilles' heel is its generous pension system, which discourages an aging population from continuing to work while burdening the active sector.

MACEDONIA

Macedonia's economy registered 2.7% average annual growth between 2000 and 2007, according to the World Bank. It was badly affected by an insurgency by ethnic Albanians in 2001, which hurt exports for textiles, steel and iron. GDP growth jumped to 5.1% in 2007, according to the World Bank.

Macedonia has been an EU candidate since December 2005, but no date has been set for accession.

Macedonia, a country of two million people, ranks No. 71 in Doing Business 2009, up eight notches, thanks to improvements in starting a business, dealing with licenses and paying taxes.

MONTENEGRO

The smallest (with 650,000 inhabitants) and newest (independent since 2006) country in the region, Montenegro has been working overtime to catch up. Average annual GDP growth between 2000 and 2007 was 3.9%, according to the World Bank. It is in talks with the EU about becoming a candidate for membership.

Montenegro ranks 90th in Doing Business 2009's ranking, down from 84th last year, but still ahead of other former Yugoslav republics like Bosnia, Croatia and Serbia.

ROMANIA

The biggest country in the region, with a population of 21 million, Romania joined the EU at the beginning of last year. Romania averaged 6.1% annual GDP growth between 2000 and 2007, according to the World Bank. This growth, along with a stable economy, EU membership and a privatization program, has pulled in record flows of FDI. Inflows for 2007 reached €7.3 billion, more than double the €3.1 billion it attracted a year earlier. Romania was the No. 2 European destination for FDI in 2006, after Malta, according to Luxembourg-based Eurostat.

The country has been quick to move into higher-skilled sectors as its wages rise toward Western European levels.

Doing Business 2009 kept Romania steady at No. 47 in its ranking.

SERBIA

Serbia's annual GDP growth averaged 5.5% between 2001 and 2007, according to the World Bank. FDI stocks soared to $13.2 billion last year from $1 billion in 2000, thanks largely to the privatization of many large companies.

Doing Business 2009 ranked Serbia 94th, down from 91st a year earlier. Contributing factors to the downgrade included shortcomings in dealing with construction permits, employing workers and protecting investors. While Serbia has made progress in repairing the damage of the 1996-1999 war, it has to get past its unstable political history like the 2003 assassination of its prime minister. It has resumed talks with the EU toward becoming a candidate.