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Fed to pump $800 billion into markets

U.S. central bank, extending its lending reach ever further, will buy mortgage securities and consumer loans

By Jon Hilsenrath And Deborah Solomon

U.S. officials pledged to pump an additional $800 billion into ailing credit markets—this time with much of the money coming directly from the Federal Reserve, a shift that transforms the nation's central bank into a lender to almost every corner of American life.

In the coming months the Fed will purchase up to $600 billion of debt issued or backed by **Fannie Mae, Freddie Mac, Ginnie Mae** and Federal Home Loan banks, all mortgage-finance entities with close ties to the U.S. government. Officials expect that the move will bring down mortgage rates and help the housing sector. In addition, the Fed, with support from the U.S. Treasury, will provide up to $200 billion in financing to investors so that they may buy securities tied to student loans, car loans, credit debt and small-business loans.

The moves mark new steps by the Bush administration to resolve the financial crisis in its waning days in power, and come just a few days after Treasury Secretary Henry Paulson suggested he might hold off on making new commitments from the $700 billion Troubled Asset Relief Program approved by Congress in October.

Mr. Paulson said the moves were aimed at increasing the availability of lending to consumers and home buyers. "Nothing is more important to getting through this housing correction than the availability of affordable mortgage finance," he said. He added that the market for securities backed by consumer debt "came to a halt" last month, making it nearly impossible for millions of Americans to find affordable financing for everything from college to computers.

These markets have deteriorated sharply in the past few weeks. At the end of last week, for instance, debt issued by Fannie Mae was yielding about 1.8 percentage points more than Treasury bonds of the same maturity. That added interest cost had shot up

Associated Press

U.S. Treasury Secretary **Henry Paulson** appears on a TV screen during trading at the New York Stock Exchange Tuesday.

from 0.7 percentage point in September, right after the government effectively took control of the two mortgage giants.

As Fannie Mae and Freddie Mac's borrowing costs have risen, so have mortgage yields. Investors greeted the new plan warmly. Mortgage rates dropped by about a half a percentage point Tuesday after the latest news, which could help

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Business & Finance

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■ **The financial crisis forced** two of Russia's richest men to end a battle for control of Norilsk, delaying by years plans to merge the nickel miner with Rusal. Page 19

■ **UBS ex-Chairman** Marcel Ospel will return more than $18 million in pay, bowing to shareholder criticism over the bank's pay practices. Page 22

■ **The OECD lowered** its 2009 growth forecast for member nations to a 0.4% contraction. Page 2

■ **An ECB policy maker** proposed a program of capital injections into banks. Page 19

■ **An early rally** faded in the U.S., but financial stocks gained. The Fed's latest effort to increase lending boosted European shares. Page 20

■ **U.S. GDP contracted** 0.5% in the third quarter. Page 10

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8479.47	+36.08	+0.43
Nasdaq	1464.73	-7.29	-0.50
DJ Stoxx 600	198.77	+1.26	+0.64
FTSE 100	4171.25	+18.29	+0.44
DAX	4560.42	+6.09	+0.13
CAC 40	3209.56	+37.45	+1.18
Euro	$1.2990	+0.0166	+1.29
Nymex crude	$50.77	-3.73	-6.84

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World-Wide

U.S. officials pledged to pump an additional $800 billion into ailing credit markets. The Fed will purchase up to $600 billion of debt issued or backed by mortgage-finance firms. Also, the Fed, with support from the Treasury, will provide up to $200 billion in financing to boost consumer credit. Page 1

■ **Obama named** Peter Orszag as Office of Management and Budget director, a key post in the coming administration's budget-overhaul drive. Page 3

■ **France's Socialists named** Martine Aubry as their new leader, in a move likely to shift the country's second-largest party further to the left. Page 2

■ **Thailand halted flights** out of its international airport after antigovernment protesters stormed the facility. Page 11

■ **Kuwait's ruler put on hold** the resignation of the cabinet, leaving his options open for intervention to end a crisis between the government and Parliament.

■ **A lawyer for one** of three men charged in the killing of journalist Politkovskaya said their indictment indicates a Russian politician ordered her slaying. Page 11

■ **German authorities arrested** two citizens suspected of distributing propaganda over the Internet supporting terror groups.

Editorial & Opinion

No laughing matter

Burma jails a regime critic for 45 years for telling a joke. Review & Outlook. Page 13

Sunnis worry as Iraq pact nears a vote

By Gina Chon

BAGHDAD—As Iraq's parliament prepares to vote Wednesday on a security pact between Baghdad and Washington, an unlikely coalition of lawmakers here have been holding out.

Their biggest concern isn't the terms of the deal, which targets the end of 2011 for the withdrawal of U.S. troops. Instead, they are worried about how they'll be treated by the Shiite government of Prime Minister Nouri al-Maliki after the Americans go home.

Many Sunni Iraqis have come to see American soldiers here as a crucial check against the rising power of Mr. Maliki, whose new standing comes partly from wringing big concessions from the Bush administration in the security deal. Even some secular Shiites and renegade Kurdish lawmakers have joined in the last-minute resistance to a deal to try to rein in Mr. Maliki.

The new opposition has turned the final stage of the debate over the deal in parliament into a fundamental question about the country's future: How will Iraq's various sects and ethnicities live together once the buffer provided by American troops is removed?

The political dynamics are mirrored in the streets of Baghdad, and often are fueled by contact with American troops or Iraqi security forces.

Rafid Naji, a Shiite now working in the Iraq government, originally cheered the U.S. invasion. But U.S. troops looking for weapons broke down the door of his brother's home, and now he wants the Ameri-

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BHP ends Rio Tinto bid, citing a global downturn

By Robert Guy Matthews, Dana Cimilluca and Patrick Barta

BHP Billiton abruptly broke off its 18-month pursuit of rival mining company **Rio Tinto** on Tuesday, saying the recent fall in commodity prices and worsening world economy made the $68 billion deal too risky to complete.

Although BHP said it could still pursue other mining companies weakened by the downturn, the collapse of the all-stock deal, once valued at more than $170 billion, could be the last nail in the coffin of the great merger-and-acquisition boom that stretched from 2004 to 2007.

Shares of London-based Rio Tinto fell 37% on the news, while those of BHP, which is based in Melbourne, Australia, rose 7%, indicating relief among investors concerned about BHP's potential debt load.

The proposed deal would have linked up the world's largest and third-largest mining companies, measured by production, and created an international mining juggernaut, with operations from Australia to Alaska and interests in copper, aluminum, iron ore and other vital raw materials. The deal also would have left 70% or more of the world's seaborne iron ore, a key

Please turn to page 31

Socialist Party in France chooses Aubry as chief

By David Gauthier-Villars

PARIS—France's Socialists named Martine Aubry as their new leader, in a move likely to shift the country's second-largest party further to the left as it tries to become a stronger political counterweight to President Nicolas Sarkozy's conservative coalition.

Ms. Aubry, 58 years old, a former labor minister best known for writing a 1998 law limiting the French working week to 35 hours, had emerged as the victor in a vote of party members on Friday. But her opponent, Ségolène Royal, had challenged the result, citing irregularities in the ballot. The matter went before the party's governing council, which late Tuesday declared that Ms. Aubry had won by a margin of 102 votes out of around 135,000 votes cast.

"It's done," veteran Socialist politician and former Prime Minister Pierre Mauroy said on French television. "Martine is our new chief."

It wasn't immediately clear whether Ms. Royal, who lost to Mr. Sarkozy in France's presidential election last year, would concede defeat or continue to challenge the result. Some of her supporters have threatened to contest the vote in court. Whatever Ms. Royal decides, the party emerges from this election deeply divided just as it's trying to restore its popularity among voters.

Though it is still the country's second-largest political movement by number of card-carrying members after Mr. Sarkozy's UMP, the Socialist Party has lost the past three presidential elections. Over the years, it has lost votes to new centrist political movements and to far-left groups. It has also struggled to groom a new generation of leaders within the party.

Ms. Aubry, the mayor of Lille in northern France, aims to anchor the Socialists more firmly to the left.

OECD lowers forecasts

Body urges stimulus, sees members' GDP falling 0.4% in 2009

By Gabriele Parussini And Paul Hannon

PARIS—The current global economic downturn will be the most severe since 1982, dragging at least two of the three leading industrialized economies into a protracted recession, the Organization for Economic Cooperation and Development said Tuesday.

In its twice-yearly report on the outlook for the global economy, the organization slightly lowered its forecast for growth in 2009 from projections released as recently as Nov. 13.

It now expects the combined gross domestic product of its 30 members to fall 0.4% next year, having previously forecast it would fall 0.3%. The OECD predicted 21 of its 30 members will have slipped into recession by the end of next year—including the U.S., Japan and the 15-country euro zone.

OECD Chief Economist Klaus Schmidt-Hebbel said the downturn will be the most severe in over a quarter of a century, comparing it to the conditions after a revolution in Iran in 1979 sent oil prices soaring in the early 1980s.

"At its trough, this recession will be slightly less painful than that of 1982," Mr. Schmidt-Hebbel said. He added, though, that the "downside risks" to the OECD's forecasts are "more severe now than they were two weeks ago."

The OECD said the downturn will hit some of its members harder than others, and identified Hungary, Iceland, Ireland, Luxembourg, Spain, Turkey and the United Kingdom as the economies that will suffer most.

Among policy recommendations, the OECD said the U.S. might need another shot of fiscal stimulus and the European Central Bank can be expected to cut its key interest rate—currently 3.25%—to 2.0% by the first half of next year. The think tank also warned that Japan could slip back into price deflation unless it kept money tighter.

While auto makers in the U.S. and Europe are pushing governments for loans to help them weather the downturn, Mr. Schmidt-Hebbel said the auto industry isn't comparable to the financial sector in terms of its importance to the functioning of a market economy.

"The auto industry doesn't hold systemic importance," he said. "If a company shuts down, this won't stop people from buying cars from its competitors, quite the contrary."

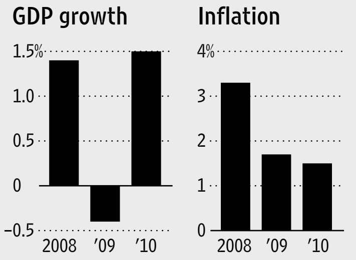
In France on Tuesday, President Nicolas Sarkozy said his government will unveil a stimulus package within the next 10 days to help shore up the auto and construction sectors, among other industries.

Several surveys released Tuesday showed further drops in sentiment. French business sentiment fell to its lowest level in 15 years, Italian consumer sentiment continued to slide and Dutch business and consumer confidence also dropped.

Bucking the trend, Germany's market-research group GfK's forward-looking consumer-confidence index rose to 2.2 points for December from 1.9 points in November, despite confirmation of recession.

Growth stalls, inflation falls

Projections for all 30 member states of the Organization for Economic Cooperation and Development



Note: Seasonally adjusted annual rates
Source: OECD

A recession in Europe's largest economies also will have a profound effect on Europe's emerging markets, the European Bank for Reconstruction and Development said in its own report Tuesday.

In central Europe and the Baltic states, growth will slow to 2.5% next year from 4.1% this year, the EBRD said in its twice-yearly Transition Report. In southeastern Europe, it forecast growth will slow to 3.1% from 6.5%. And in the Commonwealth of Independent States—the former Soviet Union excluding the Baltic states—it forecast growth will slow to 3.4% from 6.3%.

CORRECTIONS & AMPLIFICATIONS

The name of the chemical element molybdenum was misspelled as molybendum in a Nov. 17 page-one article on mining companies.

The IMF slashed its 2009 forecast for gross domestic product for Asia to 4.9% from 5.6%. A Leading the News article Tuesday incorrectly stated the forecast was for 2008.

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

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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LEADING THE NEWS

Obama vows budget efficiency

President-elect says new team will work to rein in spending

By Corey Boles

WASHINGTON—U.S. President-elect Barack Obama on Tuesday named Congressional Budget Office chief Peter Orszag as Office of Management and Budget director, a key post in the incoming administration's drive to overhaul the federal budget.

Mr. Obama also tapped former Clinton administration adviser Robert Nabors as deputy director of the OMB.

Revamping health care will be a focus in downsizing the federal budget.

In the second day of announcements on his economic team, the president-elect said Messrs. Orszag and Nabors share his vision for working aggressively to downsize the federal budget, focusing especially on areas like revamping health care. Mr. Obama repeated his campaign pledge to go through the federal budget "line by line" to eliminate spending programs that are no longer needed and revamp others to ensure they are working effectively.

"In these challenging times, when we are facing both rising deficits and a sinking economy, budget reform is not an option," Mr. Obama said. "It is an imperative. We cannot sustain a system that bleeds billions of taxpayer dollars on programs that have outlived their usefulness."

Mr. Obama's focus on careful federal spending marked something of a contrast from Monday, when he said that restoring the economy to health took priority over the budget deficit. He said the first priority would be to pass an economic-stimulus plan to kick-start the weak U.S. economy. But immediately after that, work would begin on reining in the budget deficit.

Mr. Obama proposed that some of the stimulus spending would serve as a "twofer" in providing a short-term boost, and also saving the federal government money over the long term. An example of this is the tax cut for 95% of U.S. workers, which Mr. Obama said would put money in people's pockets in the short term, but also overhaul the tax code over the longer horizon. He said the new administration would work with state and local governments to identify spending priorities, which would accomplish this two-fold goal.

His roster of economic officials so far embodies what seem to be mutually exclusive goals. Timothy Geithner, Mr. Obama's choice for Treasury secretary; Lawrence Summers, who will head the National Economic Council; and Mr. Orszag all have links to Robert Rubin, who as President Bill Clinton's Treasury secretary pushed for a balanced budget.

Associated Press

U.S. President-elect Barack Obama said his Budget Director-designate Peter Orszag, left, shares his vision for **a smaller federal budget**.

Mr. Orszag has been director of the CBO since 2007, having been a senior fellow at the Brookings Institution for six years before that. He has long warned that the U.S. federal budget deficit is unsustainable and has called for reforms to the nation's health-care system to lower costs of government programs such as Medicare.

The federal government recorded a $134 billion deficit in the first month of the 2009 fiscal year, which began Oct. 1. In the 2008 fiscal year, the deficit reached $455 billion.

Mr. Nabors is currently the staff director of the House Appropriations Committee. He served under former President Clinton in the OMB as a senior adviser.

The appointments were greeted by lawmakers of both parties on Capitol Hill.

Mr. Orszag's "focus on addressing the growing cost of health care has demonstrated his firm grasp of the tremendous budget challenges our nation faces in the years ahead," said Sen. Kent Conrad, a North Dakota Democrat and chairman of the Senate Budget Committee.

—Patrick Yoest contributed to this article.

EU's latest raids probe drug firms for cartel activity

By Charles Forelle And Peppi Kiviniemi

BRUSSELS—European antitrust regulators, widening their interest in pharmaceutical manufacturers, raided several drug companies on suspicion of violating European Union rules on anticompetitive behavior.

The European Commission, the EU's executive arm, said officials raided the premises of a "number of pharmaceutical companies" in several EU countries. An EU spokesman said the raids, which began Monday, would continue through Wednesday. The EU didn't name the companies visited.

The commission began a broader examination of the pharmaceutical industry in January, raiding big drug companies including AstraZeneca PLC, GlaxoSmithKline PLC, Sanofi-Aventis SA, Novartis AG's Sandoz generics unit, Merck & Co., Johnson & Johnson and Pfizer Inc., concerned that the companies were colluding to cut deals that temporarily sidelined generic competitors in return for payoffs.

Preliminary results of that examination—known as a sector inquiry—are expected Friday.

In the most recent round of raids, the EU said it was looking for violations of the bloc's rules on conduct by dominant companies and on cartel behavior.

—Jeanne Whalen contributed to this article.

Investors bet News Corp. can shape up Premiere

By Aaron O. Patrick

LONDON—Two longtime media investors have been buying shares in German cable-TV operator **Premiere** AG, in a sign they believe a recent management shake-up there by media conglomerate **News Corp.** can help turn the struggling company around.

Fininvest SpA, the family investment vehicle of Italian Prime Minister Silvio Berlusconi, has taken a 3.13% stake in Premiere, according to a regulatory filing this week. Earlier this month, **Odey Asset Management** LLP, run by London-based hedge-fund manager Crispin Odey, said it had bought 6.29% of the Munich-based company. That makes Odey the second-largest shareholder after News Corp, which built up a 25.01% stake earlier this year.

Silvio Berlusconi

News of the investments comes just weeks after News Corp installed its own choice for chief executive at Premiere, which faces serious difficulties amid a global downturn in media stocks and widespread cable piracy in Germany. Last month, the company said that nearly a third of the 3.3 million people it had counted as subscribers weren't paying for its service and forecast a loss for this year. Premiere's stock price has fallen about 70% since the beginning of the year. Earlier this month, News Corp. recognized a loss of $447 million on its investment in the company.

Premiere's near-term prospects depend heavily on its ability to refinance some €300 million, or about $390 million, in debt and to secure broadcasting rights to the German soccer league, which are currently being auctioned. In a report Tuesday, UBS analysts said Premiere's stock price could quadruple if it manages to do both. Premiere shares fell 17% Tuesday to €3.12 in Frankfurt trading.

Spokesmen for Odey, Premiere and News Corp. declined to comment. "This is a good investment in Germany" for Fininvest, a Fininvest spokeswoman said. News Corp. owns Dow Jones & Co., publisher of The Wall Street Journal.

Mr. Berlusconi and News Corp. Chairman Rupert Murdoch have previously invested side by side in at least one media venture, the now-defunct German firm KirchMedia AG. As the controlling shareholder of Italy's main commercial TV network, Mr. Berlusconi is Mr. Murdoch's biggest competitor in Italy.

Mr. Odey, a prominent figure in London financial circles, is a long-term investor in Britain's main pay-TV company, **British Sky Broadcasting Group** PLC, in which News Corp is the largest shareholder. He was once married to Prudence Murdoch, Mr. Murdoch's oldest daughter, and is regularly in contact with Mr. Murdoch's second son, James Murdoch, the News Corp. executive that supervises the company's Premiere investment, according to a person familiar with their relationship.

CORPORATE NEWS

Airbus may have to slow production

Plane manufacturer says further economic deterioration could force its hand, calls for improved credit conditions

BY DAVID PEARSON

PARIS—European commercial-aircraft maker Airbus isn't ruling out the possibility it may have to slow down production if the economic situation deteriorates further, Chief Executive Thomas Enders said.

Mr. Enders called on European governments to encourage their export credit agencies to provide more guarantees for Airbus's aircraft contracts and improve financing conditions. Governments should also provide funding for critical aerospace suppliers that are caught in the credit squeeze, he added. France and Germany have significant shareholdings in Airbus parent **European Aeronautic Defence & Space** Co.

Airbus decided a few weeks ago to freeze its planned aircraft-production-rate ramp-up "at least temporarily" in view of the quickly deteriorating outlook for economic activity, credit availability and airline profitability.

The plane maker "simply cannot exclude at this point" a possible cut in production levels, Mr. Enders said. "Anything else would be irresponsible or not credible. But obviously the freeze that we have enacted right now is not enough," he said.

Speaking to French aerospace journalists late Monday, Mr. Enders stressed that the move to freeze the production ramp-up was a protective measure. If the situation changes for the better, he said, the company can reverse the move next year. But if it continues to deteriorate, he said, "Certainly we would not exclude that we have to take further action."

Reuters

Airbus CEO Thomas Enders at an industry meeting in Berlin this month. The company says it may be forced to slow output.

Airbus has seen industry downturns in the past, he noted. "We know how to cope with it. We know what our flexibility is," he said.

Airbus is in the middle of a cost-cutting program that will reduce its work force by 10,000, and Mr. Enders said the company has flexibility to slim down further by trimming temporary employees. "That gives us some breathing space in a downturn scenario," he said.

The plane maker has a very strong backlog of some 3,700 aircraft representing several years of work, Mr. Enders said, and confirmed that it will probably book more than 850 orders this year, compared with a projection of between 700 and 750 made at the beginning of this year.

"It has turned out to be an annus horribilis, but we'll have more order intake than we predicted," he said. "I'd call that not a bad year," he added.

Mr. Enders indicated that Airbus will probably have to provide more financing to customer airlines that are having difficulty in obtaining credit from traditional sources. He noted, however, that the company's exposure to customer financing at the end of September was at the lowest level in more than 20 years: $1.2 billion, compared with $6.1 billion in 1998 and $4.8 billion in 2003, "so we still have some margin" to increase.

Airbus might not be able to deliver all of the 21 double-decker A380 superjumbos that were scheduled for next year, Mr. Enders confirmed, citing continuing manufacturing problems with the first batch of 25 aircraft.

He also expressed frustration about development delays with the A400M military-transport-aircraft program that's already running more than a year behind schedule because of problems with the engine-management system. The aircraft was due to make its first flight in October. Mr. Enders said he couldn't give a date for when the first flight might take place.

Reflecting its Franco-German origins, EADS has two headquarters: one in Paris, the other in Munich. Mr. Enders said he favors the creation of a single headquarters in the interest of efficiency, preferably in Toulouse, France, where Airbus is based.

Eclipse Aviation files for bankruptcy

BY ANDY PASZTOR

Eclipse Aviation Corp., a pioneer maker of small, low-cost personal jets, filed for federal bankruptcy-court protection in the U.S. Tuesday as current economic downdrafts continued to hurt makers of small business aircraft and private propeller planes.

Beset by longstanding manufacturing problems, tightening global credit markets and negative publicity from technical glitches with its so-called very light jets, the Albuquerque, N. M., company earlier this month temporarily failed to pay its 1,100 employees. Eclipse builds six-seat aircraft aimed at private pilots and at what the company hoped would become a viable industry of air-taxi operators.

Europe's **ETIRC Aviation** SARL, closely held Eclipse's biggest shareholder, indicated it plans to continue manufacturing as it moves to acquire Eclipse's assets. ETIRC also is expected to be part of a group of existing shareholders and note holders planning to provide interim financing.

Other makers of small airplanes also have suffered from a softening market. **Textron** Inc.'s Cessna Aircraft Co. and **Hawker Beechcraft** Corp. have announced hundreds of layoffs as they race to cope with the downturn. On Tuesday, a spokesman for **Teledyne Technologies** Inc., a major supplier of piston-powered engines for small private planes, said about 15% of the 700-person work force at the engine-making unit has been laid off in the past two months.

Some industry officials have speculated for months that Eclipse's ambitious production plans and subsequent delays had drained its cash reserves, even as the company scrambled to line up new financing by looking to European and Russian investors. Through it all, Eclipse said it maintained a hefty order backlog of some 2,000 planes and was pushing to ramp up sales in Europe.

But earlier this year, newly installed Chief Executive Roel Pieper indicated the goal was to become cash-flow positive by next spring while producing significantly fewer planes each month than initially planned.

Eclipse also announced that Peg Billson, president and general manager of the company's manufacturing division, voluntarily left the company.

Nissan opts to skip U.S. auto shows

BY KATE LINEBAUGH

Nissan Motor Co. is withdrawing from the Detroit and Chicago auto shows because the economic slump has tightened marketing budgets and the company has no major product launches in the near future.

The decision "is not a commentary on auto shows or any cities," said Alan Buddendeck, a Nissan spokesman. "When we looked closely we determined that this is not the best place to put our marketing dollars" given current market conditions, he added.

Nissan, based in Japan, launched three products at the Los Angeles auto show last week, including the boxy Cube and the 370Z sports car. Nissan Chief Executive Carlos Ghosn said at the show that the auto maker was trying to conserve cash to withstand the dramatic drop in vehicle sales this year.

Auto companies are slashing marketing budgets in an effort to counter falling income as consumers stay away from big-ticket purchases like new cars. **General Motors** Corp. on Monday said it was severing its nine-year relationship with golfer Tiger Woods as a pitchman for its Buick brand, as the company seeks billions in government loans to supplement its declining cash situation.

GM and **Chrysler** LLC all but pulled out of the Los Angeles auto show last week to concentrate on the show in Detroit, which is the biggest in the U.S. Auto makers use the shows to generate buzz around their new products.

Nissan, instead, will focus its marketing dollars on local campaigns to push its products in the U.S.

Several other auto manufacturers have decided to forgo the Detroit show. **Porsche** AG pulled out last year and won't return this year. **Mitsubishi Motors** Corp. last week said it was withdrawing from the show.

AXA cuts profit outlook, casts doubt on 2012 goal

BY NICOLAS PARASIE AND DIGBY LARNER

DAILY SHARE PRICE
Axa
On Euronext Paris
Tuesday's close: **€13.12, down 2.4%**
Year-to-date change: **down 52%**

Source: Thomson Reuters Datastream

PARIS—AXA SA, one of Europe's biggest insurers, slashed its 2008 earnings forecast, blaming the financial crisis, which it said pressured asset fees and increased costs.

In a statement Tuesday ahead of an investor presentation, the company said it expects full-year underlying earnings, which exclude capital gains, of €3.6 billion to €4 billion ($4.64 billion to $5.16 billion). In August, AXA said underlying earnings would be in line with the €4.96 billion the company posted for 2007.

Shares in AXA fell 2.4%, having dropped as much as 17% earlier in the day following the profit warning. AXA shares have declined more than 50% since the start of the year on concern that market problems afflicting banks are spreading to the insurance sector.

The insurer said recent market developments also make its 2012 financial targets "increasingly obsolete." AXA's Ambition 2012 strategy aimed to double revenue and triple operating earnings over the period 2004 to 2012.

"The current turmoil is an unprecedented challenge for financial institutions," Chief Executive Henri de Castries said, adding that the long-term plan was based on normal market conditions.

Despite the lowered forecast, AXA said its balance sheet remains strong, with a regulatory solvency level of about 135% at the end of October, which it said gives the company the capacity to absorb further market shocks.

Europe's regulators require a minimum solvency level of 100%, but analysts favor 150% or more, especially given current crisis conditions that could lead to more write-downs. AXA's chief financial officer, Denis Duverne, said the insurer isn't under pressure from regulators to seek fresh capital.

The topic of capital increases has become more prominent since Benelux companies Aegon NV and ING Groep NV were forced to seek fresh capital from their governments.

Mr. de Castries said AXA would make its final decision on dividends in February, when it is due to report full-year earnings. In August, the company said the 2008 dividend would remain unchanged.

CORPORATE NEWS

Cellphone-sales fall seen

Researcher predicts a global downturn amid economic slump

By Adam Ewing

Poised for slowdown

Global sales of mobile phones and market share for major makers

Maker	Units in millions 3Q '07	3Q '08	Market share 3Q '08
Nokia	110.1	118.0	38.2%
Samsung	41.9	52.9	17.1%
Sony Ericsson	25.4	24.8	8.1%
Motorola	37.9	24.6	8.0%
LG	20.5	24.1	7.8%
Others	55.3	64.1	20.8%

Source: Gartner Inc.

A **Nokia** advertisment in Berlin

Global mobile-phone sales are set to drop next year as the economic slowdown hits consumer demand world-wide, research firm **Gartner** Inc. said Tuesday.

"We expect sales in 2009 to show a low-single-digit growth contraction" from 2008 levels, said Gartner analyst Carolina Milanesi. Market conditions are expected to remain challenging through at least the first half of next year, she said.

Growth in the Asian-Pacific region, which includes powerhouses China and India, is expected to grind to a halt in the fourth quarter of this year as the global economic decline hits consumer spending, the research firm said.

In the third quarter of 2008, about 309 million mobile phones were sold world-wide, Gartner said—a 6% increase from a year earlier, but a sharp slowdown from the 16% year-to-year growth seen in the third quarter of 2007. Replacement sales were hit especially hard, while first-time users remained active, Gartner said.

Sales in Japan fell 28% to 9.4 million handsets as consumers showed little interest in upgrading their phones.

The North American market grew 4.5% from last year to 47 million handsets, with smart phones a key sales driver.

Western European sales slumped 7.8% to 43.5 million phones from the 47.2 million sold last year. A longer replacement cycle hurt the market and will continue to do so in the fourth quarter.

Markets in Eastern Europe were battered in the third quarter, though emerging markets in Africa continued to show healthy growth.

Finland-based **Nokia** Corp. kept its top spot, selling 118 million handsets to grab a global market share of 38.2%, but the mobile-phone giant felt the slowdown in replacement sales in mature markets and was also hit by weaker emerging-market sales. Ms. Milanesi said Nokia remains best positioned to deal with the current sluggish market thanks to its scale.

South Korean handset maker **Samsung Electronics** Co. maintained its No. 2 spot, selling 52.9 million phones for a third-quarter market share of 17.1%.

Sony Ericsson, the joint venture between Japan's **Sony** Corp. and Sweden's **Telefon AB L.M. Ericsson**, sold 24.8 million phones for a market share of 8.1%. The company continued to suffer from the weakness in the high-end markets and the slowdown in Europe.

U.S.-based **Motorola** Inc. sold 24.6 million devices, causing its market share to drop sharply to 8% in the third quarter from 13% in the year-earlier period.

LG Electronics Inc. had a 7.8% market share in the quarter, strengthening its position from 7% a year earlier. Ms. Milanesi said the company is in a good position for the fourth quarter as its prices are more suited to the economic climate.

Apple Inc.'s iPhone got plenty of attention in the third quarter as the company expanded sales of the third-generation model, bringing Apple seventh place, just below BlackBerry maker **Research In Motion** Ltd.

InterDigital, Samsung settle patent litigation

By Sara Silver

A pair of lawsuits concerned patents for cellphones, such as **Samsung's Instinct**.

InterDigital Inc. and **Samsung Electronics** Co. settled a pair of long-running patent-infringement lawsuits Monday, on the eve of a U.S. International Trade Commission decision on whether to recommend banning imports of Samsung's high-speed cellphones.

InterDigital has received $1.5 billion from its wireless patents, mostly from licensing fees and royalties. It has issued licenses covering technology in **Apple** Inc.'s iPhone and **Research in Motion** Ltd.'s BlackBerry devices.

But the company has struggled to sign up players such as Samsung, the world's second-biggest cellphone maker by sales, and **Nokia** Corp., the biggest, which it has also sued.

The case before the ITC covered a high-speed broadband technology called 3G used in Samsung's Blackjack II and Instinct handsets. Analysts believe that so-called smart phones—the moniker often used to describe handsets with high-speed Internet access and other advanced functions—will be the most resilient part of the global cellphone market, which is expected to contract next year.

"If Samsung wants to remain competitive where the cellphone industry is growing, it needs to use InterDigital's intellectual property," said Chris Colarik, portfolio manager at Glenmede Trust, a Philadelphia investment-management firm that holds shares in InterDigital. "At the 11th hour, it appears that they are not willing to risk losing the ability to sell their advanced cellphones in the U.S."

Samsung didn't respond to a request for comment.

Engineers who went on to found **Qualcomm** Inc. developed InterDigital's patents in the 1980s, when InterDigital set out to offer wireless telephony in rural areas. InterDigital never became a major player in telecom equipment but holds an array of patents for wireless technologies, and now makes semiconductors.

According to a statement issued late Monday, the Samsung settlement, which runs through 2012, also covers an earlier technology known as 2G, for which Samsung last year posted a $167 million bond. The companies didn't release the value of the settlement, which requires Samsung to choose one of two payment options within the next 45 days. Both companies have agreed to drop all litigation and arbitration once InterDigital receives its first payment.

Tom Carpenter, a telecom analyst at Hilliard Lyons who owns shares in InterDigital, estimates the value of Samsung's settlement at $400 million to $500 million over the next five years. Samsung sold 87 million 3G phones from 2004 through June 2008, while Nokia sold 142 million, according to IDC. The research firm projects that 3G phone sales will increase from 314 million this year to 721 million in 2012.

InterDigital last year filed a similar infringement case against Nokia, the largest maker of 3G phones. A judge is set to hear evidence in May 2009 and rule in August, with the full ITC ruling due by mid-December. InterDigital won a $253 million payment from Nokia in 2006.

Nokia declined to comment.

InterDigital shares were down 33 cents, or 1.3%, to $25.35 in afternoon trading Tuesday on the Nasdaq Stock Market, after jumping 24% in the previous session after Samsung and InterDigital asked the ITC to postpone its decision, suggesting they were close to settling.

NRG rejects a second Exelon bid

By Rebecca Smith

For the second time this month, the board of **NRG Energy** Inc. rejected a stock-for-stock buyout offer from **Exelon** Corp., saying the $6.2 billion price "significantly undervalues" the New Jersey power generator.

NRG's board, in a filing Monday with the U.S. Securities and Exchange Commission, urged shareholders to reject Exelon's tender offer launched Nov. 12. The move follows NRG's rejection of an earlier unsolicited offer.

NRG's hand appeared to strengthen Monday after Exelon indicated that the technology NRG chose for its next nuclear project may have been more practical than that Exelon had picked for another project.

Hostile bids are unusual in the power sector. However, Exelon is continuing to meet with large NRG shareholders, hoping to persuade enough to tender their shares in order to force NRG to the negotiating table.

Exelon also is waging a proxy fight to elect a rival slate of directors at NRG.

David Crane, chief executive of NRG, said he first met with Exelon executives in late September after Exelon "threw out a price range" for a transaction that was "much higher" than the actual offer that subsequently materialized.

Exelon is offering 0.485 share of its stock for each NRG share.

One reason Exelon wants to buy NRG is that both are pursuing nuclear-power projects in Texas.

NRG appears to have the better project, using a site that already contains a nuclear plant and tapping an "advanced boiling water reactor" design by **General Electric** Co. that was certified for U.S. use more than a decade ago.

Exelon, by contrast, selected a newer design by GE—called the "economic simplified boiling water reactor"—that isn't yet certified for U.S. use.

On Monday, Exelon signaled it was no longer happy with its technology selection and said it is talking with vendors of other designs "after an internal analysis conducted this summer showed that technologies other than the ESBWR provide the project greater commercial and schedule certainty" and "would enhance Exelon's ability to obtain federal loan guarantees."

In an interview Monday before NRG's announcement, Exelon President Christopher Crane said his firm is close to securing the financing it would need to complete the takeover deal.

Exelon's tender offer expires on Jan. 6. Mr. Crane said he believes his slate of directors will be able to win 30% to 40% of NRG shareholders and compel NRG to return to the table.

NRG owns an interest in 44 electric generating plants totaling 23,000 megawatts of capacity in the U.S., including the South Texas Project nuclear plant. Exelon owns utilities based in Chicago and Philadelphia and a large fleet of nuclear reactors.

Swatch faces price investigation

Swiss regulators started a preliminary investigation into price increases by a watch-components unit of **Swatch Group** AG.

Through the unit, ETA, Swatch has a near-monopoly on high-end-watch production.

Switzerland's Competition Commission said Tuesday it acted on clients' complaints that ETA increased prices for watch movements—comprising key parts such as the winding and setting mechanisms—and changed payment conditions for next year. "We're looking at whether ETA has misused its market position," a spokesman for the regulator said. A decision regarding a full-blown investigation is expected in a few months.

Swatch, the world's largest watchmaking company by sales, said it increased prices for movements by between 5% and 12% but denied wrongdoing. "Some of our clients reject price increases without acknowledging they have benefited from us for years," a company representative said.

Ogilvy picks Asia executive as global creative director

By Geoffrey A. Fowler

HONG KONG—**WPP** PLC's Ogilvy & Mather, one of the world's largest ad agencies, has appointed Khai Meng Tham as its world-wide creative director and chairman of its creative council.

The 52-year-old Mr. Tham, who currently serves as co-chairman of the company's Asia-Pacific operation, is the second executive this year to move from Asia to the top of Ogilvy's world-wide ranks in New York. Earlier this year, Ogilvy announced that former Asia chief executive Miles Young would become the company's global chief executive next year.

Mr. Tham, a Singaporean, is the first Asian to hold the senior creative role at Ogilvy, and is one of the first to do so among global ad-agency networks. Since joining Ogilvy in 1999, he has helped to build the company's creative reputation as a powerhouse in Asia through work on brands ranging from the Economist newsmagazine to Johnson & Johnson during the Beijing Olympics.

"I hope that I will bring some new perspective to the job," said Mr. Tham. "That is our key strength—a huge mix of people from all over the world," he said.

Mr. Tham will be responsible both for growing Ogilvy's internal creative capabilities and for winning new clients. The current global financial crisis—which is pinching ad budgets in many major markets—just makes creativity more important for marketers, he said.

"As brands become more ubiquitous and more similar, you have to find a niche in the marketplace and be more authentic about what the brand stands for," he said.

Mr. Tham succeeds Robyn Putter, a longtime Ogilvy veteran who the firm said recently left to pursue other business opportunities.

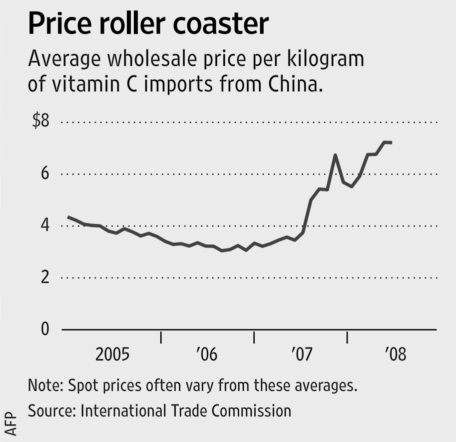
CORPORATE NEWS

Beijing defends vitamin makers

Sovereign immunity is invoked by China in price-fixing case

By John R. Wilke

AFP



China's government is defending in a New York court four Chinese vitamin manufacturers that acted together to boost prices of their exports, in an unprecedented move that could affect international antitrust disputes.

The four companies captured the market for vitamin C after years of undercutting rivals with low prices. It is a pattern that has repeated itself in dozens of markets in recent years, bringing higher prices for Chinese-made products from drugs to sweeteners to steelmaking materials.

The wholesale price of vitamin C rose to $8 or more per kilogram in 2003 from about $3 in 2001. It has fluctuated since then, reaching as high as about $11 a kilogram last year.

The unusual friend-of-the-court filing by China's Commerce Ministry in the case suggests that China is willing to back these coordinated efforts to raise prices. The civil case could become a test of whether its manufacturers are subject to the same rules of competition that apply to global rivals, as China seeks to move to a more market-based economy.

Some of the vitamin makers in the case are former state-owned companies. China enacted its first antitrust rules this year, restricting monopolistic practices, including price fixing. The penalties, however, are generally civil, not criminal, and don't address export pricing.

A U.S. judge recently cleared the case for trial, pitting the four Chinese vitamin makers against an American animal-feed company. In his ruling, U.S. District Judge David Trager in Brooklyn, called the Chinese government's role in the case "unprecedented" and wrote that the involvement of the Commerce Ministry "demonstrates the importance the Chinese government places on the case."

China's defense is based on the doctrine of sovereign immunity: If a government orders a company to take a specific action, it generally is considered an act of state that can't be prosecuted in foreign courts. In his Nov. 7 ruling, Judge Trager effectively rejected that stance, finding enough evidence to go to trial. No date has been set.

The lawsuit, filed in 2005 by Texas feed maker **Animal Science Products** Inc., alleges that China's vitamin C makers illegally conspired to fix prices after they won a dominant share of the market in 2001. As a result, U.S. consumers, farmers and food makers have been forced to pay sharply higher prices for the widely used food additive, the suit says.

A lawyer for China's Commerce Ministry, Joel Mitnick of Sidley Austin LLP in New York, declined to comment.

In its filings and oral arguments, the ministry broadly asserted sovereign immunity in its defense of vitamin and other industries. The ministry said in filings that the price coordination by vitamin companies "was adopted to forestall potential market disorders that might have limited the development of a healthy vitamin C export industry during China's transition from a command economy to a market-driven economy."

The four largest Chinese vitamin makers in their court filings don't dispute that they acted together to set prices. Rather, they argue they didn't violate the law because they were compelled by the ministry to coordinate export prices and production.

That stance, if upheld, would protect them from lawsuits under sovereign immunity, much like the protections enjoyed by the Organization of Petroleum Exporting Countries. The cartel's members act as sovereign states, not companies. Without that protection, foreign companies can face criminal prosecution or civil suits in U.S. courts if any illegal conduct is found to hurt U.S. consumers.

After a review of evidence in the vitamin case, Judge Trager found that the "documents on which defendants rely to demonstrate government compulsion of their anticompetitive acts suggest on their face [they] were voluntary rather than compelled." While noting that such evidence must still be verified at trial, he found that "plain language of the documentary evidence submitted by the plaintiffs directly contradicts the Ministry's position."

Most of this evidence has remained under court seal until recently. It documents repeated instances in which the companies met and agreed to raise prices and curtail production.

In one exchange, which took place after the suit was filed in 2005 and was cited by the judge in his ruling, a Chinese vitamin executive said that fixing prices "is a kind of monopoly" but that the companies shouldn't be worried because the ministry was entering the U.S. case, according to notes the executive took that later were filed as evidence in the case.

"If we won the lawsuit, it would be hard for foreigners to make more trouble," he said. He continued: "If we lost the case, the government would take the responsibility. After all, we need to do many things in a more hidden and smart way."

This isn't the first time vitamin makers have been accused of price fixing. In one of the largest-ever white-collar crime investigations, Swiss, Japanese and German companies were found to have conspired to raise vitamin prices in the late 1990s. They were prosecuted in both the U.S. and Europe, paying $1 billion in criminal fines and $1.2 billion in civil judgments.

When the European and Japanese companies exited the vitamin C market, they left the $100 million business to Chinese producers, which established a dominant position and raised prices. The U.S. Justice Department hasn't pursued the allegations against the Chinese companies.

"The court's decision means Chinese companies can be held accountable," said Animal Sciences' attorney, William Isaacson, of Boies, Schiller & Flexner LLP in New York.

VimpelCom cuts spending plans, profit drops 41%

A WSJ News Roundup

Russian telecommunications operator OAO **Vimpel Communications** Tuesday posted a 41% fall in third-quarter net profit, as the weaker ruble dragged down the bottom line, and cut its capital expenditure plans.

Net profit at the New York-listed company dropped to $41.3 million from $458.1 million a year earlier. The steep fall reflects the ruble's depreciation against the dollar, which pushed up the cost of the company's $1.8 billion debt, more than three quarters of which is denominated in dollars. VimpelCom booked a $341 million charge on foreign-exchange losses for the quarter.

Revenue, meanwhile, jumped 45% to $2.84 billion from $1.96 billion as the company signed up four million new mobile users and existing clients in its core domestic market on average spent 13% more a month.

"While our operations have not yet been affected by the financial turmoil, we clearly understand that the company will not be immune to it," said Chief Executive **Alexander Izosimov**, adding that VimpleCom has suspended equipment orders and stopped taking on new staff.

VimpelCom, whose major shareholders include Russian billionaire Mikhail Fridman's business empire Alfa Group and Norwegian telecommunications company Telenor ASA, had a capital expenditure of $693 million in the three months ended Sept. 30.

Revenue rose 45%, but the weaker ruble drove up debt costs for the Russian firm.

The company has suspended all M&A activities, said Mr. Izosimov, adding that repaying its debt would be the top priority next year. "Even if we do not get refinancing for 2009 and have to pay back debts with our own funds, we will be able to do it," he said.

The company has hedged its 2009 debt repayments against major ruble depreciation, said Chief Financial officer Yelena Shmataova.

Mr. Izosimov said VimpelCom was considering not paying a dividend from its 2008 net profit in order to save earnings to pay debt. But in emailed comments that followed immediately, VimpelCom said that it felt comfortable with its ability to meet its debt obligations from its own cashflow and that its management intended to recommend to its board to pay dividends for 2008. The company paid a $587 million dividend for 2007.

"Mobile businesses are fairly well protected from the economic slowdown," Konstantin Chernyshev, analyst at UralSib, said in a note assessing the results. He noted that VimpelCom's average revenue per user in Kazakhstan scarcely fell in the third quarter, even though the country expereinced a particularly severe slowdown.

VimpelCom was one of Russia's best performing stocks last year but its shares have shed almost two thirds of their value in the past three months as foreign investors shunned the risks of emerging-market stocks and the ruble depreciated against the dollar.

J&J emails raise issues on Risperdal strategy

By David Armstrong And Alicia Mundy

Johnson & Johnson planned funding for a research institute to focus on use of the antipsychotic drug Risperdal by children well before the treatment was approved for patients that young, according to internal emails produced in a lawsuit against the company.

The 2001 and 2002 emails, which circulated in the drug maker's Janssen unit, raise issues of whether the company helped promote an unapproved use of Risperdal, which wasn't cleared by the Food and Drug Administration for widespread use in minors until 2007.

Doctors in the U.S. may prescribe FDA-approved drugs as they see fit, but companies aren't permitted to market them for uses that aren't approved. Risperdal, which had sales of $4.9 billion last year, is the focus of a growing debate over whether antipsychotic drugs are overused in children. At the center of the controversy is a Harvard University psychiatrist, Joseph Biederman, who proposed and ultimately headed the institute that J&J funded—the Johnson & Johnson Center for the Study of Pediatric Psychopathology, at Boston's Massachusetts General Hospital.

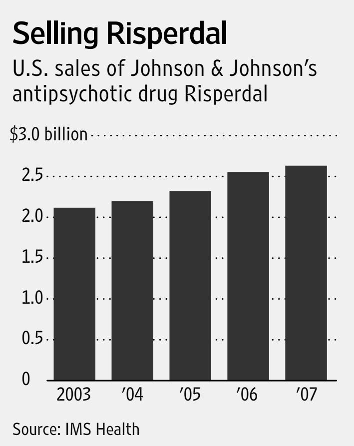

Joseph Biederman

J&J, in a statement, said it helped to fund the center in 2002 "with an objective to conduct rigorous clinical trials to clarify appropriate use and dosing of Risperdal in children." It noted that some of those uses were later approved by the FDA, and it said the company only promotes its products for FDA-approved indications. Dr. Biederman didn't return calls seeking comment.

Dr. Biederman has been a leading advocate for wider childhood and adolescent use of the drug. The emails were provided to a New Jersey court as part of an effort by patient plaintiffs to force the psychiatrist to testify in their suit against J&J over alleged harms caused by Risperdal. The company has said the drug's side effects are limited, and it has defended Risperdal's safety.

Risperdal was being prescribed to thousands of teens and younger children before it was approved in mid-2007 for use in children and adolescents with bipolar disorder, according to data presented at an FDA panel last week. Risperdal has been linked to side effects including serious weight gain and diabetes.

The emails in the lawsuit indicate that Dr. Biederman approached Janssen to start the institute. A spokesman for Harvard said the institute isn't affiliated with the university.



"Dr. Biederman is the pioneer in the area of [child and adolescent] bipolar disorders," said a 2002 internal email at Janssen. "He approached Janssen multiple times to propose the creation of a Janssen-MGH center ... The rationale of the center is to generate and disseminate data supporting use of risperidone in this patient population."

GLOBAL BUSINESS BRIEFS

Imperial Tobacco Group PLC

Fiscal-year net dropped 53% on acquisition-related costs

Britain's **Imperial Tobacco Group** PLC, one of the world's biggest tobacco companies, said its fiscal-year net profit fell 53% because of costs related to its takeover of Franco-Spanish rival Altadis SA. The maker of Davidoff and Gauloises cigarettes said its overall performance was good as revenue rose 66% on strong growth in developing markets. Net profit for the 12 months ended Sept. 30 dropped to £428 million ($648.3 million) from £905 million a year earlier, after the company had to pay higher interest on the money it borrowed to fund its €12.6 billion ($16.26 billion) purchase of rival Altadis. Revenue rose to £20.53 billion from £12.34 billion on growing sales in Eastern Europe, Africa and the Middle East.

Rémy Cointreau SA

Wine and spirits company **Rémy Cointreau** SA reported a 27% rise in net profit for its fiscal first half, supported by strong growth in emerging markets and price increases. In the six months ended Sept. 30, net profit climbed to €48.3 million ($62.3 million) from €38.1 million a year earlier. Operating profit, however, was €62.5 million, down 4.7% from €65.6 million last year. Remy blamed the decline in operating profit on currency fluctuations and costs associated with exiting its Maxxium distribution partnership. While the charges linked to ending the partnership will be paid early next year, the company has already begun investing in a new distribution network. Last month, the company, which sells Piper-Hiedsieck champagne and Remy Martin cognac, reported a 2.5% drop in first half sales to €365.2 million, weighed down by lower consumption in the U.S.

Skanska AB

Swedish construction company **Skanska** AB said Tuesday it will slash 3,400 jobs, or almost 6% of its work force, amid a weakening in the construction market. The company said it will cut 2,000 jobs in Sweden, 800 in Norway and 600 in Finland next year. The savings package will cost around 600 million Swedish kronor ($75 million) and will be charged to its fourth-quarter earnings, Skanska said. The company has 20,500 workers in the Nordic region and 60,000 world-wide. Skanska said it expects order bookings in the Nordics to drop 15% in 2009, mainly because of a sharp fall in residential construction, and sees other geographic areas declining as well. The job cuts are needed "to adapt our organization and our costs to a lower business volume in the Nordic construction markets," Skanska Chief Executive Johan Karlstrom said.

easyJet PLC

Morgan Stanley downgraded the stock of **easyJet** PLC, citing the uncertainty surrounding the company amid a fight between the board and the airline's founder. Earlier this month easyJet founder Stelios Haji-Ioannou, who owns 27% of the company, started attacking the board for its expansion plans. He is currently a nonexecutive board member and wants the airline to start paying out dividends instead of continuing with an expansion plan that includes major plane purchases. EasyJet shares began the year at more than 600 pence ($9.09) but fell steadily into the summer, in line with spiking fuel prices. In Tuesday trading, easyJet shares closed at 263.75 pence, down 2.25 pence. Morgan Stanley lowered its price target to 340 pence from 374 pence.

Ryanair Holdings PLC

Ryanair Holdings PLC Tuesday slammed the U.K. government's decision to raise its air-passenger tax, saying the move will devastate U.K. tourism as analysts warned airline profits will be hit. In an effort to fight greenhouse-gas emissions, the U.K. government Monday announced that the air-passenger duty will be split into four bands, with those traveling further paying proportionally more tax. From Nov. 1, 2009, someone traveling no further than 3,200 kilometers from the U.K. will pay £11 ($17), rising to £12 a year later. In the highest band, for those traveling over 9,600 kilometers, the tax will be £55, rising to £85. Business and first-class passengers will pay even more. Currently, short-haul passengers pay about £10 and long-haul travelers about £40. Ryanair said that its average fare during the winter at regional airports is just £10 and that the raise means it will no longer be able to absorb taxes.

Philips Electronics NV

Philips Electronics NV said it plans to cut 1,600 jobs at its health-care division in response to a global economic slowdown. The jobs represent 5% of the 32,000 employees at Philips' health-care division. A spokesman said the cuts fall mostly in the U.S., Germany and Netherlands, where its medical imaging operations are largest. The company will try to avoid forced layoffs but some were likely anyway, the spokesman added. Philips, an industrial conglomerate, is one of the world's largest lighting manufacturers and its health-care division is one of the biggest, competing with **General Electric** Co. of the U.S. and **Siemens** AG of Germany.

Roche Holding AG

Roche Holding AG plans to buy **Memory Pharmaceuticals** Corp. for around $50 million, in another sign that big pharmaceutical companies are taking advantage of market turmoil to snap up smaller firms at a discount. Memory, based in Montvale, N.J., focuses on developing drugs for the treatment of disorders such as Alzheimer's disease and schizophrenia. Roche, of Basel, Switzerland, said it will start a tender offer to buy all shares outstanding in Memory at $0.61 a share, more than three times Wednesday's closing price. Shareholders, including management and board members, holding close to 30% of Memory's shares have already agreed to tender their holdings. Memory's shares hit a 52-week high of $0.89 on May 21.

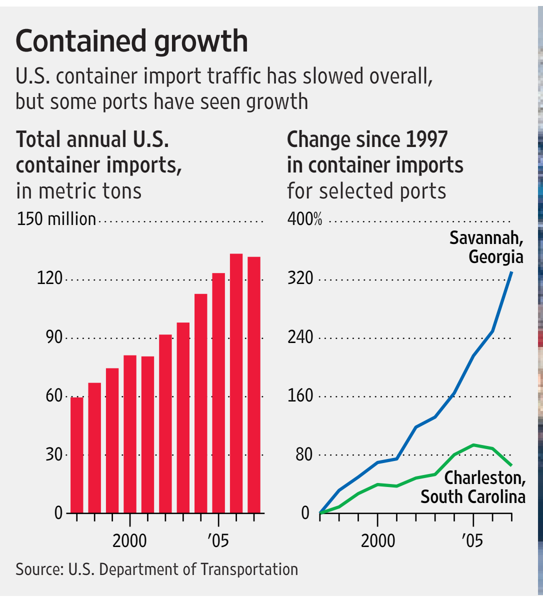
—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Slowdown at U.S. ports hits Charleston

Sharp declines in freight volume affect points of entry nationwide; feeling the ripple effects in South Carolina

By Alex Roth



Source: U.S. Department of Transportation

Agence France-Presse/Getty Images

CHARLESTON, S.C.—For years the Port of Charleston was one of the busiest points of entry for ships and goods coming into the U.S., but a global shipping slowdown and competition from rival cities are threatening one of the oldest port economies in the country.

On both coasts of the U.S., ports that not long ago were anticipating virtually limitless growth in ships arriving packed with mostly Asian imports are struggling as freight traffic declines sharply. For the first nine months of this year, container import tonnage was down 5.5% nationwide, according to Andrei Roudoi of HIS Global Insight Inc., which analyzes port data. Exports, which had been booming with the weak dollar, have been slowing too.

Many of the nation's leading ports have seen a noticeable drop in volumes, particularly in imports, since 2006, after a decade of growth interrupted briefly by a post-Sept. 11, 2001, downturn. The nation's two largest ports for container traffic—Los Angeles and Long Beach, Calif.—saw drops of nearly 2% in container tonnage imports in 2007. Long Beach's imports have dropped 13% this year, an amount a spokesman called "unprecedented." Other large ports, such as Houston and Norfolk, Va., also are experiencing drops. The declines mirror a trend across the transportation sector, where freight volumes are slipping at a time when they normally spike for the holiday season.

"It's forcing us to rethink almost every aspect of business," said Joe Harris, spokesman for the Virginia Port Authority, which reported a $3.7 million operating loss for the quarter ended Sept. 30. Mr. Harris said the port is delaying a massive expansion project and considering other cost-saving measures, including postponing building a terminal warehouse.

The impact in Charleston, which has been a major U.S. port since the city's founding in the late 17th century, has been greater than almost anywhere else. As recently as 2005, Charleston handled 1.5 million shipping containers, more than any other city except New York and the combined ports of Los Angeles and Long Beach. With its relatively deep water and central location in the Southeast, one of the fastest-growing regions of the country, Charleston's port was a key gateway for goods including lumber, electronics and pharmaceutical products.

In recent years, Charleston has been losing market share to more innovative and aggressive East Coast ports, particularly Savannah, Ga., 170 kilometers to the south. From 2005 to 2006, as large retailers such as Target Corp. and Ikea began building massive distribution centers near Savannah, Charleston's container traffic dropped 9%, followed by a 7% drop in 2007, according to U.S. Department of Transportation statistics.

That has been devastating for local businesses that depend on port traffic, including trucking companies that ship freight to and from the docks, tugboat operators that guide the vessels to and from the harbor, and warehouse operators that temporarily store the freight. As of this year, the port has slipped to eighth place in container tonnage, falling behind Savannah and Norfolk, according to the U.S. Department of Transportation. In 2005 it was in fourth place. Savannah's imports, which have grown by double-digit percentages since 2003, are up by 3.2% this year, according to Mr. Roudoi.

Darryl R. Griffin is the Charleston-based general manager of Neal Brothers, an export-packing company that also stores ocean freight such as lumber and motorcycles. Three years ago, his warehouse often handled 12,000 tons of lumber imports per month. Now the number is down to 2,000 tons a month or less.

To compensate for a 15% drop in profits in the past two years, Mr. Griffin told employees to stuff trash bins more tightly to reduce trash bills. He has even started using a cheaper grade of toilet paper in his bathrooms. "We've cut costs everywhere," he said. "It's been very tough."

Making matters worse, the local dockworkers union is in a dispute with port executives and the international ocean carrier **A.P. Moller-Maersk** AS, which accounts for nearly a quarter of the port's container business—or about 350,000 containers a year.

Earlier this month Copenhagen-based Maersk, the world's largest ocean carrier, with $47.18 billion in revenue for the first nine months of this year, reported a 3% drop in international volumes in the third quarter. To reduce costs in Charleston, the company wants to route cargo through gates that are staffed by port employees rather than members of the International Longshoremen's Association. The union is resisting, saying such a move would violate a union contract. Maersk says that if costs aren't cut, it will stop using the Charleston port when the company's contract with the port expires at the end of 2010.

That would be cataclysmic for Charleston, say local business leaders. "We were very proud of our status as a significant port," said Robert New, president and chief executive of Charleston Port Services, which ties and unties vessels at the docks. "Now we're just worried about our survival."

Mr. New, whose company services roughly 1,800 ships a year, said he has reduced some of his employees' health-care benefits to compensate for the drop in business in the past year.

Dockworkers are working fewer hours, or sometimes none at all. On a recent midweek morning, Marsha Youngblood went to union headquarters and was disappointed but not surprised to find no work available. She works a variety of jobs on the docks, including latching down military freight headed to the Middle East.

"This is the slowest I've ever seen it," she said. Ms. Youngblood, 53 years old, has taken a second job as a hairstylist to pay the bills.

Byron Miller, a port spokesman, said everything possible is being done to make sure Maersk doesn't leave and to revive traffic in Charleston. Port officials note that the port authority is building a new $600 million terminal, scheduled for completion in 2014, that will increase capacity and make the port more convenient and competitive.

"Nobody likes to see these kinds of impacts on local businesses, and it's something we take very seriously," said Bernard S. Groseclose Jr., president and chief executive of the South Carolina State Ports Authority, adding that the port is stepping up its marketing efforts.

In past years, the port's attempts to expand have met with opposition from conservation groups and some local residents concerned about protecting the physical grace of a region renowned for its 18th-century architecture and sandy beaches.

Moreover, Mary Graham, vice president of public policy at the Charleston Metro Chamber of Commerce, said several companies, including a large manufacturer of health and fitness equipment, have left the region and relocated to Savannah. With the global financial crisis, things are bound to get worse, she said.

"There's no doubt we've got some more dipping to do before we start climbing out of this," she said.

Americans' gloom reverberates

By Kelly Evans And Jeff Bater

*Quarters seasonally adjusted at annual rates
Source: U.S. Commerce Department

WASHINGTON—The U.S. economy contracted more than initially expected in the third quarter, as consumers and businesses braced for a protracted, severe downturn. Consumers' gloom and thrift reverberated through the housing market, where home prices posted double-digit declines during the third quarter.

Gross domestic product, which measures the nation's output, declined at a 0.5% annual rate in the July-September period, the Commerce Department said Tuesday.

"The U.S. recession is set to get worse—a lot worse—in the next couple of quarters," IHS Global Insight chief economist Nariman Behravesh wrote in a note to clients. "Bottom line: We are in the early stages of one of the worst recessions in the post-war period, even factoring in a massive stimulus program."

The Commerce Department initially estimated third-quarter GDP contracted at a 0.3% annual rate. Tuesday's revisions reflect larger declines in consumer and business spending. Consumer spending accounts for about 70% of economic activity.

The drop in GDP is the second in the current downturn; in the final three months of 2007, the U.S. economy contracted at a 0.2% annual rate, then posted gains during the first half of this year.

The revised data show third-quarter spending by consumers fell 3.7%. That was down from the previously reported 3.1% decrease. Consumer spending rose 1.2% in the second quarter. Trade gave less to the economy than first estimated, with imports dropping 3.2% instead of the originally reported 1.9%. Exports were revised down, rising 3.4% instead of rising 5.9%.

Consumers' thrift reflects deep worries about the economy. The Conference Board, a private research group, Tuesday said its index of consumer confidence for November came in at a subdued 44.9—up from a low of 38.8 in October.

Home prices continued to fall as the economic downturn deepened in September, according to the S&P/Case-Shiller home-price indexes. For the third quarter, the index posted a 16.6% decline in home prices from a year earlier, worse than the 15.1% drop in the second quarter.

—Kerry E. Grace contributed to this article.

U.S. construction industry is positioned for a rebound

By Jonathan Karp And Alex Frangos

The U.S. construction industry, beset by one of the biggest drops in employment in the current economic downturn, could be poised for a rebound under President-elect Barack Obama's expected stimulus package.

Mr. Obama hasn't offered details, but anticipating a surge in public-works spending, investors have bid up construction and engineering stocks. Monday, **URS** Corp., a San Francisco engineering and construction company, rose 34%; it was down 3% to $33.37 Tuesday afternoon. **Fluor** Corp. rose nearly 17% Monday and was up 5.3% to $39.16 Tuesday, while **Granite Construction** Inc., a U.S. engineering company, rose 22% Monday and gained 4.3% to $38.03 Tuesday afternoon.

Steven Fisher, an equity analyst for UBS in New York, said that 11 engineering firms he tracks had lost, on average, two-thirds of their market value this year through Friday as big construction projects were delayed due to state and local budget concerns.

Stephen Sandherr, chief executive of the Associated General Contractors of America, a lobby for largely nonresidential builders, said a stimulus plan could "absolutely change the scenario for companies that have been talking about laying people off." His group's chief economist, Kenneth Simonson, noted that some 62,000 jobs in the heavy and civil engineering sector—primarily highway projects—have been lost in the past 16 months. Overall, construction had the highest unemployment rate, 10.8%, in October, he said.

From highways to schools, state and local governments have been postponing approved construction projects in recent months. Assured funding would jump-start these projects.