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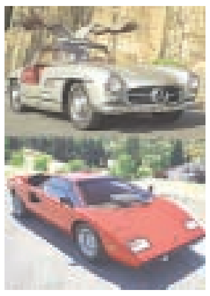

*High-end car auctions hit the skids amid a downturn*

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*China's steel industry faces a long, cold winter*

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## What's News—

### *Business & Finance*

**The $42 billion buyout of BCE** ran into a potential stumbling block when the Canadian phone company said it might not meet the merger pact's conditions. The Bell Canada parent said accounting firm KPMG has disclosed that it won't be able to deliver a solvency opinion, a condition of the deal. Page 19

■ **China's central bank slashed** borrowing costs in a strong signal that government efforts to support the economy won't end with its already announced massive stimulus plan. Page 1

■ **Daimler said** talks to sell its remaining stake in Chrysler to Cerberus have hit a stumbling block as Chrysler's financial position has worsened. Page 3

■ **Porsche said** the financial crisis has made it unlikely to lift its VW stake to more than 50% before the end of the year. Page 3

■ **German inflation fell** in November as fuel prices and demand declined, suggesting rate cuts may follow. Page 2

■ **U.S. spending is falling** in the consumer and capital sectors, as demand for expensive goods took its biggest spill in two years in October. Page 2

■ **Russia will spend** over $35 billion of reserves from windfall oil revenue to plug an expected budget hole next year and maintain public spending. Page 19

■ **The second finance chief** in about a year is leaving Alcatel as the telecom-gear maker's shake-up continues. Page 3

■ **European mining stocks** gained as copper futures rose, while U.S. shares tried to extend a three-day winning streak. Page 20

■ **Citigroup's shares gained** on news that Mexican tycoon Carlos Slim's investment firm bought a stake in the bank. Page 20

■ **AstraZeneca and Teva struck** an agreement that will allow Teva to launch a generic version of an asthma drug in exchange for royalty payments. Page 3

**Markets** 4 p.m. ET

| MARKET | CLOSE | NET CHG | PCT CHG |
|---|---|---|---|
| DJIA | 8726.61 | +247.14 | +2.91 |
| Nasdaq | 1532.10 | +67.37 | +4.60 |
| DJ Stoxx 600 | 198.85 | +0.08 | +0.04 |
| FTSE 100 | 4152.69 | -18.56 | -0.44 |
| DAX | 4560.50 | +0.08 | +0.002 |
| CAC 40 | 3169.85 | -39.71 | -1.24 |
| Euro | $1.2873 | -0.0117 | -0.90 |
| Nymex crude | $54.44 | +3.67 | +7.23 |

*Money & Investing* > Page 19

### *World-Wide*

**At least 78 people died** and more than 200 were injured in a series of blasts and gun attacks across southern central Mumbai. Gunmen were reported in two of the area's most popular hotels for business travelers and tourists. It wasn't clear who was behind the attacks, which were likely to dent foreign investor confidence in India. Page 1

■ **The EU's executive arm** urged member nations to earmark $260 billion to stimulate the Continent's economy. The plan includes funds already announced by many nations. Page 1

■ **Obama sought to reassure** Americans about the economy's resiliency, and named ex-Fed Chairman Paul Volcker to lead a new advisory board. Page 10

■ **The U.N. nuclear agency** approved technical aid for Syria, despite allegations the nation has a secret atomic program that could be used to make weapons.

■ **Iraq's Parliament** postponed a crucial vote on a security pact between the U.S. and Iraq, as political leaders continued to hammer out a deal. Page 10

■ **Pakistan has replaced** Iraq as al Qaeda's main focus, and the terror group has boosted efforts to destabilize the nation, a U.S. commander said.

■ **Thailand fell** deeper into political confusion as antigovernment protesters consolidated control over the international airport in Bangkok. Page 12

■ **China postponed** indefinitely an annual summit with the EU, apparently because of the French president's plan to meet with the Dalai Lama. Page 31

■ **Laid-off workers** from a toy factory in southern China clashed with police in one of a string of labor disputes. Page 31

■ **Two foreign journalists** were kidnapped in Somalia. Also, a ship sunk by India's navy last week was a Thai fishing trawler seized by pirates, officials said.

■ **The mayor of a major city** in Russia's North Caucasus was shot and killed in the latest violence to hit the troubled region.

■ **Voters in Greenland** approved a plan to seek more autonomy from Denmark. Page 10

EDITORIAL & OPINION

**Private equity's turn**

Leveraged buyouts won't look good for a while, so where will these firms go now? Page 14

# Attacks across Mumbai kill at least 78 people

*Blasts, gunfire hit hotels and hospital; perpetrators unclear*

*By Paul Beckett in New Delhi, Geeta Anand, Abhijit Basu and Subhadip Sircar in Mumbai*

A series of deadly attacks, including major blasts and gun attacks, ripped across southern central Mumbai starting late Wednesday evening, and gunmen were reported in two of the area's most popular hotels for business travelers and tourists.

The chief secretary for Maharashtra state, of which Mumbai is the capital, said at least 78 people were killed and 200 were injured. The situation remained extremely fluid and the death toll could rise. It wasn't clear who was behind the attacks.

Mumbai's police commissioner, A.N. Roy, told NDTV television that at least seven incidents had taken place. He said police were treating those responsible as terrorists who had "opened fire indiscriminately."

Indian Home Affairs Minister Shivraj Patil told reporters that terrorists had attacked the Taj Mahal Hotel and the Oberoi Hotel, one hospital and the main train terminus in the area, as well as "one or two other places." He also said the terrorists had kept explosives in vehicles and continued firing at people in the hotels.

India's army, which was put on standby to help civilian authorities, reportedly surrounded the Oberoi Ho-

*Please turn to page 31*

Reuters

A policeman at a **Mumbai railway station** after it was attacked by gunmen as part of a coordinated assault at several locations, including luxury hotels, in the city.

Reuters

European Commission President **José Manuel Barroso** announced a proposed EU-wide $260 billion economic-stimulus package Wednesday.

# EU urges member states to pony up $260 billion

*By John W. Miller and Matthew Dalton in Brussels and Marcus Walker in Berlin*

The European Union's executive arm urged its member nations to earmark €200 billion ($260 billion) to stimulate the Continent's foundering economy.

Much of that money wouldn't represent new spending, however, since it includes economic-stimulus funds already announced by many EU nations. The 27 countries will study the plan at a summit in Brussels Dec. 11-12.

The EU doesn't set fiscal policy for its members and its recommendations are nonbinding. EU heavyweight Germany immediately said it didn't plan to offer new measures above a €32 billion national scheme it has already announced, raising doubts over the likely impact of the package.

The hoped-for package totals roughly 1.5% of Europe's gross domestic product, the European Commission said. The EU's GDP was roughly $16.9 trillion last year.

Markets appeared unimpressed with the initiative. In late afternoon trading, stocks were down 3.3% in Paris, down 1.2% in London and up slightly in Frankfurt.

The EU wish list calls for EU na-

*Please turn to back page*

# China slashes interest rates to lift economy

BY ANDREW BATSON

BEIJING—China's central bank slashed borrowing costs by the biggest margin in a decade, in a strong signal that government efforts to support the economy didn't end with the announcement of a massive stimulus plan just over two weeks ago.

The move, announced Wednesday, brings the benchmark one-year lending rate down by 1.08 percentage points to 5.58%, with the benchmark one-year deposit rate cut by the same amount to 2.52%, the People's Bank of China said in a statement. The last cut of such magnitude was when the central bank slashed the benchmark lending rate by 1.44 percentage points in October 1997 during the Asian financial crisis. (Interest rates in China are traditionally divisible by nine.)

The central bank also trimmed reserve requirements for banks, freeing up more cash for lending.

Banking regulators, meanwhile, are moving to support Chinese lenders, urging banks to step up provisions against losses and paving the way for a deposit-insurance program to be established by next year.

The combination of policy moves underscores the extent of official concern about the deteriorating global economy's effects on China, as well as authorities' determination to restore confidence in the nation's economy among inves-

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Germany €3 - Greece €2.90 - Hungary Ft 530 - Ireland (Rep.) €2.90 - Italy €2.90 - Lebanon L£ 4000 - Luxembourg €2.90 - Morocco Dh 24 - Netherlands €2.90 - Norway Nkr 27 - Poland Zl 10.50 - Portugal €3 - Slovakia Sk 100/€3.32 - Slovenia €2.70
Spain €2.90 - Sweden kr 27 - Switzerland SF 4.80 - Syria S£ 210 - Turkey YTL 4.25 - U.S. Military (Eur) $2 – United Kingdom £1.40

THE WALL STREET JOURNAL.

## LEADING THE NEWS

# German inflation slows

### *Data raise likelihood of sharp new rate cut to combat recession*

By Roman Kessler

FRANKFURT—German inflation slowed in November on falling fuel prices and slowing demand, raising the chances of another sharp cut in interest rates by the European Central Bank as recession replaces inflation as the top concern.

Preliminary federal statistics released Wednesday showed that Germany's consumer-price index rose 1.4% from a year earlier and fell 0.5% from October. The rise was the lowest annual rate since December 2006 in Europe's largest economy, which slipped into recession in the third quarter.

The data were based on price surveys in six of Germany's 16 federal states.

The figures surprised most economists. On average, economists in a Dow Jones Newswires survey had expected a decline of 0.3% from October and a rise of 1.5% from November 2007. The month-to-month drop builds on a 0.2% month-to-month decline in October. The annual gain in October was 2.4%.

The ECB has called the recent decline in euro-zone inflation unprecedented, allowing the bank leeway to pare interest rates further.

In November, the ECB cut its benchmark policy rate to 3.25%, its second half-a-percentage-point cut in less than a month. The ECB is widely expected to cut interest rates again at its Dec. 4 policy meeting in Brussels. Most economists expect another half-percentage-point reduction, but markets are pricing in a bigger 0.75 percentage-point drop.

"The German figures certainly support our forecast for rather aggressive easing by 75 basis points at the upcoming policy meeting," economist Luigi Speranza at BNP Paribas in London said. A basis point is a one-hundredth of a percentage point. He added that the ECB will also be forced to change its inflation expectations. "This certainly isn't what the ECB had in mind six months ago," he said.

The ECB's staff is working on fresh economic projections with other central banks, which are scheduled for release at the Brussels meeting.

Germany contributes about 27% to the euro zone's output. It entered a recession after contracting in the second and third quarters.

*—Monica Houston-Waesch contributed to this article.*

# U.S. consumer spending, demand for goods soften

By Jeff Bater And Brian Blackstone

WASHINGTON—U.S. spending is declining in the consumer and capital sectors, as demand for expensive goods took its biggest spill in two years in October.

Orders for durable goods decreased by 6.2% last month to a seasonally adjusted $193.02 billion, the third tumble in a row, the Commerce Department said. Durables, which are goods designed to last at least three years, fell 0.2% in September, revised way down from a previously estimated 0.9% increase.

Meanwhile, American consumers cut spending at the sharpest rate in seven years last month, and a key gauge of inflation retreated, reflecting the faltering economy.

Personal income rose at a seasonally adjusted rate of 0.3% from the previous month, the Commerce Department said. Income increased a revised 0.1% in September.

October personal consumption fell 1% from the previous month. Spending dropped an unrevised 0.3% in September. It dropped 0.1% in August and 0.1% in July. The 1% drop in spending was the largest since 1.2% in September 2001.

A price index for personal consumption expenditures fell 0.6% in October from a month earlier. The index rose 0.1% in September.

# Royal to focus on becoming France's president in 2012

By David Gauthier-Villars

PARIS—A day after losing her bid to become the leader of her party, French Socialist politician Ségolène Royal said she would focus her energy on running for French president in the 2012 elections.

"2012 is tomorrow. Let's start right away," Ms. Royal, who lost the 2007 elections to President Nicolas Sarkozy, said in a video on her Web site.

Ms. Royal's quest for France's top office is likely to sow more divisions within the country's Socialist Party, which on Tuesday named former labor minister Martine Aubry as its new leader. Ms. Aubry collected 50.04% of the votes by party members. Ms. Royal, who also vied for the top Socialist Party job, lost with 49.96%.

Weeks of infighting characterized the election between Ms. Aubry and Ms. Royal for Socialist Party chief, and have typified the problems the party has faced in developing into a stronger counterweight to President Sarkozy's conservative coalition.

The Socialists are still the second-largest party in France in terms of membership, after Mr. Sarkozy's UMP party, but they have lost the past three presidential elections.

Standing before a poster of Elia Kazan's film "A Streetcar Named Desire," Ms. Royal said in her video that having rallied half of France's Socialists behind her name, she would keep recruiting fresh troops by offering party membership cards at discount fees and by organizing "fraternity parties."

"I will dedicate myself to this fully," Ms. Royal said.



## CORRECTIONS & AMPLIFICATIONS

**Russian** telecommunications operator OAO **Vimpel Communications** Tuesday posted a 41% fall in third-quarter net profit to $269 million from $458 million a year earlier. A Corporate News article Wednesday incorrectly said the third-quarter net profit declined to $41.3 million.

**Chrysler LLC** plans to reduce its salaried work force 25% by Dec. 31. Workers accepting the company's buyout offer will leave the payroll Nov. 30. A Corporate News article on Tuesday incorrectly said those accepting the buyouts leave the payroll Dec. 31.

**Chrysler LLC's** top engineering executive, Frank Klegon, attended the Los Angeles auto show although other senior sales and marketing executives who usually make appearances at auto shows didn't. A Corporate News article on Nov. 19 incorrectly said Chrysler sent no executives to the show.

## 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

Associated Press

Alcatel-Lucent's finance chief, **Hubert de Pesquidoux**, left, shown here with CEO Ben Verwaayen, is leaving the company.

# Alcatel shake-up proceeds

### *Second finance chief in roughly a year is leaving company*

By Jethro Mullen

PARIS—**Alcatel-Lucent** SA on Wednesday said its chief financial officer is leaving the embattled telecommunications-equipment maker, continuing the senior-management overhaul under new Chief Executive Ben Verwaayen.

Hubert de Pesquidoux, who was appointed by Mr. Verwaayen's predecessor, Patricia Russo, decided to leave after 17 years at the company "to pursue other opportunities" and will be succeeded by Paul Tufano, who was previously finance chief and interim CEO for U.S.-based electronics company Solectron Corp.

Mr. Pesquidoux is the second finance chief to leave Alcatel-Lucent in about a year. His predecessor, Jean-Pascal Beaufret, left in late 2007 after the company issued a string of profit warnings.

While Mr. Pesquidoux avoided the big profit warnings that plagued Mr. Beaufret's tenure, he didn't demonstrate fast-enough progress on cost cutting, said Exane BNP Paribas analyst Alexander Peterc.

His successor, who starts Dec. 1, has 30 years of experience in international finance, including running disk-drive maker Maxtor Corp. as well as holding numerous financial and operational positions at International Business Machines Corp.

"Despite a challenging environment, the company has great opportunities," Mr. Tufano said in a statement.

Mr. Pesquidoux wasn't available to comment further on his departure, an Alcatel-Lucent spokeswoman said.

Alcatel-Lucent hasn't turned a profit since it was formed by the merger of Alcatel SA, of France, and Lucent Technologies Corp., of the U.S., in December 2006. The company has struggled to integrate its operations and cut costs in the face of tough competition from low-cost Asian manufacturers of telecommunica tions gear and Swedish telecommunications-equipment rival Telefon AB L.M. Ericsson.

Mr. Verwaayen, who arrived at the start of September, has brought in a number of new executives and reshaped the structure of the senior management team. He has also started talks to shed Alcatel-Lucent's 20.8% stake in defense-electronics company Thales SA to aerospace group Dassault Aviation SA, pleasing investors, as the move promises to shore up the company's liquidity position through the divestment of a noncore asset.

# AstraZeneca, Teva strike accord

By Sarah Rubenstein

**AstraZeneca** PLC and **Teva Pharmaceutical Industries** Ltd. said Tuesday they reached an agreement allowing Teva to launch a generic version of AstraZeneca's asthma treatment Pulmicort Respules in late 2009.

The companies had entered a standoff last week when Teva launched a generic version of the treatment, which is an inhaled steroid approved for children as young as 12 months. AstraZeneca subsequently was granted a temporary restraining order by the U.S. District Court in New Jersey stopping the generic sales.

Under the settlement terms, Teva will be able to launch the generic on Dec. 15, 2009, under an exclusive license from AstraZeneca in exchange for giving a "significant undisclosed royalty" on sales to AstraZeneca, according to AstraZeneca.

Teva, based in Israel, and London-based AstraZeneca declined to comment further on the terms. "We believe that this is a prudent business decision that we've made," AstraZeneca spokeswoman Emily Denney said.

AstraZeneca also said Teva had agreed to pay an undisclosed amount for the launch last week, though the generic product that Teva had sent to the market will be allowed to remain until it is depleted.

The settlement terms appear to allow AstraZeneca to "mitigate some of the losses" from Teva's launch last week, said Timothy Anderson, an analyst at Sanford C. Bernstein. "So in that way, it's a small positive."

U.S. sales for Pulmicort in 2007 were $964 million, with about 90% from the Pulmicort Respules version for children.

Separately, AstraZeneca reiterated its full-year 2008 earnings guidance of $4.90 to $5.05 a share and said it would address the 2009 outlook for Pulmicort Respules in January.

# Zale and Signet feel downturn's pinch

By Ann Zimmerman

Few luxury items have been as tarnished as jewelry during the economic downturn. Deep quarterly losses posted by **Zale** Corp. and **Signet Jewelers** Ltd. Tuesday underscored how even midtier purveyors of wedding rings and diamond heart pendants are feeling the vise-like pinch of a consumer pullback.

Sales at both Zale and Signet plummeted in the last seven weeks of the quarter as shoppers shunned discretionary purchases. Zale Chief Executive Neal Goldberg predicted "this holiday season will be one of the most challenging in decades."

The jewelry chain withdrew its fiscal 2009 outlook. The operator of Zale Jewelers and Piercing Pagoda kiosks in August had forecast earnings of $1.10 to $1.25 a share for the fiscal year ending in July.

Signet, based in the U.K., echoed Zale's sentiments about the challenging economy in the U.S. and abroad. "The results for the year will depend on the very important holiday trading season," Chief Executive Terry Burman said. The largest U.S. chain jeweler based on sales, Signet operates Kay Jewelers stores and the pricier Jared the Galleria of Jewelry in the U.S.

Zale said its net loss for the fiscal first quarter ended Oct. 31 widened to $45.3 million from $28.4 million a year earlier. Revenue fell 3.5% to $364.1 million.

Signet posted a net loss of $15.1 million for the third quarter ended Nov. 1, compared with a year-earlier profit of $2.5 million.

Signet same-store sales declined 6.6%. The company said it would discontinue sourcing rough diamonds, given the current volatility in that market.

*—Mike Barris contributed to this article.*

# Daimler-Cerberus talks on Chrysler stake falter

By Jan Hromadko And Jeff Bennett

FRANKFURT—German auto maker **Daimler** AG Wednesday said talks to sell its remaining 19.9% stake in **Chrysler** LLC to **Cerberus Capital Management** LP have run into trouble as the downturn in the U.S. auto market pushes Chrysler into a precarious financial position.

Daimler said private-equity firm Cerberus has made "exaggerated demands" that it said "exceed the value of Cerberus's investment in Chrysler." Cerberus had invested $7.2 billion for an 80.1% stake.

Cerberus responded to Daimler's claims with a statement saying Daimler "intentionally and materially breached its obligations under the relevant contracts relating to the Chrysler transaction."

Unlike Chrysler, Daimler has remained profitable, although it has been forced to scale back its earnings expectations.

Daimler sold Chrysler to Cerberus Capital last year in a complicated transaction that allowed Daimler to shed Chrysler's retirement and health-care liabilities, which were folded into the new Chrysler holding company.

One of the problems for the talks is Cerberus's agreement to take control of Chrysler's international distribution centers, a Daimler spokesman said.

The centers oversee dealership development and vehicle distribution in countries such as Poland and Germany. Under the agreement, Daimler was to continue operating these centers for about a year after Cerberus purchased the Chrysler stake.

Cerberus said it was disappointed by Daimler's decision and said it was considering strategic options.

Cerberus has asked that Daimler continue to fund these centers on an extended basis, which Daimler has rejected because of the ongoing financial crises, said the Daimler spokesman. He also said the talks with Cerberus had become "considerably more difficult" in recent weeks but weren't dead.

Cerberus also accuses Daimler of mismanagement of Chrysler between the initiation of the transaction in spring 2007 and the closing of the deal in August that year, the Stuttgart-based car maker said.

In its statement, Cerberus said Daimler "refused to recognize the gravity of the claims related to its deliberate conduct that resulted in the impairment of Chrysler's business and added to and multiplied the adverse effects of the current automotive and macro-economic environment."

Daimler's shares traded sharply lower on the Frankfurt stock exchange initially after the statement, but retraced those losses. Daimler shares closed up 51 euro cents, or 2.1%, at €24.69 in a broadly lower market.

# Porsche slows its takeover of VW, citing auto slump

By Katharina Becker And Jan Hromadko


Source: Thomson Reuters Datastream

STUTTGART, Germany—**Porsche Automobil Holding** SE said the financial crisis has made it increasingly unlikely it will raise its stake in **Volkswagen** AG above 50% before the end of 2008.

The sports-car maker also said that sales in the first four months of its fiscal year, which began Aug. 1, were down 18% as demand for luxury cars fell amid the financial crisis.

"Our goal still is to initially increase our stake in VW as soon as possible to over 50%," Porsche Chief Executive Wendelin Wiedeking said at the company's annual earnings news conference. "In light of the current economic environment, however, it's becoming increasingly more unlikely that we will achieve this goal" this year, he said.

Porsche said last month it directly controlled 42.6% of VW shares and held options tied to an additional 31.5% of VW's stock. The company also said at the time it intends to raise its stake eventually to 75%, seeking a so-called domination agreement to take full control of Europe's biggest auto maker by volume.

But Porsche Chief Financial Officer Holger Härter Wednesday said the company isn't willing to acquire VW common shares at "economically absurd prices."

Buying VW shares at the current price level of about €260 ($340) a share would result in considerable write-down risks and unforeseeable earnings burdens, Mr. Härter said.

Last month's announcement that Porsche was seeking to raise its VW stake caused VW shares to soar to record levels. The stock traded above €1,000 a share, briefly making VW the world's biggest company by market capitalization, as hedge funds that had bet on a fall scrambled to cover short positions.

With the German state of Lower Saxony still controlling slightly more than 20% of VW's voting rights, there were very few shares in free-float for funds to buy to cover their positions.

Mr. Härter said a reasonable price level for Volkswagen shares would be below €200 a share.

On Wednesday, VW shares rose €39.10, or 15%, to €294.10 in a flat Frankfurt market overall.

# CORPORATE NEWS

# China's steel industry faces slowdown

## *After years of rapid growth, production retreats as global economic woes put a deep dent in metal demand*

By Andrew Batson


**China's steelmakers**, like Kunming Iron & Steel Co., whose workshop is shown above, face the sharpest downturn in at least a decade.

Reuters

China's steel industry, which in the boom of the past few years has become the biggest in the world, is now facing a long, cold winter.

Demand is declining both in the home market and abroad. China's steel exports, which had been expanding at an extraordinary pace of 60% a year, are now falling. Weakening Chinese exports of home appliances and machinery have cut demand for steel, as has a collapse in the Chinese housing market that triggered sharp declines in construction.

The current downturn is the sharpest and deepest for China's steel industry in at least a decade, with its output plunging 17% in October. Some executives don't think the boom times will ever return.

"We think that the era of high profits for steel companies has already come to an end," said Yang Siming, chairman of **Nanjing Iron & Steel Group**, a midsize producer based in eastern China.

Because China's steel industry grew so rapidly in recent years—it is now five times bigger than it was during the last contraction, producing more than a third of the world's steel—the downturn is being felt throughout China and across the world.

Big miners like **BHP Billiton** and **Rio Tinto** have been hammered by the collapse in Chinese demand for iron ore and other minerals used in steel, as have producers of coal, which steelmakers consume rapidly. With prices and shipments for key products declining, BHP is now focusing on preserving its finances, and on Tuesday the company abandoned its bid to take over Rio Tinto.

Waning demand has also pushed steelmakers in other Asian nations to cut back production as well as prices, as they welcome BHP's latest decision regarding Rio Tinto.

Japan's **Nippon Steel** Corp., the world's second-biggest steelmaker by output after ArcelorMittal, said it will extend production cutbacks to more than two million metric tons in its fiscal second half through March from one million tons, and didn't rule out more cuts in the future. President Shoji Muneoka said the Japan Iron and Steel Federation has "strongly insisted that a takeover of Rio Tinto by BHP would hinder healthy competition in the market for steel materials. So, we welcome that BHP has practically dropped the takeover plan after the EU commission sent them a letter to oppose it."

Taiwan's **China Steel** Corp., which sells as much as 75% of its production in the domestic market, said it will cut domestic steel prices in the first quarter of 2009. The price cuts, to be announced Wednesday, will be the first in nearly three years following 11 consecutive quarters of price increases.

China Steel Chairman Chang Chia-Juch said BHP Billiton's decision to drop its takeover bid for Rio Tinto is "very good for the steel industry," as it will ensure more competitive pricing of raw materials such as iron ore.

China Steel also said it expects 2008 production to be as much as 10% below last year's production of 10.19 million tons, and plans to push forward a maintenance shutdown at one of its blast furnaces to the first quarter, essentially cutting output by another 25% during the quarter.

In India, steel prices have come down by about one-third since July and have halved since the beginning of the year.

Indian steel companies including state-run **Steel Authority of India** cut prices between 15% and 20% earlier this month and analysts feel another cut is likely soon.

Steel imports, meanwhile, slowed in October, down to one-third from the previous month, Indian government data showed. Analysts said imports are still cheaper than local steel by about 5% to 10% as China's steel prices have slumped in the past couple of months.

The current downturn also means reduced business for the ports, railways and shipping lines that carry such commodities like coal and iron ore. The Baltic Dry Index, a global measure of costs for transporting bulk goods, is already down more than 90% from its levels in June this year, in large part because of lower expectations for Chinese demand.

A retrenchment in the steel industry could help shift the profile of China's economy, which has been focused on energy-guzzling heavy industry in recent years. The expansion of steel production has underpinned China's transformation into an industrial giant, but it also has been a big contributor to the surge in the nation's use of coal and oil and its emissions of pollutants and greenhouse gases. A smaller steel industry could mean a cleaner, more efficient China that is less of a strain on the world's resources.

"If steel production growth slows from recent trends to below 10% and the sector sees some healthy consolidation, by 2012 China will have saved more than one billion tons of coal and cut a France-sized hole in its annual carbon-dioxide emissions bill," said Trevor Houser, an energy analyst with Rhodium Group.

When the current crunch ends largely will depend on how quickly housing and infrastructure construction recover, something the government is trying to speed up with a huge stimulus package announced earlier this month. But the crunch is already causing strain: Almost all producers are cutting production and scaling back their once-ambitious plans.

Mr. Yang's company, based in the outskirts of the eastern city of Nanjing, started seeing demand for steel weaken in July, and began cutting some output in August. Although Nanjing Steel has been reducing inventory and trimming raw-material purchases, monthly profit has collapsed to about 50 million yuan ($7.3 million) in October from more than 400 million yuan in June, Mr. Yang said.

China's steel industry today is highly fragmented, rife with weaker players that have survived only because of soaring growth. Mr. Yang and other steel executives think that a shakeout is coming that will weed those companies out, and ultimately strengthen the industry. "Some small companies will not survive," said Mr. Yang. "I think that this adjustment is necessary. Otherwise companies will just continue expanding without limit, and things would be even worse later on."

The China Iron & Steel Association says that 23 of the steel companies it tracks lost money in September, and the industry's average profit margin fell to 1.4% from 7.6% in the first half of this year.

U.S. industry and government officials have long argued that China's steel industry has expanded too much, too fast, thanks to lax government policies that allowed both efficient and inefficient producers to get bigger. The current downturn might simply cause temporary closures by small mills that will come back when times are good. But Chinese officials privately agree with the need for real consolidation, and could take this opportunity to force mergers of steel companies, many of which are at least partially state-owned.

"The government has wanted to consolidate the industry, but while all the companies were making profits they haven't been able to do it," says Michael Komesaroff of Urandaline Investments, an Australian commodities consultancy. He notes that in Japan, the top five companies together account for 80% of the nation's steel output, while in China, you have to add together the top 66 companies to get to 80% of the market.

"Now that margins for the small players are so thin, or even negative, everyone will want to consolidate," he says. "This downturn gives China a chance of producing a genuine global champion in the metals industry."

Nanjing Steel's Mr. Yang wants to make sure his company is among those left standing. Nanjing Steel is only a midsize company by China's current standards, but it ranks 53rd in the world in terms of annual output, making it bigger than some U.S. steelmakers like AK Steel Holding Corp. of Ohio and Steel Dynamics Inc. of Indiana.

The Chinese company prides itself on producing higher-quality product than most in the industry—its steel has gone into the iconic "Bird's Nest" Olympic stadium in Beijing, as well as a wind farm in Wisconsin—and thinks it could benefit from consolidation.

"There is still room for some companies—those with good products and a higher level of management—to make an appropriate profit," he says. Nanjing Steel doesn't rule out the possibility of buying up some financially distressed competitors next year, he says.

Some combinations have already started. The local government in Shandong province earlier this year arranged the merger of two firms, Jinan Iron & Steel and Laiwu Steel Group. Officially, the policy is to support consolidation in the steel industry, though in a way that avoids large-scale layoffs.

Beijing is concerned about widening unemployment, one factor that could weigh against rapid consolidation. But Assistant U.S. Trade Representative Tim Stratford, who visited Beijing in October for trade talks on steel, said Chinese officials were asking about U.S. retraining programs for laid-off steelworkers.

"They recognize it's cheaper to assist displaced workers than to subsidize ongoing operations of steel plants," he said.

The total output of China's steel industry is likely to shrink marginally this year, perhaps by 1% to 2%, and be roughly flat in 2009, according to industry executives and analysts. But coming after seven straight years of growth more than 15%, that is a sharp correction.

"A decrease would be pretty radical," says Mr. Stratford. "They haven't planned for that."

*—Yuzo Yamaguchi, Alex Pevzner, Arpan Mukherjee and Miho Inada contributed to this article.*

# Rio Tinto won't issue stock to refinance debt

By Elisabeth Behrmann And Cynthia Koons

SYDNEY—**Rio Tinto** Ltd. Chairman Paul Skinner Wednesday dismissed concerns about the company's US$42 billion debt burden and said Rio won't issue equity to address a medium-term refinancing requirement of US$9 billion.

**BHP Billiton** decision to withdraw a hostile takeover bid for Rio Tinto intensified the spotlight on Rio's debt, mostly accrued for the US$38 billion acquisition of Canadian aluminum producer Alcan.

Those concerns helped push down Rio Tinto's share price on the Australian Stock Exchange, where it ended down 34% at A$42.01 Wednesday.

Ratings agency Moody's Corp. added to the pressure on Rio Tinto, placing its A3 senior unsecured rating under review for a possible downgrade. Following news of BHP stepping away from its bid, Moody's said it is closely watching how the group manages cuts to capital expenditure and maximizing cash generation, as well as reducing its debt over next the next 12 months.

*Paul Skinner*

Mr. Skinner said Rio Tinto has US$7 billion of untapped facilities in order to help pay down a term loan of US$9 billion maturing in October 2009. He also said that average interest rates on its debt are low.

"Our interest costs on our current debt are at an average rate which is as low as 2.85%. So this is not something with which we feel uncomfortable," Mr. Skinner said.

"We are comfortable with our financial position, we're confident that our debt position is manageable, we have very strong cash flows and we have a number of other ways of managing our debt position."

The company is still committed to an asset sale process that stalled in recent months as the credit crisis extinguished potential buying interest, he said.

BHP cited concerns about the ability to divest some of Rio's noncore assets in stepping away from the bid. The market applauded BHP's decision to walk away and its shares ended in Sydney 3.9% higher at A$27.25.

Mr. Skinner also dismissed speculation that Rio Tinto is courting investors to take a stake in the company.

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CORPORATE NEWS

# Tough choices await oil industry

## *Price drop may force firms to prioritize how to spend cash*

By Russell Gold

Tough choices are looming for the global oil industry as sinking energy prices force companies to reconsider how they spend their money. The new priority: Conserve cash.

Just a few months ago, major oil and natural-gas companies were minting record profits as global energy demand boomed and crude-oil prices climbed to $145 a barrel in July. Oil companies didn't have to choose between paying down debt, raising stock dividends, increasing their cash balances or expanding capital budgets. They could afford to do it all simultaneously.

Now the world-wide economic downturn is drying up demand for oil and natural gas, dropping the benchmark price for a barrel of oil to less than $50 last week for the first time since 2005. On Tuesday, oil prices fell $3.73, or 6.8%, to settle at $50.77 a barrel on the New York Mercantile Exchange. Wednesday afternoon, crude oil was up 51 cents to $51.28.

If oil prices don't rebound significantly in the next few weeks, industry experts expect oil companies, as a first step, will take a scalpel to generous share-repurchase programs that have helped cushion falling stock prices in recent months.

Further cuts may be necessary. Predicting oil prices in such a volatile market is a perilous pastime, but industry analysts have been slashing price forecasts recently, and some believe oil won't rebound soon. Calgary-based energy investment bank Tristone Capital on Tuesday forecast oil prices would average $50 next year.

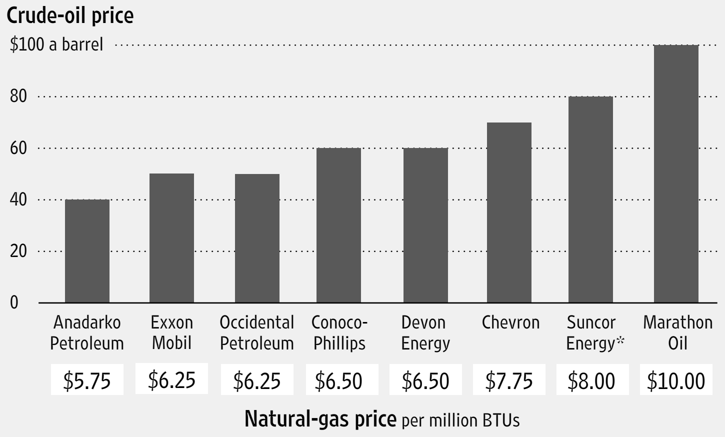
At that level, oil giants such as **Exxon Mobil** Corp., **Chevron** Corp. and **ConocoPhillips** will need to add debt, spend their substantial cash balances or cut other costs to fully fund capital budgets and maintain their dividends, according to a cash-flow analysis by credit analysts at Barclays Capital, the investment-banking arm of British bank Barclays PLC.

With plunging oil prices and a global credit crisis, there is "no question in our minds that [a] noticeable slowdown will happen in [the] worldwide energy biz," wrote Houston-based investment boutique TPH Energy in a note to investors. "Fear + less cash flow = retrenchment."

Even at $70 oil, Chevron and some midsize companies such as

### Trouble ahead?

If crude-oil and natural-gas prices fell below the level shown for each company in 2009, the company would have to increase its debt or take other steps to balance its cash flow, after paying dividends and funding capital expenditures.




*Converted from Canadian dollars

Sources: the companies; Barclays Capital

**Marathon Oil** Corp. and **Suncor Energy** Inc. will need to make strategic decisions about what to cut and what to fund. In a recent research note, Sanford C. Bernstein said that, at $70 oil in 2009, "it is obvious" that companies such as **BP** PLC, **ENI** SpA, **Royal Dutch Shell** PLC and ConocoPhillips "could struggle to maintain the dividend and buy-back levels," while Exxon and **StatoilHydro** ASA would face similar problems in 2010.

To manage their cash, some midsize energy companies have begun trimming their capital-spending plans. So far, the large global companies are maintaining planned spending, though they are delaying certain projects in the hope that construction and engineering costs—which have soared in recent years—will come down as the industry expansion slows.

Energy companies already have been pummeled by the broader stock-market selloff and concerns about falling oil prices. Shares of Exxon and Chevron, the two largest U.S.-based oil companies, are down about 16% this year. This month, J.P. Morgan slashed its projected earnings next year for Exxon by 17% and for Chevron by 26%.

To cope in the downturn without cutting funding for projects expected to deliver future growth, companies are most likely to spend down their large cash reserves and increase debt, said Jason Gammel, an energy analyst with Macquarie Securities. He noted that Exxon could fund its capital spending for 1½ years with the $37 billion in cash it reported at the end of September.

And while the credit crisis has locked up debt markets for most industries, the strong balance sheets forged in recent years by high oil prices means "there would be plenty of market appetite for integrated oil debt if things got bad," he said.

Of course, if oil prices spike upward again, as some analysts continue to predict, oil companies will be able to ride out the current downturn with little fuss. Price forecasts at Barclays see demand growth returning to push prices back up to $100 a barrel. Others, such as Tristone Capital and Deutsche Bank, are more bearish.

If the bearish forecasts are correct, oil companies will be forced to act. There are a number of potential barriers to higher oil prices: a deep global recession; an inability of the Organization of Petroleum Exporting Countries to cooperate in production cuts; and political developments in the U.S. to promote investment in renewable energy, which would put a damper on long-term fossil-fuel prices.

Still, oil supply remains constrained and, if demand returns, prices could head back up quickly. If there is a broad move to defer projects in coming months, concern about the impact on future energy supplies would grow. "At the end of the day, this creates a potential for serious price spikes when we come out of the trough of the economic cycle," said Macquarie's Mr. Gammel.

The steep drop in oil and natural-gas prices already has had a dramatic effect on companies that are smaller and have weaker financial positions than the global oil titans. These smaller companies, mainly producers focused on natural gas or high-cost production projects such as Canada's oil sands, already have slashed capital spending to make sure they aren't spending more than operations bring in. That is a departure from recent years, when many of the companies spent heavily and relied on debt and equity markets to provide additional cash.

*—Ben Casselman contributed to this article.*

# UAL gets cash-reserve cushion

By Susan Carey

Investors bid up shares of United Airlines parent **UAL** Corp. 25% Tuesday amid falling oil prices and news that the company amended an agreement with its main credit-card processor so it doesn't have to post additional cash reserves if its liquidity declines.

The disclosure, made in a U.S. Securities and Exchange Commission filing, seemed to outweigh UAL's downbeat fourth-quarter revenue guidance and estimate that it will book a $232 million cash loss on fuel hedges in the period.

The airline said it expects its mainline unit revenue—the amount taken in for each passenger flown a mile, not including on commuter-airline affiliates—to show a decrease of 0.9% to a gain of 1.1% in the fourth quarter, compared with a year earlier, after the impact of an accounting change. Some analysts had been expecting more robust unit-revenue gains, despite the troubled economy and disappointing revenue guidance from other airlines.

But drastically lower fuel prices still are expected to more than make up for weak traffic demand, setting up the industry for profits next year, according to some analysts. UAL estimates that each dollar decline in the price of fuel saves it $60 million annually. Oil, which hit $145 a barrel four months ago, has traded around $50 this week.

After Tuesday's jump, UAL shares were down 1.7% at $10.85 on the Nasdaq Stock Market late Wednesday.

Crude-oil for January delivery rose $3.67 per barrel, or 7.2%, to $54.44 on the New York Mercantile Exchange. Four months ago, oil hit $145 a barrel.

UAL, based in Chicago, said in the SEC filing that it has begun modifying its hedge portfolio to cap losses related to further declines in oil prices.

Falling oil prices have forced UAL to raise the amount of collateral it has put up to counterparties in its hedging arrangements, to cover potential fuel-hedge losses that may occur when the contracts settle. So its new arrangement with **J.P. Morgan Chase** & Co., its largest credit-card processor, gives it additional flexibility and allows United to use unencumbered assets instead of cash as collateral.

United said that until January 2010 it isn't required to post or maintain additional cash reserves with Chase if its unrestricted cash falls below $2.5 billion. In return, UAL has granted Chase a security interest in aircraft valued at $800 million. The prior arrangement allowed Chase to hold back escalating percentages of advance ticket sales depending on the airline's liquidity position.

# GE Money India plans cutbacks

A WSJ News Roundup

MUMBAI—Consumer-finance company GE Money India, a unit of **General Electric** Co.'s GE Money, is looking at measures to cut costs and restructure its business model to respond to current financial-market challenges, a spokeswoman said.

Amid the global financial crisis, India's economy is feeling the pain. Consumers, who have only in recent years begun to buy on credit, are facing debt, and lenders are feeling a squeeze, too. Foreign lenders say the environment has gotten tougher and delinquencies are on the rise.

Now, GE Money is looking at "improving efficiencies, tightening credit and is taking the necessary measures to reduce risk," the spokeswoman said.

GE Money in India has about 3.5 million customers. The firm currently has about 100 branches and aims to close 40 of them by the end of the year.



# Airbus to stick with funding from government

Reuters News Service

THE HAGUE—European plane maker Airbus has abandoned efforts to find a market-based alternative to its government development loans, which dominate a major trans-Atlantic trade row, a German official said Wednesday.

The plane maker, which has never publicly questioned the legitimacy of loans that are opposed by the U.S., studied alternative ways of finding the money from financial markets but the credit crisis scuppered the idea, the official said.

"They had ideas three or four months ago for a more market-oriented approach, but now there is no money available," said Peter Hintze, Germany's state secretary at the Federal Ministry of Economics and Technology. "The financial crisis pushed everything back. Now we are looking again at government loans," he said, speaking on the sidelines of a European space conference.

The loan system is at the center of a heated World Trade Organization dispute between the U.S. and the European Union, with both sides accusing the other of illegal aircraft subsidies. The disagreement is expected to come to a head at hearings scheduled for next year.

Airbus, a unit of **European Aeronautic Defence & Space** Co., traditionally pays for up to a third of the development of new plane projects by tapping four European governments—Britain, France, Germany and Spain—for loans, but is under pressure from Washington to drop the program. The U.S. says the loans are made on preferable terms, something Airbus and European governments deny.

**Aircraft maker says market-based loans aren't an alternative in the credit crisis.**

Europe in turn accuses Chicago-based **Boeing** Co. of taking government handouts for aviation indirectly via its reliance on defense spending as well as local tax breaks where its plants are based.

Asked about Mr. Hintze's comments, Airbus spokesman Stefan Schaffrath said: "We continue to consider all sorts of options to ensure a level playing field with Boeing."

The direction of European funding is crucial as Airbus embarks on a €10 billion ($13 billion) project to build the midsized long-range A350, a competitor to Boeing's 787 Dreamliner. While sticking to its position on government loan financing, Airbus has so far avoided inflaming the dispute by saying how it plans to pay for the plane.

Mr. Hintze said Germany was willing to discuss financing for the A350 based on the same principles used for its A380 superjumbo, provided the move complied with WTO and European trade rules.

"We are willing to help with launch aid which must be reimbursable. They pay back the loan as aircraft are delivered and they pay interest and an added risk supplement," he said.

Washington argues that the European system is illegal because Airbus couldn't reproduce the conditions it obtains from European governments by resorting to financial markets.

## CORPORATE NEWS


Associated Press

**Tiffany & Co.'s** 57% decline in third-quarter net reflects, among other things, weak U.S. sales. The luxury jeweler also said it plans to cut staff.

# Tiffany net falls 57% on weaker U.S. sales

By Mike Barris

**Tiffany** & Co. posted a 57% decline in fiscal third-quarter net income, reflecting weak U.S. sales and a large year-earlier gain from the sale of its main Tokyo store.

The luxury jeweler also lowered its full-year earnings outlook and said it plans to trim staff. "It is impossible to know when consumer confidence will be restored," said Chairman and Chief Executive Michael J. Kowalski.

For the quarter ended Oct. 31, the New York-based company reported net income of $43.8 million, or 35 cents a share, down from $101.6 million, or 73 cents, a year earlier. The sale-and-leaseback gain in the year-earlier period came to 48 cents a share.

Net sales fell 1.4% to $618.2 million, despite an increase overseas. Sales at stores open at least a year fell 6%.

Analysts polled by Thomson Reuters had expected earnings of 25 cents a share on revenue of $644 million.

Gross margin rose to 56.3% from 54.4%, helped by product mix, the company's precious-metal hedging program and management-compensation reductions.

Tiffany's Asian-Pacific sales climbed 3% in the quarter, while its European sales rose 16%. However, revenue from its Western Hemisphere operations fell 7%. U.S. same-store sales fell 14%, including a 5% drop at the company's flagship store. Tiffany's heavy reliance on New York City tourists and residents—its New York store alone accounts for 10% of world-wide sales—has become a weakness.

Tiffany lowered its fiscal-year earnings forecast to $2.30 to $2.50 a share. It now sees sales flat to down 2% compared with the previous year. It also said it plans to trim staff because of "reduced consumer demand." The company said the earnings estimate doesn't include any fourth-quarter charges resulting from staff reductions.

The latest Wall Street estimate was $2.58 a share, excluding items, on a revenue rise of 6%.

Mr. Kowalski also said the company would seek "moderation" in the rate of new store openings in 2009.

# Deere's profit is declining as farming slump takes root

By Ilan Brat

**Deere** & Co. said it expects its profit to slip next year even as the company plans to raise prices on equipment for farmers, who are already battling a slowing agricultural economy.

Many growers already are expecting lower income next year because their 2009 planting costs are likely to be higher. In recent months, makers of everything from fertilizer to pesticides have been boosting prices. Deere, of Moline, Ill., said Wednesday that it expects to do the same, with price increases on the year contributing seven percentage points to revenue growth, although that benefit will be largely offset by currency fluctuations.

At the same time, prices for commodities such as corn and soybeans have been falling, hurting farmers' income. Deere cut its forecast for U.S. farm cash receipts in 2008 and 2009, an indicator of farmers' financial condition. The company expects its net income to decline to about $1.9 billion in fiscal 2009, from just over $2 billion in the fiscal year ended Oct. 31. The company forecast its fiscal 2009 sales as flat against its roughly $28 billion in fiscal 2008 revenue.

Deere's fiscal fourth-quarter results fell short of the company's August forecast. The maker of agricultural, construction and lawn machines has been buoyed amid a world-wide farm boom in recent years even as it faced rising raw materials costs.

In its fourth quarter, a strengthening dollar and the economic downturn took a toll. The company's net income fell 18% from a year earlier to $345 million. Though equipment sales remained strong—up about 24% in the period ended Oct. 31—they fell below Deere's forecast of an increase of 29%.

Still, the company said its order backlog, especially for large tractors, harvesters and other farming machines, was solid, with many orders to be filled next year in late summer and early fall.

# Apparel firms get funding

*Consumer cutbacks took 3rd-quarter toll; J. Crew trims outlook*

By Jennifer Saranow

Apparel retailers **Talbots** Inc., **Chico's FAS** Inc., **J. Crew Group** Inc. and **Charming Shoppes** Inc. took a hit in the third quarter as consumers cut spending, but Talbots and Chico's announced new credit lines that improve their liquidity.

J. Crew, however, cut its guidance for the year, saying it now expects earnings of $1.11 to $1.16 a share, down from $1.44 to $1.54. "We are not immune to the significant challenges we are all facing in retail," Chief Executive Millard Drexler said in a statement Tuesday.

Talbots Chief Executive Trudy Sullivan said she wouldn't provide guidance for the fourth quarter "until we are further into the period."

Talbots said it "secured agreements" from **Mizuho Corporate Bank** Ltd. and **Sumitomo Mitsui Banking** Corp. to convert their existing $75 million and $50 million uncommitted working-capital lines to committed lines. Without the commitment, the banks could have pulled the lines.

In the quarter ended Nov. 1, Talbots's net loss widened to $167.2 million, or $3.13 a share, from $9.39 million, or 18 cents a share, a year earlier. Excluding discontinued operations, Talbots had a net loss of 28 cents a share, worse than analysts expected. Discontinued operations include the J. Jill brand, which the Hingham, Mass., company is trying to sell.

Chico's said its new secured $55 million credit facility with SunTrust Bank exceeds its previous $45 million unsecured facility.

Chico's third-quarter net income fell 92% to $2 million, or one cent a share, from $23.6 million, or 13 cents a share, a year earlier. Chief Executive Scott Edmonds said Chico's had more markdowns than planned.

Charming Shoppes said its net loss widened to $93 million, or 81 cents a share, from $3.6 million, or three cents a share, a year earlier. J. Crew reported third-quarter earnings of $19 million, or 30 cents a share, down from $26.8 million, or 42 cents a share, a year earlier. The company said same-store sales for the rest of the year would likely decline by a percentage in the "high single digits."

# EU drops antitrust case against E.ON

By Peppi Kiviniemi

BRUSSELS—The European Commission on Wednesday dropped its electricity antitrust case against German energy giant **E.ON** AG, saying the company's promise to sell capacity and part of its grid would address competitive bottlenecks in the market.

Düsseldorf-based E.ON in February offered to sell its German high-voltage power grid to an independent operator and commit to selling around 5,000 megawatts of German power-generation capacity if the commission dropped its antitrust investigation.

The commission, the European Union's executive arm, had accused the company of withdrawing available generation capacity to raise prices, deterring new investors in extra power generation and favoring its production affiliate for network balancing services, despite higher costs.

"This unprecedented set of remedies will fundamentally change the landscape of German electricity markets and bring the prospect of more competition and more customer choice," said European Competition Commissioner Neelie Kroes.

E.ON's divestments mean that more than 20% of generation capacity will be available for competitors and newcomers.

*—Jan Hromadko in Frankfurt contributed to this article.*

# GLOBAL BUSINESS BRIEFS

### QBE Insurance Group Ltd.

## Firm buys five insurers, plans to issue new shares

**QBE Insurance** Group Ltd. said Wednesday it will pay US$695 million for five insurance businesses in the U.S. and Europe, and plans to issue up to 2.1 billion Australian dollars (US$1.37 billion) in new shares to existing shareholders as part of a major capital restructure. The global insurer also upgraded its revenue forecasts for this year and next, after the recent fall in the Australian dollar boosted the value of its near 80% in offshore premiums. QBE has agreed to pay US$575 million for Atlanta-based underwriting agency **ZC Sterling** Corp., and a further US$120 million for two other underwriting agencies and a renewal rights portfolio in the U.S., and one European insurer. All five acquisitions are expected to boost QBE's net profit by US$175 million.

### Swiss Life Holding AG

**Swiss Life Holding** AG said it will cut 200 jobs in Switzerland as part of a cost-saving plan. The jobs will go in the next few years, two-thirds of them in 2009. The measures should help the life insurer reduce costs by about 90 million Swiss francs ($75.9 million) up to 2012, with half of the savings due in 2009. Restructuring costs amount to about 40 million francs, 80% of which will be charged in the 2008 financial year. The downsizing is set to reduce the company's relatively high Swiss cost base, putting it on a more equal footing with its bigger peers, Bank Vontobel said.

### GDF Suez SA

French utility **GDF Suez** SA Wednesday expanded its cost-savings plan and delayed completion of a share buyback. The company said it hadn't been able to pass on all the rise in gas prices earlier this year to its customers, and it is now targeting cost savings of €1.8 billion ($2.35 billion) by 2011 compared to a previous goal of €1 billion by 2013. The company confirmed its medium-term profit guidance, including a target for 2010 earnings before interest, taxes, depreciation and amortization €17 billion. UBS analyst Per Lekander, noting that the additional cost savings wouldn't lead to better profitability, said the announcements show the economic environment has become more challenging for the company as power, oil and gas prices fall.

### Total SA

**Total** SA expects to make a final investment decision on a major natural-gas block in northern China in the middle of 2009 after submitting a development plan to **China National Petroleum** Corp., a senior executive at Total said Wednesday. Charles Mattenet, senior vice-president for exploration and production in Asia and the Far East, said $1.5 billion to $2 billion will initially be invested at the South Sulige block in Inner Mongolia if the development plan is approved by CNPC and the Chinese government. China's desire to boost natural-gas output and master advanced drilling technology has led it to open up a handful of onshore blocks to foreign partners, including **Chevron** Corp., **Royal Dutch Shell** PLC and Total.

### Deutsche Lufthansa AG

German airline **Deutsche Lufthansa** AG will set up its own Italian airline early next year, even as it courts **Alitalia** SpA, as the battle to make inroads into the lucrative Italian air-travel market heats up. Lufthansa, which is vying with **Air France-KLM** SA to strike an alliance with Italy's bankrupt national carrier Alitalia, said its move didn't mean it was "closing the door" on its ambitions to tie up with the Italian airline. However, if it did lose out to Air France-KLM, Lufthansa's new airline would allow it. Lufthansa Chief Executive and Chairman Wolfgang Mayrhuber said the carrier's increased presence at Milan's Malpensa Airport could be a strong point in any future tie up with CAI, an Italian consortium that will soon buy Alitalia.

### Virgin Atlantic Airways Ltd.

Long-haul airline **Virgin Atlantic Airways** Ltd. said it urged the European Commission to reject a planned joint venture between **British Airways** PLC and American Airlines, a unit of **AMR** Corp. In a document submitted to the European Commission competition authorities, Virgin Atlantic argued that BA and American Airlines, if allowed to combine, "would use their market power to raise fares, adjust schedules to keep out competitors and cut off connecting feeder traffic to other carriers at Heathrow." A spokeswoman for British Airways said the airline wouldn't do anything that would encourage passengers to walk onto competitors' planes.



### Compass Group PLC

U.K.-based catering company **Compass Group** PLC said its net profit fell 14% in the year ended Sept. 30 as it sold fewer assets than in the year-earlier period. Profit declined to £443 million ($686.5 million) in the year from £515 million in the previous year. The drop reflected a decline in profit from the sale of assets, which were negligible compared with a net figure of £585 million in the previous year. Revenue rose 11% to £11.44 billion. The company, which has recovered from a string of profit warnings by selling many overseas operations and refocusing on contract catering, also said it has scope to further cut costs when the economic downturn impacts its business, while it should benefit from recent falls in commodity prices. Shares were up 7.7% on the London Stock Exchange.

### Basilea Pharmaceutica AG

Swiss biotechnology company **Basilea Pharmaceutica** AG said the U.S. Food and Drug Administration has further delayed approval of its antibiotic ceftobiprole, after the regulator raised issues about data at partner **Johnson & Johnson**. The FDA flagged deficiencies of study conduct in a so-called complete response letter, and has asked for additional clinical-site audits, as well as information on J&J's quality-assurance programs. U.S. approval of the drug had been expected in the first quarter of next year, but is now unlikely to come before the second half of 2010, analysts say. Basilea shares were down 31%. "We are deeply disappointed with the further delay," said Anthony Man, Basilea's chief executive.

### MorphoSys AG

German biotechnology company **MorphoSys** AG said it signed a long-term research deal with Netherlands-based **Galapagos** NV to co-develop antibody therapies for bone and joint disease. Galapagos will contribute a library of targets, including rheumatoid arthritis, osteoporosis and osteoarthritis. MorphoSys would develop antibodies against these targets. Should a viable therapy emerge from clinical trials, the companies said they would seek a partner to complete development. The companies said they would equally share research-and-development costs as well as future revenue. Equinet analysts said the three focus areas—rheumatoid arthritis, osteoporosis and osteoarthritis—represent "very significant market opportunities," with more than $15 billion in related drug sales in 2006.

### Teva Pharmaceutical

Closely held French drug maker **Servier** and Israel's **Teva Pharmaceutical Industries** Ltd. said Wednesday they were among companies raided by European Commission officials this week. A Teva spokesman said the group's British offices were visited and the company was cooperating. Servier said it had received inspectors at its British offices and Paris headquarters. The latest raids of firms suspected of pursuing restrictive practices started Monday, said European Commission competition spokesman Jonathan Todd. The commission began a broader examination of the pharmaceutical industry in January, concerned that the companies were colluding to cut deals that temporarily sidelined generic competitors in return for payoffs. Preliminary results of that examination are expected Friday.

### Woolworths Group

The board of **Woolworths Group** PLC's was meeting late Wednesday to push the struggling high-street retailer into administration, a person familiar with the matter said. The move came after it failed to reach agreement with lenders on a sale of the business. A formal announcement of the administration is expected Wednesday evening or Thursday morning. Its 840 U.K. stores will still open as usual Thursday under the control of administrator, **Deloitte & Touche**, the person said. Woolworths' retail arm and its Entertainment U.K. business, which supplies books and DVDs, will both be placed in administration, but the parent company Woolworths PLC and its joint venture with the British Broadcasting Corp., 2 Entertain, will remain solvent. Woolworths isn't connected to companies of the same name in the U.S. and Australia.

### Toyota Motor Corp.

Fitch Ratings downgraded its top credit rating on **Toyota Motor** Corp. Wednesday because of the market downturn and a surging yen. Fitch also cited high materials costs as another challenge Toyota would be facing in lowering its ratings on Toyota by two notches to double-A from triple-A. "Toyota is suffering severely from the ongoing turmoil in the global automotive sector," said Tatsuya Mizuno, a Fitch director. The simultaneous slowdown in the major auto markets and the appreciation of the yen, which erodes the overseas earnings of Japanese exporters, were among the "multiple negative developments" battering Toyota's earnings, he said.

### Norinchukin Bank

**Norinchukin Bank** of Japan plans to raise its capital base by more than one trillion yen (US$10.47 billion) by the end of the fiscal year to firm up assets amid the market crisis, a person familiar with the matter said Wednesday. The central banking body for Japanese agricultural and other cooperatives is likely to raise the fresh capital from entities such as the Shinren unions of agricultural cooperatives, the person said. Similarly, **Sumitomo Trust & Banking** Co. said Wednesday it plans to raise capital by issuing preferred securities by the end of March. A spokesman for the trust bank said that the amount would be in the area of "tens of billions of yen."

### General Electric Co.

**General Electric** Co.'s energy unit plans to build a wind-turbine assembly plant in India, its second in Asia after China, by December 2009, a senior company executive said. GE is also planning to partner with an Indian company for nuclear energy projects, said Kishore Jayaraman, president and chief executive officer of GE Energy India. India has an installed power-generation capacity of about 146,752 megawatts, but supply lags behind demand by up to 15% during peak hours. GE Energy plans to initially invest between $3 million and $5 million on facilities to assemble wind turbines each year with a combined capacity of 50 megawatts to 100 megawatts, which will be eventually increased to 300 megawatts, he said.

*—Compiled from staff and wire service reports.*

# In U.S., terrorism fight walks the beat

*Ahead of inauguration, Washington police adopt a new program to detect threats and share information*

By Siobhan Gorman

In May, a Los Angeles Police Department motorcycle officer stopped a car for speeding. He noticed that the driver was sweating and gripping the steering wheel nervously, while refusing to answer basic questions.

That matched a profile the officer had just learned about as part of a program to identify behaviors associated with terrorism. Information that once might have gotten lost in the shuffle now had a destination: The officer reported the driver's international license information via the department's program, and learned the man was "an individual of interest" in a terrorism investigation.

"That was huge," said Cmdr. Joan McNamara, the No. 2 counterterrorism official for the LAPD. "It was a tremendous piece of the puzzle."

Under the Los Angeles program, analysts log information on suspicious behavior into a central database using standardized labels, enabling the department to analyze patterns. The model is getting attention nationwide, and Washington's Metropolitan Police Department plans to introduce its version of the program next month in advance of Inauguration Day.

It's nothing fancy, and that's the point. Ever since 9/11, the connect-the-dots problem has preoccupied law-enforcement and intelligence agencies. The 9/11 Commission noted that stopping the hijackers who crashed planes into the World Trade Center and Pentagon would have been much easier if someone had connected the reports of suspicious men taking flying lessons.

Yet efforts by the Department of Homeland Security, newly created after 9/11, and others have failed to integrate communications among disparate agencies. The U.S. government has made multiple efforts to link databases and often found itself snarled in technology messes.

Last month, the White House asked the department to put on hold new spending on an alert system that carries a price tag of more than $150 million. The system was supposed to provide threat information to local officials, but government reports suggested it was too hard to use.

Now the LAPD is trying to build a system from the ground up. The eight-month-old program has generated 1,000 suspicious-activity reports using a common template and already nabbed several people who provided critical information to federal terrorism investigations, LAPD officials say.

"That's something we've been struggling with for seven years," said Washington police chief Cathy Lanier, who recently briefed White House officials on the capital's new system.

Washington is collecting data from across the region—including information from the Federal Bureau of Investigation and the Department of Homeland Security—and building the technology to log it rapidly and analyze it for any threats that could affect Inauguration Day, Jan. 20. The system will become the foundation for a permanent effort to monitor threats.

Chief Lanier said painful experience helped trigger the move. In early 2005, someone called in a 911 tip that bolts had been removed from fences along the inauguration-parade route. The information never made its way to city police. On that year's Inauguration Day, protesters were able to push a security fence onto police officers, injuring several, including breaking one officer's arm.

Had the information been entered into a system monitoring citywide tips, an officer searching for threats related to Inauguration Day would have seen it and could have prevented it, said John Cohen, a senior adviser in the office of the director of national intelligence.

Mr. Cohen's office is working with other federal agencies and state and local officials to expand the Los Angeles model to 12 other cities and states, as part of a federal pilot program. "We put [Washington] to the top of the list because of the inauguration," he said.

The goal is to allow multicity searches, since each locality will be using the same set of categories to log their reports. Along with Washington and Los Angeles, federal officials hope to link the threat databases for the states of Virginia, New York and Florida.

Other cities that will adopt the system through the federal pilot effort include Chicago, Boston, Seattle, and Miami. "Once this matures, I think this will be part of the homeland-security lifeblood," said Cmdr. David Sobczyk of the Chicago Police Department. "It will fill a lot of the gaps that currently exist."

That's if it works. The federal government has a weak track record in such programs, especially those that involve building databases. The FBI botched an earlier effort to manage just its own cases in 2005. In testimony, the FBI director acknowledged the program wouldn't be successful and launched a replacement. Mr. Cohen said this pilot program is different because the federal government is just linking systems established by cities and states rather that building a new one.

The Los Angeles Police Department introduced its program in March. Cmdr. McNamara and her team spent several months researching documented behavior of terrorists plotting attacks and settled on 65 specific behaviors. They developed a plan to train officers in identifying the behaviors and reporting them in a standardized way as part of regular police reports. The basic data points include the type of suspicious activity and its date, place and time. Intelligence analysts then vet officers' reports.

Getty Images

During the 2005 U.S. inauguration, a tip that fences weren't secure wasn't passed onto police. Protesters easily **toppled the fences**, which were then mended.

Analysts look for patterns in the data. If they see several reports of suspicious photo taking around ports, they might go back to security video from the ports to look for more evidence. "What we're starting to see is a successful program connecting the dots," said Cmdr. McNamara. "The cops now understand what they're looking for."

In July, a retailer called in with a curiously detailed drawing of an airplane cockpit on the inside of a cardboard box that a customer had used to return an item to the store. It was logged into the suspicious behavior system, and officers found that it was an exact drawing of a major aircraft at Los Angeles International Airport. "Normally cops wouldn't have known what to do with it," Cmdr. McNamara said.

Last week, a records clerk who had gone through the suspicious behavior training was filing reports on stolen items and found a report about keys that had been stolen from a radiological facility. She alerted the counter terrorism division in a suspicious activity report.

The new system is also helping LAPD identify trends that are unnecessarily eating up resources. When suspicious-package reports at Los Angeles International Airport shot up in July, Cmdr. McNamara's staff spotted the pattern and discovered that airlines had just changed their policies about how many suitcases passengers could carry. Some passengers were simply dumping on the floor suitcases they didn't want. The airport later put bins out for discarded baggage.

The program has identified gaps between the data Los Angeles and federal agencies have. When Cmdr. McNamara compared notes with the Department of Homeland Security, she found the department had 10 suspicious terrorism-related activities reported in a two-month period, and she only knew about four of them. "We were both dumbfounded," Ms. McNamara said. "We closed that gap, obviously, now."

Privacy advocates have met with Cmdr. McNamara, contending that many of the 65 behaviors aren't necessarily specific to terrorism and raising concerns that cities won't block abuse of the data.

Michael German, a former FBI agent who is a national security specialist at the American Civil Liberties Union, said some of the behaviors on the LAPD's list, such as photographing buildings or espousing extremist views, could be innocent activity or First Amendment-protected behavior.

"What it opens the door for is police officers bothering people who they're already suspicious of for improper reasons like racial profiling or other poor police behavior," Mr. German said. He added that the LAPD has shown a willingness to listen to and act on concerns.

Cmdr. McNamara said the program aims to prevent racial profiling by focusing on suspicious behaviors rather than individuals. After meeting with Mr. German, she recommended that LAPD's inspector general audit the program.

She said while she understands Mr. German's concern about overly broad categories of suspicious activity, officers are trained to distinguish between tourists snapping a Hollywood landmark and suspects casing a port entrance.

The next stage: getting the public involved. Los Angeles plans early next year to introduce an education program, called iWATCH, which will instruct citizens on specific behaviors to report to authorities.

# World Bank will review its security policy

By Bob Davis

WASHINGTON—The World Bank, under siege from hackers since at least the summer, said it is stripping its chief information officer of responsibility for information security as part of a "comprehensive external review" of its security practices.

According to an announcement to staff, scheduled to be released by Wednesday, the bank is shifting responsibility for information security to Robert Van Pulley, a director responsible for security issues, from Guy-Pierre De Poerck, a more senior manager and a World Bank vice president. Neither man could be reached for comment Tuesday.

The World Bank said the braod review will look at "all security-related technology, protocols and guidelines for securing business and information." The review includes the handling of "personal and sensitive information" provided by staff to the World Bank, a risk assessment of business processes, and a review of information-technology practices.

The bank has acknowledged that hackers have been trying to breach its systems at least since the summer. The bank said there is "no evidence" that the hacker attacks have compromised its computer systems in its treasury, procurement and institutional integrity units The latter group handles corruption investigations.

The bank has had some embarrassing mishaps. Recently, names, addresses and bank account numbers of World Bank employees, including some who did business at the bank's credit union, were posted on a public Web site that is accessible to outsiders. The World Bank said the credit union was monitoring whether there was any "unusual activity" on those accounts.

The World Bank is providing staffers whose information was posted with free credit monitoring and other aid. The credit union said the information posted on the Web site was "insufficient to allow unauthorized transactions," according to the announcement.

The statement also mentioned "another hacker attack within the last few days," but didn't provide details.

The review is being headed by Juan José Daboub, who is one of three World Bank managing directors; Lars Thunell, head of the International Finance Corp., the World Bank's private lending arm, and Vincenzo La Via, the bank's chief financial officer.

Associated Press

U.S. soldiers secure the site of a **roadside bomb blast** in Baghdad that killed two civilians Wednesday, hours before a scheduled vote in parliament on a security agreement.

# Baghdad delays pact vote

## *Sunni lawmaker makes new demands on U.S. agreement*

By Gina Chon

BAGHDAD—The Iraqi parliament on Wednesday postponed a crucial vote on a security pact between the U.S. and Iraq, as political leaders continued to hammer out a deal to meet demands by Sunni lawmakers.

The main obstacle to holding the vote was a request by independent Sunni lawmaker Saleh Mutlaq, who asked that the Iraqi government cancel the so-called de-Baathification law, which was passed earlier this year. That legislation allowed certain members of Saddam Hussein's Baath Party to return to government jobs and collect pensions, but barred others.

"The law is oppressive and unfair," Mr. Mutlaq said in a phone interview. "Most of the people who are affected by this are technocrats who weren't real Baath Party members."

Mr. Mutlaq said he was still hopeful for a compromise, although time is running out to approve the security pact that calls for U.S. troops to leave Iraq by the end of 2011. An agreement is needed to replace a United Nations mandate that expires at the end of this year.

The security agreement could be passed in parliament on Thursday. The parliament had been scheduled to go on break on Tuesday because of several major Muslim holidays, but that has been canceled. Leaders of political blocs met again Wednesday night to work on a resolution.

Mr. Mutlaq and other Sunni lawmakers say they aren't against the security pact but are suspicious that the Shiite-dominated government is looking to increase its power and not fulfill promises made to Sunnis, such as releasing detainees. The Sunni bloc, which represents about 44 seats in the 275-member parliament, have been holding out on the agreement to push for their demands.

Such last-minute maneuvers and delays, aren't new to the Sunni politicians, who struggle to find a minority voice in the new order to maintain political relevance. Shiites and Kurds now dominate national politics in Iraq, whereas the Sunnis were in power under the Saddam Hussein regime. The Sunnis were further sidelined when they boycotted the 2005 elections, a decision many politicians now say was a mistake. Sunni ministers rejoined the government this past summer, but their relationship with the Shiite-dominated government has been volatile.

During another meeting Tuesday night, party leaders agreed to a Sunni demand to put the security pact up for a national referendum next July, when voters could decide whether security had improved enough to cancel the agreement.

If Iraqis decided to reject the deal, it would trigger the cancellation clause in the agreement, which states the pact "shall terminate one year after a Party provides written notification to the other Party to that effect." That means U.S. troops would leave by mid-2010, a timeframe pushed by President-elect Barack Obama during his campaign, instead of the end of 2011 date called for in the agreement.

In a bow to another Sunni request, political leaders also agreed to reforms that would enhance power sharing and guarantee the release of thousands of detainees, among other terms. Sunni lawmakers, led by Vice President Tariq al-Hashimi, pushed for the referendum and political reforms as a condition for their support of the pact.

The two biggest blocs in parliament, the Kurdish Alliance and the Shiite United Iraqi Alliance, say they had enough votes to pass the security pact by the required majority in the parliament. But the U.S. and Iraqi government want a broad consensus on the agreement, a condition also called for by the revered Grand Ayatollah Ali al-Sistani.

"We still think it will be resolved," said United Iraqi Alliance lawmaker Sami al-Askary, who is also an adviser to Prime Minister Nouri al-Maliki. "It will be difficult to cancel de-Baathification but we will try to find a solution."

Negotiations for the security pact began in earnest in March and faced numerous setbacks. U.S. officials have warned Iraqi officials that without an agreement, U.S. troops would no longer have a legal basis to be in Iraq. As a result, American forces would have to begin shutting down operations as a precursor to a full withdrawal.

# Obama offers pep talk, names Volcker to panel

By Douglas Belkin And Jonathan Weisman

CHICAGO—President-elect Barack Obama sought to reassure anxious Americans preparing for the biggest shopping day of the year that "help is on the way" and that the country's "future is bright if we make good decisions."

The pep talk about the resiliency of the U.S. economy came after Mr. Obama announced the appointment of former Federal Reserve Chairman Paul Volcker to lead a new White House advisory board tasked with helping to lift the nation from recession and stabilize financial markets.

Flanked by University of Chicago economist Austan Goolsbee, also named to the board, and Mr. Volcker, Mr. Obama acknowledged that families are feeling pinched going into the holiday season and that may affect their shopping budgets. He cautioned against a pullback so drastic that would lead to a "downward spiral."

"What we want to do is to be sober, to be clear, to recognize that we've got some real adjustments that have to be made," Mr. Obama said. "That's true...in individual business. It's true in terms of individual family budgets. It's also true for the economy as a whole."

Friday, the day after Thanksgiving, is the traditional start of the U.S. holiday-shopping season.

Mr. Obama defended himself against criticism that he is failing to live up to his campaign promise of "change" by bringing in former Clinton administration officials and longtime Washington insiders such as Lawrence Summers and now Mr. Volcker.

Mr. Obama said that experience in a previous Democratic administration—or any other—shouldn't preclude someone from a job in his administration. "We need people who are going to be able to hit the ground running," he said. "I think that when you ultimately look at what this advisory board looks like, you'll say this is a cross-section of opinion that in some ways reinforces conventional wisdom, in some ways breaks with orthodoxy in all sorts of ways," he said.

The new Economic Recovery Advisory Board is designed to keep in check the tendency for Washington policy-making to become ingrown and insular, Mr. Obama said. It is modeled on the Foreign Intelligence Advisory Board established by then-President Dwight Eisenhower in 1956, at the height of the Cold War, when officials worried that the existing bureaucratic structure was inadequate to help the U.S. keep pace with the Soviet threat. The financial crisis has drawn similar worries that the government isn't properly organized to monitor and respond to modern financial markets.

"This board will provide that fresh perspective to me and my administration with an infusion of ideas from across the country and from all sectors of the economy, input that will be informed by members' first-hand observations of how our efforts are impacting the daily lives of our families," Mr. Obama said.

The board's tasks will be broad: to help design and implement short-term programs to jump-start the economy, raise wages and living standards and confront the housing crisis. It will also address the delicate task of bolstering Washington's oversight of the financial markets in the wake of a Wall Street collapse that has taken down many of its most venerable institutions.

Obama advisers have promised a streamlined but tougher regulatory regime that would force more transparency onto hedge funds and private-equity firms, while regulating the trading of exotic instruments such as credit default swaps that helped precipitate the current crisis.

After his election, Mr. Obama was reluctant to assert too much authority on the economy before his inauguration, worried that he would be blamed for the crisis before he had the power to resolve it, Obama aides have said. But with markets remaining fragile, the Obama team decided it couldn't wait until the Jan. 20 swearing in to begin acting to offer some reassuring clarity about who will manage economic policy next year.

Monday, Mr. Obama introduced the central figures of his economic team, Treasury Secretary-nominee Timothy Geithner, Mr. Summers as National Economic Council director, and Christina Romer, who will be chair of his Council of Economic Advisers. Tuesday, he pledged long-term fiscal restraint while standing next to his budget director, Peter Orszag.

Wednesday's event was more of a surprise, but with it, Mr. Obama has found a place for the former Fed chairman who is largely credited with halting inflation in the early 1980s. Since the financial crisis erupted in September, Mr. Obama has leaned heavily on the 81-year-old Mr. Volcker for advice.

"He pulls no punches," Mr. Obama said of Mr. Volcker. "He seems to be fairly opinionated."

# Greenland voters back autonomy

Associated Press

COPENHAGEN—Voters in Greenland overwhelmingly approved a plan to seek more autonomy from Denmark and to take advantage of oil reserves that may lie off the glacial island, official results showed Wednesday.

The Arctic island's election commission said 76% of voters supported the plan, which sets new rules on splitting future oil revenue with Denmark. The vote was seen as a key step toward independence for the semiautonomous territory, which relies on Danish subsidies.

The referendum, supported by Denmark, calls for the small, mostly Inuit population to take control over the local police force, courts and coast guard and to make Greenlandic, an Inuit tongue, the official language.

About 72% of Greenland's nearly 40,000 voters (of a population of about 57,000) turned out despite subfreezing temperatures in many places. The plan is now expected to be approved by the Danish and Greenlandic parliaments and go into effect on June 21, the giant island's national day.

Drilling for oil and gas in the deep ocean off Greenland's west coast resumed in 2001, three decades after a previous effort failed to find petroleum. Exploration so far has been unsuccessful, but other countries in the northern region are staking their claims to natural resources exposed by the melting of the Arctic ice cap.

The plan is meant to allow the eventual phasing-out of an annual Danish subsidy of about 3.5 billion kroner ($588 million), which accounts for two-thirds of the island's economy. It would give Greenland the first 75 million kroner of annual oil revenue. Any income beyond that would be shared equally between Greenland and Denmark.

# Iran expands its uranium capacity

Associated Press

TEHRAN—Iran has more than 5,000 centrifuges at its uranium-enrichment plant, Iran's nuclear chief announced Wednesday, in the country's latest defiance of U.N. demands that it halt the program.

Vice President Gholam Reza Aghazadeh, said Iran will continue to install centrifuges and enrich uranium to produce nuclear fuel for the country's future nuclear power plants. "At this point, more than 5,000 centrifuges are operating in Natanz," said Mr. Aghazadeh, who also is head of the Atomic Energy Organization of Iran.

Uranium enriched to low level is used to produce nuclear fuel. Further enrichment makes it suitable for use in nuclear weapons.

The U.S. and some of its allies accuse Iran of seeking to build nuclear weapons. Tehran denies the claim and insists it has the right under the Nuclear Nonproliferation Treaty to enrich uranium and produce reactor fuel. The new number of working centrifuges is a significant increase from the 4,000 Iran said were up and running in August at the plant in the central Iranian city of Natanz.

The U.N. Security Council has already imposed three rounds of sanctions on Iran for its refusal to freeze the uranium-enrichment program.

Iran has said it plans to move toward large-scale uranium enrichment that will ultimately involve 54,000 centrifuges.