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Mr. President, please fix air-traffic-control systems

MARKETPLACE | PAGE 28

U.S. investigates off-road vehicles as mishaps mount

NEWS IN DEPTH | PAGES 16-17

What's News—

Business & Finance

The Danish government plans to push for a national vote on whether to adopt the euro and abandon Denmark's currency, the krone, showing how the global financial crisis has begun to change views on the EU's common currency. Page 1

■ **The ECB is expected** to make a deep cut in interest rates based on a steep drop in oil prices. Page 2

■ **Crude-oil prices surged** as the dollar lost value against rivals and OPEC's output cuts appeared to take hold. Page 24

■ **U.S. stocks posted** the biggest presidential Election Day gain on record. European shares rose for a sixth straight session. Page 20

■ **The EU's antitrust regulator** outlined objections to BHP Billiton's planned takeover of fellow miner Rio Tinto. Page 31

■ **Royal Bank of Scotland** said it could suffer its first annual loss this year as write-downs weigh on earnings. Page 3

■ **UBS eked out** a profit, but some of the factors that helped it do so will be reversed this quarter. It is expected to post a fourth-quarter loss. Page 3

■ **Swiss Re posted** a surprise net loss on write-downs and high catastrophe claims. It will halt its share buyback. Page 3

■ **BMW will hasten** production cuts as demand wilts. The luxury-car maker reported a 63% drop in quarterly profit. Page 6

■ **Marks & Spencer's profit** fell 43% for its first half on flat sales, as consumers defected to less-expensive rivals. Page 7

■ **Richard Li is leading** a $2 billion effort to acquire the rest of Hong Kong fixed-line operator PCCW, but the deal faces a potential shareholder fight. Page 23

■ **Swedbank became the first** to participate in Sweden's guarantee plan, which requires participants to cap bonuses and freeze executive salaries. Page 3

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	9625.28	+305.45	+3.28
Nasdaq	1780.12	+53.79	+3.12
DJ Stoxx 600	233.50	+10.12	+4.53
FTSE 100	4639.50	+196.22	+4.42
DAX	5278.04	+251.20	+5.00
CAC 40	3691.09	+163.12	+4.62
Euro	$1.2982	+0.0225	+1.76
Nymex crude	$70.53	+6.62	+10.36

Money & Investing > Page 19

World-Wide

Americans surged into polling places across the U.S. in likely record numbers to cast ballots in a presidential election perceived as deeply historic across the political spectrum. Democrats hoped to deepen their majorities in both chambers of Congress, riding on Obama's popularity. McCain acknowledged he had an uphill fight but was still confident of victory. Pages 1, 10

■ **Georgia used cluster bombs** that malfunctioned and fell into towns, killing several of its own civilians during the summer war with Russia, Human Rights Watch researchers said. Page 11

■ **Congo rejected** a rebel leader's demand for direct talks to resolve the conflict in the east. Meanwhile, strife to the north is giving the shaky government another big challenge. Page 11

■ **U.S. Gen. Petraeus arrived** in Kabul to meet with Afghan leaders and U.S. military officials, after meetings in Pakistan.

■ **Iran's Parliament impeached** and dismissed the interior minister, a staunch ally of Ahmadinejad, for faking his higher-education degrees. Page 11

■ **Bombs exploded** at a bus station and a market in Baghdad, killing 15 people and injuring 29.

■ **China and Taiwan signed** a pact to sharply expand flights between them and allow direct shipping links. Page 11

■ **The head of the WTO**, Pascal Lamy, said he will seek a second term as director-general.

■ **Ministers from 43 nations** revived the Union for the Mediterranean, resolving a dispute over how the Arab League would function alongside Israel.

■ **The Vatican hosted** a forum for scholars from the Catholic and Muslim religions in a bid to improve strained relations.

■ **A Spanish official said** a son of bin Laden who married a British woman last year flew to Madrid and requested asylum.

■ **At least 40 people died** when a Philippine ferry packed with commuters overturned while being buffeted by monsoon winds.

■ **Colombia's army chief** resigned in the wake of a scandal over the killings of civilians presented as rebels slain in combat.

EDITORIAL & OPINION

War by other means

NGOs use frivolous lawsuits to tie Israel's hands against terrorists. Page 14

Dangers beyond Iraq will test new U.S. leader

Afghanistan, Iran and Pakistan pose security concerns

By Gerald F. Seib

CAPITAL JOURNAL

In a U.S. election year filled with the strange and inexplicable, it's now time to add this post-election twist: Though the presidential campaign that just ended focused on Iraq—to the extent it focused on national security at all—the new president's early foreign-policy tests are likely to come elsewhere.

Specifically, his initial challenges will lie in Afghanistan, Pakistan and Iran.

After all the sound and fury of the early campaign-season debate on Iraq, the situation there now feels oddly settled. Iraq's security situation has improved, and the question of whether it has done so largely because of President George W. Bush's troop surge, or equally because of help from friendly sheikhs and better intelligence used to root out bad guys, can be left to the history books to sort out.

For the new president, the real-

Please turn to page 31

Government affairs

■ Pakistan's president calls on Saudi Arabia for financial aid ...12

■ Follow election results across the U.S. ....WSJ.com coverage

Associated Press (2)

Sen. **John McCain**, left, casts his ballot in Phoenix on Tuesday, while Sen. **Barack Obama**, left, holds up an "I voted" receipt after voting in Chicago.

American voters crowd polls in massive turnout

Across the U.S., a tidal wave of citizens surged into school gymnasiums, town halls, church basements, county courthouses and countless other public places to cast ballots in a presidential election perceived as deeply historic across the political spectrum.

Hundreds of thousands of voters waited from long before daybreak or for hours on end to make their choices known.

By Evan Perez, Stephanie Chen and Paulo Prada

The exact percentage of voters who cast ballots can't be determined until final tabulations of all votes are completed. That will be days or weeks away, but nearly every indicator signaled that a historically high percentage of Americans participated.

Almost 45 million voters had already cast ballots before Tuesday in early voting. Nearly 95 million more were expected on Election Day. Michael McDonald, a politics professor at George Mason University, predicted nearly 65% of the electorate would have voted by the time all polls closed—matching or eclipsing the turnout in the presidential election of 1960 featuring candidates John F. Kennedy and Richard Nixon. Not since 1908, when the U.S. was convulsing through a dramatic shift from the machine party politics of the 19th century to the wide-open melodrama of modern public campaigns have so large a proportion of Americans participated in a presi-

Please turn to page 31

Danes to push national vote to adopt euro

By Marcus Walker

Denmark's government said it would push for a national vote on whether to abandon its currency and adopt the euro, showing how the global financial crisis has begun to change views on the European Union's common currency.

Until a few months ago, many Europeans blamed the not-quite-decade-old euro for stifling economic growth in much of the 15-nation currency zone. But as financial turmoil pounds smaller European economies that still have their own currencies, the relatively stable euro has begun to look like a safe haven.

"It's quite obvious we're paying a price for being outside the euro," Danish Finance Minister Lars Loekke Rasmussen said Tuesday. Prime Minister Anders Fogh Rasmussen said the government would

Please turn to back page

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THE WALL STREET JOURNAL.

LEADING THE NEWS

EU cools regulatory goals

As finance ministers meet, cooperation trumps grand design

By Adam Cohen

Associated Press

German Finance Minister **Peer Steinbrück**, right, seen here with French Finance Minister Christine Lagarde, said his country's economy faces a difficult time in 2009.

BRUSSELS—The European Union is scaling back its ambitions to reshape the global economic order, favoring changes such as boosting cooperation among regulators and increasing funding for International Monetary Fund bailouts, according to a French government proposal, a recommendation from the Dutch government and two senior EU officials.

Last month, when several large banks were on the brink of collapse, French President Nicolas Sarkozy was talking of "re-founding" capitalism and U.K. Prime Minister Gordon Brown was saying the IMF should be remade as the "global central bank" envisioned in the Bretton Woods Agreements of 1944.

Those grander designs had been dropped from proposals circulating as EU's finance ministers met in Brussels on Tuesday, trying to form a common European negotiating position ahead of a Nov. 15 meeting in Washington on changes to the international financial system.

The French government, which holds the bloc's rotating presidency, wants a "supervisory college" to monitor large financial companies that operate across borders. A senior EU official said the U.S., China and other countries aren't likely to agree to an international overseer for multinational companies, an idea Mr. Brown suggested in October. France's proposal would limit the college to the EU, monitoring the 42 or so companies considered crucial to the bloc's financial system.

Mr. Brown's proposal to make the IMF a powerful international regulator and financier has also been watered down in the French proposal, which says the IMF should be "more strongly legitimated" and give large emerging economies like China and India a stronger role.

The EU states also want a new IMF financing facility to provide quick support to well-run countries that face financing difficulties as a result of the global credit crunch, but without its usual set of conditions and required reforms. It will suggest setting up a new fund of about $125 billion, a senior EU official said, less than the hundreds of billions of dollars Mr. Brown has called for.

The EU wants countries in Asia and the Middle East to provide some of this money in return for a greater say in how the IMF is run.

The ministers at the Brussels meeting have also been switching their attention toward the threat of recession and away from the credit crunch. Sweden said its center-right government's privatization drive has been effectively halted by the global turmoil, and noted that it was likely government spending, which recently has run at a surplus, would turn to a deficit without proceeds from the sale of its stakes in companies such as **TeliaSonera** AB and Nordic financial institution **Nordea Bank** AB.

Meanwhile, Spain blamed the financial crisis for the rise of unemployment in October to record levels. More than 190,000 out-of-work people filed new claims with the state employment agency in October, boosting the total 7.3% on the month, data from the Spanish Labor Ministry showed Tuesday.

With Spain's construction sector hobbled by a housing slump, more than 2.8 million unemployed people are now registered with the employment agency, the highest number in a government data series dating back to 1997.

—Emma Charlton, Jonathan House and Joel Sherwood contributed to this article.

Irish yields rise as strain builds within euro zone

By Emese Bartha And Terence Roth

FRANKFURT—Ireland has joined the ranks of countries forced to pay buyers of its debt premiums of more than a percentage point over comparable German bonds in order to overcome the strains of the euro-zone bond market.

Irish government 10-year bond yields on Tuesday were trading at 1.06 percentage points over comparable German bonds, which are the benchmark for the region. Greece and Italy have already been forced to pay premiums of more than a percentage point to attract investors.

The recent price movements come from an array of causes, including low liquidity and volatile markets for credit default swaps. But risk aversion within the 15-country euro zone is also rising as public finances in some countries come under more strain than in others.

"Demand for Irish bonds is very weak. Extra concession is needed," said David Schnautz, a strategist at Commerzbank. Hesitant investors are also forcing the Irish government to move up yields on shorter-term debt of three years or less.

The gap—or spread—between the yields on Irish and comparable German bonds widened sharply from Friday's level of 0.91 to 0.92 percentage point after the European Commission on Monday predicted a two-year contraction for the Irish economy. The combination of lower revenues and high expenditures is expected to widen Ireland's general government deficit to 7.25% of gross domestic product in 2010 from 5.5% in 2008, the commission said.

The outlook for government borrowers is complicated by a flood of new issuance that analysts expect to result from recession-swelled public-sector borrowing. This would leave euro-zone members fiercely competing for funding.

"Next year the euro zone will come to a test, with economic slowdown and deteriorating public finances," said Luca Cazzulani, a strategist at UniCredit. "Investors will pay more attention to country-specific factors. This may put some additional pressure on spreads."

ECB is expected to slash rates

By Monica Houston-Waesch And Paul Hannon

FRANKFURT—Bankers and economists are predicting a deep rate cut by the European Central Bank on Thursday, a survey showed, as new data show that the steep fall in oil prices is driving down costs for businesses and households in the 15 countries that use the euro.

In a survey of 47 financial institutions, 44 of those polled said the ECB would repeat its move in October to ease by 50 basis points, bringing the key refinancing minimum bid rate to 3.25% from 3.75% now.

The ECB signaled last week that it may follow the U.S. Federal Reserve and other central banks by cutting key refinancing rates. That has left analysts debating how large that cut might be. Though the ECB joined the U.S. Federal Reserve in cutting rates a half point on Oct. 8, the bank refrained from cutting last week, when the Fed slashed its key rates to 1%, and central banks in China, Norway and Taiwan followed suit. Mounting evidence now suggests that growth is retreating and will continue to do so into 2009, giving the ECB some assurance that it will be safe to cut rates—and that the slowing economy needs a boost.

The annual rate of consumer-price inflation in much of the developed world fell for the second straight month in September as energy prices eased, according to data from the Organization for Economic Cooperation and Development. The Paris-based research organization said the annual rate of inflation in its 30 member countries fell to 4.5% in September from 4.7% in August and 4.8% in July, which was an 11-year high.

Euro-zone producer prices also fell for the second month in a row in September. The prices had peaked in July to a record 9.2%, but sank in August.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

New RBS chief vows to cut risk

Hester anticipates reducing lending, recapturing 'success'

By Sara Schaefer Muñoz

LONDON—The new chief executive of **Royal Bank of Scotland Group** PLC is planning to shrink the embattled U.K. bank's operations amid declining profits and mounting write-downs.

The Edinburgh-based bank, one of three U.K. institutions receiving a capital injection under a government bailout plan, said it expects to turn in the first full-year loss in its history this year.

Incoming Chief Executive Stephen Hester, who will take over later this month before CEO Sir Fred Goodwin leaves in January, said the bank already had begun a strategic review aimed at cutting back on risk.

The review, he said, would likely lead to a reduction in the bank's lending and investments. RBS had expanded under Sir Fred from a domestic player into a large global institution with a presence in Europe, the U.S., Asia, Africa and Latin America.

"We are determined to rebuild the success story of RBS," Mr. Hester said. He wouldn't say what areas of the bank might be reduced or sold, but said "I certainly don't have a gun aimed at good-quality customer business in whatever area."

The bank reported write-downs of £200 million ($316.9 million) on souring credit-market investments in the third quarter, on top of £5.9 billion in write-downs in the first half of the year. The third-quarter write-downs would have been £1.4 billion were it not for new accounting rules that allowed the bank to reclassify some holdings as long-term investments.

Reuters

The bank has numerous retail and wholesale operations worldwide it could look at as it aims to scale back its books.

Analysts suggest that selling all or parts of RBS Greenwich Capital, the bank's U.S.-based investment-banking unit, would be one possibility.

RBS could cut back and raise money in other areas as well. It is in negotiations about its 4.26% stake in the **Bank of China**, which it had agreed to hold until the end of this year. A person familiar with the matter said RBS may choose to renegotiate the terms of the investment rather than sell.

RBS Chairman Tom McKillop offered a bleak outlook in a financial update Tuesday, saying that an accelerated economic slowdown, together with further market turmoil, would lead to losses in the fourth quarter.

Analysts say the bank also could face impairment charges on acquisitions such as last year's buyout of Dutch bank ABN Amro Holding NV, as well as an increase in nonperforming loans as the U.K. and U.S. economies struggle.

"The fourth quarter is clearly going to be very painful," says Simon Adamson, a senior analyst at research firm CreditSights in London.

RBS confirmed its plans to sell £15 billion in ordinary shares, in addition to the £5 billion in preferred shares it will sell to the U.K. government as part of a broader financial rescue package. The bank needs to raise money to meet new U.K. government targets for the capital cushions banks maintain to protect against losses.

Mr. Hester tried to assuage investor concerns about one of the more onerous conditions of the government bailout, which places a ban on dividends to ordinary shareholders until the government's preferred shares have been repaid. Mr. Hester said Tuesday the bank's goal was to resume dividend payments in 2010.

UBS charges to spur loss in quarter

By Katharina Bart

ZURICH—**UBS** AG is expected to post a loss in the fourth quarter after the bank forecast it could take six billion Swiss francs ($5.1 billion) in charges, including some resulting from the Swiss government's rescue package.

The bank, among the worst hit by the credit crisis, Tuesday reported a third-quarter net profit, as expected, but some of the factors that helped it do so, such as a gain on its own credit, are expected to reverse course this quarter. The two main disappointments for analysts in the third quarter were developments at UBS's investment bank, which narrowed its loss before taxes amid $4.4 billion in write-downs, and outflows of assets from UBS's private bank.

The private bank, the world's largest, continues to see its wealthy clients withdraw money because of concern over the bank's write-downs, which now total some $46 billion, as well as a U.S. Justice Department investigation into allegations it helped clients evade U.S. taxes. A total of 83.7 billion francs in client funds left the bank in the quarter.

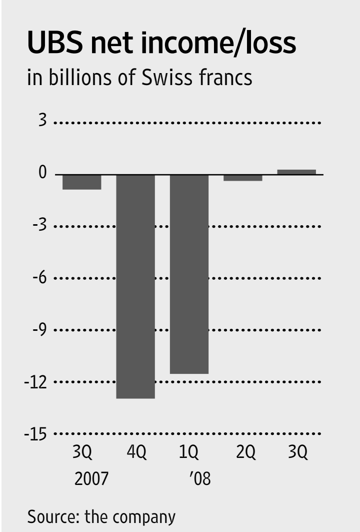
"The company still faces headwinds from reputational damage," said Matt Clark, a London-based analyst with Keefe, Bruyette & Woods.

While the bank said the outflows from what is meant to be its flagship business were "disappointing," UBS said it has seen an improvement since the Swiss government and central bank stepped in with financial aid. Clients are also moving and selling assets as they reduce their leverage, as well as spreading their money among several banks, it said.

UBS said it would update investors on its private bank at a Nov. 27 meeting at which shareholders will vote on the government assistance plan and debate executive pay.

UBS swung to a third-quarter net profit of 296 million francs from a loss of 858 million francs in the year-earlier period. Results were bolstered by 2.21 billion francs in gains on the credit spreads on the bank's own debt and a tax credit of 913 million francs. The stock closed up 4% at 19.70 francs.

Under the bailout plan, the Swiss government will assume up to $60 billion in illiquid assets from UBS. Roughly $50 billion in subprime, Alt-A and other securities will be transferred to the Swiss National Bank by the end of 2008, with the remainder to follow early next year, the bank said. The deal will lead to a charge of four billion francs in the fourth quarter, John Cryan, the bank's chief financial officer, said in an interview.



Swedbank is first to tap Swedish government aid

By Anna Molin

STOCKHOLM—**Swedbank** AB said it will participate in the Swedish government's guarantee plan, just a week after announcing a 12.4 billion Swedish kronor ($1.59 billion) rights issue.

The bank is the first Swedish bank to apply for the state's 1.5 trillion kronor guarantee program, which is voluntary and requires participating banks to cap bonuses and keep the salaries of a company's top five employees at current levels.

"We think this is a good solution to ease the abnormal market situation," Swedbank spokesman Thomas Backteman said.

Under the plan, the government guarantees bonds and certificates with maturities between 90 days and three years. Banks can decide which bonds they want the state to cover.

"We will go over our financing structure and evaluate which instruments we are interested in attaching to the guarantee," Mr. Backteman said, adding that the final cost of participating in the plan will depend on price developments in financial markets.

Swedbank's application is no surprise since its funding costs have shot higher than those of many of its peers in the wake of the financial crisis, said independent bank analyst Mats Anderson.

"The government presented its guarantee scheme for two reasons: One was to create a financial-stability plan in step with the EU, and the other was Swedbank," Mr. Anderson said. "This solves its financing problems, but Swedbank still has to pull through in the face of higher actual credit losses in the Baltics."

Shares in Swedbank rose on the news, trading up 15% at 74 kronor in late trading, outperforming a 3.2% increase in the broader Stockholm market. The bank's stock has lost 44% of its value in the past three months on concerns that it has invested too much of its own capital in emerging markets, such as Estonia and Latvia, both of which dipped into recession this year, and the Ukraine, which is mired in political conflict and was bailed out by the IMF last month.

Separately, Swedbank announced that it has launched the process to recruit a successor to Chief Executive Jan Liden, who will retire in April when he turns 60.

Swiss Re posts net loss, hurt by write-downs

By Goran Mijuk

ZURICH—**Swiss Reinsurance** Co., one of the world's biggest reinsurers, Tuesday swung to a surprise third-quarter net loss on steep investment charges and high catastrophe claims, and said it will suspend its multibillion Swiss franc share buyback because of the continuing financial crisis.

For the three months ended Sept. 30, Swiss Re posted a net loss of 304 million francs ($258.9 million), compared with a net profit of 1.47 billion francs a year earlier. It is its first loss in almost six years.

The results fell sharply below analyst estimates of a profit of 100 million francs, as the reinsurer's earnings were hit by losses linked to hurricanes Ike and Gustav as well as fresh markdowns on its credit-default swaps, a form of insurance against defaults on all sorts of debts.

The company recorded write-downs on investments of 572 million francs in the third quarter. It also reported a 289 million-franc unrealized mark-to-market loss on credit-default swaps.

Swiss Re has been hit harder than rivals by the financial crisis because of its CDS exposure among other assets in its portfolio. The company has already booked write-downs of about $3 billion over the past year.

The net loss comes amid growing concern insurers will face substantial losses on bonds and stocks. Already, in the U.S., insurers can take part in the government rescue program, and others around the world may need help propping up their balance sheets, analysts say. Of particular concern are insurers with a high exposure to the struggling U.S. life-insurance market.

Netherlands-based insurer **Aegon** NV, which owns U.S. insurer Transamerica, last month tapped a Dutch government fund to bolster its battered balance sheet, while **Zurich Financial Services** AG and **Hannover Re**, which have waived government help, warned of write-downs and catastrophe charges.

In the U.S., where insurance giant **American International Group** Inc. was saved by a government bailout, insurers such as **MetLife** Inc. have had to increase capital. **Hartford Financial Services Group** received a cash injection from Germany's **Allianz** SE.

In a move to hold onto more capital, Swiss Re said it is suspending its 7.75 billion-franc share-buyback program. "A share buyback isn't the smartest thing to do in these markets," Chief Financial Officer George Quinn said. While he didn't rule out resuming the buyback once markets recover, he said the company will attempt to use its current capital to boost earnings. He declined to give a full-year outlook.

Analysts said the company, which has a double-A rating from Standard & Poor's, is well capitalized and that suspending the buyback was a good move. Mr. Quinn said Swiss Re's excess capital totaled about five billion francs.

"Liquidity is strong and capital-raising is not on the agenda; this is not the sign of a distressed company," Citigroup said in a note to clients.

Swiss Re shares closed 11% higher in Zurich.

CORPORATE NEWS

Lenovo goes global, with bumps

Chinese firm's deal for IBM unit created opportunity, clashes

By Jane Spencer
And Loretta Chao

EyePress News/AFP

Cultural clashes between CEO Bill Amelio, left, and Chairman Yang Yuanqing, center, threatened early on to derail Lenovo's efforts to expand its global reach.

BEIJING—As recently as 2005, **Lenovo Group** Ltd. was a little-known computer maker that sold only in China, sometimes relying on deliverymen on bicycles.

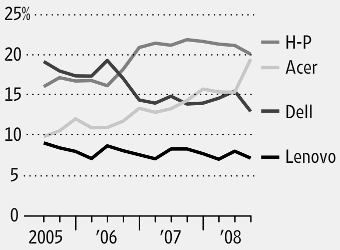
Its acquisition of IBM's personal-computer business catapulted Lenovo onto the world stage: Now about 60% of the company's sales come from outside China, and it is the fourth-biggest computer maker by shipments.

Lenovo has filled its ranks with Westerners from IBM and **Dell** Inc., opened factories in Mexico and Poland, and gone on an Olympics-led marketing blitz. While Lenovo has fared better than other Chinese companies that have tried to become global players, it has fallen behind competitors in the PC industry.

Lenovo's computer shipments rose 8% in the third quarter, but its

Lenovo lags

Global market share for laptops since Lenovo acquired IBM's PC unit



Source: IDC

growth was eclipsed by the overall market, which grew nearly twice as fast. That left Lenovo's global market share at 7.3%, down from 7.8% a year ago, according to research firm Gartner.

Analysts have scaled back their expectations for Lenovo, which reports its quarterly earnings on Thursday. Morgan Stanley, for example, expects a weak quarter and now projects Lenovo's net income will fall 20% in the current fiscal year, the first year of decline since the IBM PC acquisition, which was completed in May 2005.

In the early days after the IBM deal, cultural clashes and power struggles nearly derailed the Chinese computer maker's aggressive strategy to become a world player, say current and former executives. Now the company's global ambitions must confront the economic malaise in the U.S. and Europe—two markets that were central to its expansion plans.

Lenovo's $1.25 billion deal to buy the PC arm of **International Business Machines** Corp. gave it brand credibility, a global sales force and access to Western management skills. In turn, investors hoped, Lenovo's low-cost structure in China would bring new efficiency to the IBM business, which had been unprofitable for years.

"We knew we could not fail," says Mary Ma, a Lenovo director and former chief financial officer. "Not just for us, but for all of China. They viewed us as a symbol of a Chinese company going global, and we felt a great responsibility."

Before the deal, Lenovo's business culture was steeped in militaristic discipline. At the China headquarters in a dusty industrial park in northwestern Beijing, calisthenics were broadcast twice daily over the public-address system. Employees who arrived late to meetings were humiliated by having to stand in front of the room while other executives went silent and bowed their heads for a full minute.

After the takeover, Lenovo Chairman Yang Yuanqing gave up the chief-executive position to a Western executive, and switched the company's official language to English.

Still, the culture clashes persisted. Bill Amelio, a former Dell executive who became Lenovo's CEO in late 2005, was sometimes frustrated by his Chinese colleagues' reluctance to speak their minds.

"You don't want everyone saying 'Yes, Yes, Yes' all the time," says Mr. Amelio, a brawny former college wrestler. "You want them to be able to smack you upside the head and say 'Hey, I've got a better idea.'"

Conference calls were difficult as Americans hogged the airtime. "The Americans would just talk and talk," says Qiao Jian, a vice president of human resources. "Then they'd say 'How come you don't want to add value to this meeting?'"

Working closely with Mr. Yang, Mr. Amelio ordered two major restructurings that have slashed more than 2,400 jobs, which amount to roughly 10% of the company's current global work force. Lenovo also shifted jobs to lower-cost areas. Development of desktop computers has been shifted to Beijing, while Lenovo's marketing headquarters have been moved to Bangalore, India.

While IBM had focused on selling laptops to businesses, Lenovo is aggressively expanding into the cutthroat consumer market despite the souring economy. Last month, Lenovo began selling a $399 mini-laptop called the IdeaPad S10—its first foray into the fast-growing "netbook" market.

"If you think about going after the next billion computer users, this is a great way to do it," says Mr. Amelio. "While we're a bit late to the party, it's still not late enough not to be in the game."

At the same time, **Hewlett-Packard** Co., the biggest of Lenovo's competitors, is making international-market gains, **Apple** Inc. has revitalized its Macintosh business, and fast-growing Taiwanese rival **Acer** Inc. surpassed Lenovo as the third-largest PC maker by units shipped by acquiring Gateway Inc.

To streamline its supply chain, Lenovo has shifted more manufacturing to new factories outside of Asia. In October, it opened a 260,000 square-foot plant in Monterrey, Mexico. While shipping a PC to the U.S. from China can take 30 days, shipping from Mexico takes just three or four.

Lenovo's global supply network was a problem since the beginning of the marriage. "It looked like spaghetti," says Gerry Smith, senior vice president, global supply chain. While rivals such as Dell could deliver a PC within days, Lenovo deliveries sometimes took weeks or months.

But the early efforts to fix the supply chain sparked an internal backlash. Because Mr. Amelio felt the efforts weren't moving fast enough, he removed a popular Chinese executive, Liu Jun, as head of Lenovo's supply chain in 2006 and replaced him with an executive from Dell.

Mr. Liu, who was given a sabbatical to study in the U.S., had long been viewed as a rising star. His removal from a senior position inflamed tensions. Two other Chinese executives quit shortly after.

"The Chinese staff wondered if they were needed anymore at this company," says Mr. Yang.

The friction over Mr. Jun's departure—he has since returned as senior vice president of Lenovo's consumer business—was a "catalytic moment" for Lenovo, says Ken DiPietro, senior vice president of human resources. "We had people derailing. And we were starting to see factions develop."

In fact, tension had been brewing from the beginning. Salary has been one major point of contention. After the IBM acquisition, many Americans far outearned their Chinese peers, even though the Chinese arm was profitable and the American arm wasn't.

"I was the CFO and my subordinates were making far more than me," says Ms. Ma, the former financial chief.

At IBM, base compensation accounted for roughly 80% of salary, and performance-based bonuses about 20%. That meant Americans could miss targets and still get paid decently. For the Chinese managers, pay was almost entirely performance-based.

The company, which rotates its headquarters between Paris, Beijing and Raleigh, N.C., says it has narrowed the gap in compensation structures for senior executives.

Bridging the East-West divide also has included smaller efforts. Silkworms have been taken off the menu in the Beijing cafeteria. Sports metaphors, which were a source of confusion, have been banned from conference calls.

Confusion over the meaning of silence was another problem. "When we disagreed in meetings, we would keep silent," says Chen Shaopeng, president of Lenovo's China operations. "But the Americans assumed we were agreeing."

This spawned system of back-channel communications that eroded trust between top executives. After staying quiet in meetings, Chinese executives would often voice their complaints privately to Mr. Yang or Mr. Amelio, in what the Americans called "end runs."

Peter Hortensius, senior vice president of the notebook business, recalls being furious when he found out a Chinese colleague had reported a minor quality problem with a computer shipment directly to the chief executive, without informing him first. "I was going, 'Why the heck did he go behind my back on this one?'" says Mr. Hortensius.

The colleague was trying to be polite. In Chinese companies, executives often take problems to a boss instead of a colleague of similar rank to maintain harmony.

Much of the cultural work has involved the 20 or so executives on Lenovo's senior leadership team. They have been spending more time together socially and playing ping-pong tournaments during meeting breaks.

Last December, the executives met in Laguna Beach, Calif., to discuss issues that had eroded trust among senior managers. After two days of confrontations, they agreed to ban "end runs" and set new rules for executive meetings, according to several attendees. Westerners were each limited to five minutes of talking, while Chinese executives would be allowed to speak for 10 minutes.

—Juliet Ye in Hong Kong and Gao Sen in Beijing contributed to this article.

Suit over Bhopal leak is revived

A WSJ News Roundup

A lawsuit against Union Carbide Corp. by people who say they suffered health problems after a 1984 toxic-gas leak in Bhopal, India, has been reinstated.

The Second U.S. Court of Appeals in New York sent the lawsuit back to a Manhattan federal-court judge for further proceedings.

A three-judge appellate panel found that the lower court had erred by granting the defendants' request for summary judgment before giving the plaintiffs the chance to gain access to certain pretrial documents and other data.

The gas leak at the pesticide plant in central India killed an estimated 3,800 people.

Union Carbide, now a unit of **Dow Chemical** Co., said it believes the claims ultimately will be dismissed.

Intel's new chip passes muster in early reviews

By Don Clark

Intel Corp.'s next big shift in chip design is receiving strong early reviews from Web sites that test computer hardware.

The first desktop PCs using a chip family called Intel Core i7—code-named Nehalem—were found to handle some computing chores 30% to 40% faster than other comparable Intel chips, according to test results published by Web sites. Performance gains were particularly impressive for tasks such as video encoding and rendering three-dimensional images, the sites said. Machines based on Core i7 chips weren't much faster for some games and other software. The machines also consume more power than some Intel chips.

Pricing for the chips ranges from $284 for a model that operates at 2.66 gigahertz to $999 for an "Extreme Edition" model for gamers that operates at 3.2 gigahertz.

The Core i7 gets its speed from a series of major design changes that exploit Intel's advanced production processes—including a feature called an integrated memory controller that was pioneered by rival **Advanced Micro Devices** Inc. Each chip has the equivalent of four calculating engines and has a pipeline to fetch data from memory chips with more than twice the capacity of prior chips, said Steve Smith, an Intel vice president and director of operations for its digital enterprise group.

AMD is reserving its next performance boost for servers. It is expected to introduce a chip this month, code-named Shanghai, that is its first to adopt a sophisticated manufacturing process that Intel already uses for many of its products.

Apple to lose senior executive for iPod, iPhone

By Yukari Iwatani Kane

Apple Inc. is losing one of its key technology executives.

Tony Fadell, a senior executive who was instrumental in the development of the iPod, is leaving Apple for personal reasons, people familiar with the matter said. Mark Papermaster, a former executive for **International Business Machines** Corp., will be joining Apple later this month to succeed Mr. Fadell, these people said.

Mr. Fadell is the senior vice president of Apple's iPod division, which designs the popular digital-music players. He was also part of the executive team involved in the development of the iPhone, which has become the fastest-growing part of Apple's business.

People familiar with the matter said Mr. Fadell planned to take time off after leaving the company though he may still keep a role at Apple as a consultant.

A spokeswoman for Apple, Cupertino, Calif., said the company doesn't comment on "rumors and speculation."

Messrs. Fadell and Papermaster couldn't be reached to comment. IBM sued Mr. Papermaster last month, alleging he breached a noncompete agreement that he had signed.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DAVID J. O'REILLY
CHAIRMAN & CEO
CHEVRON CORPORATION
Energy will be one of the defining issues of this century. One thing is clear: the era of easy oil is over. What we all do next will determine how well we meet the energy needs of the entire world in this century and beyond.
Demand is soaring like never before. As populations grow and economies take off, millions in the developing world are enjoying the benefits of a lifestyle that requires increasing amounts of energy. In fact, some say that in 25 years the world will consume about 50% more oil than it does today. At the same time, many of the world's oil and gas fields are maturing. And new energy discoveries are mainly occurring in places where resources are difficult to extract, physically, economically and even politically. When growing demand meets tighter supplies, the result is more competition for the same resources.
We can wait until a crisis forces us to do something. Or we can commit to working together, and start by asking the tough questions: How do we meet the energy needs of the developing world and those of industrialized nations? What role will renewables and alternative energies play? What is the best way to protect our environment? How do we accelerate our conservation efforts? Whatever actions we take, we must look not just to next year, but to the next 50 years.
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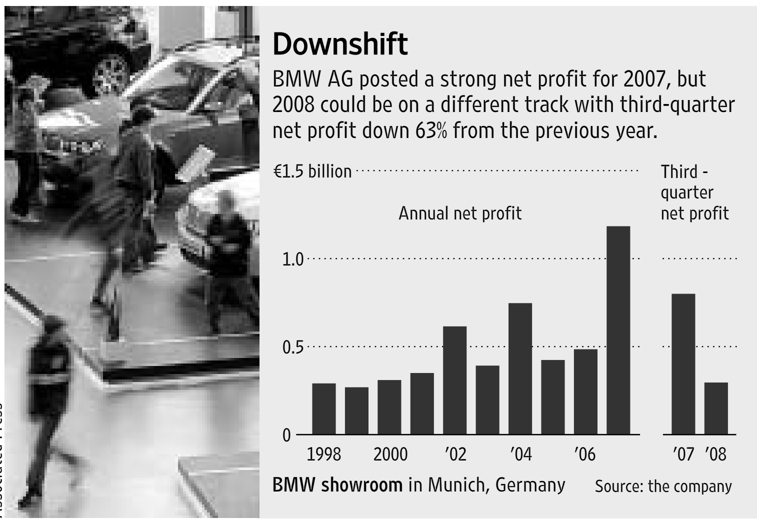
CORPORATE NEWS

BMW's profit drops 63%

Car maker to hasten cuts in production amid bleak market

By Christoph Rauwald



BMW showroom in Munich, Germany

Luxury-car maker **BMW** AG reported a 63% drop in third-quarter earnings and said it is stepping up production cuts amid sagging auto demand.

Auto makers around the world are feeling the pinch from high prices for raw materials as well as shrinking demand for new cars due to tight credit markets as consumers delay big-ticket purchases. BMW has been hit particularly hard by the downturn in the U.S., its biggest single market.

For the three months ended Sept. 30, BMW's net profit fell to €296 million ($374.2 million) from €800 million a year earlier. The latest earnings were weighed down by charges of €342 million tied to higher provisions for bad-debt risk and €258 million related to the company's job-cutting program. Revenue dropped 8.6% to €12.59 billion from €13.78 billion.

The Munich-based auto maker said that to address the weakening demand for its vehicles, it will reduce output by at least 40,000 cars on top of the 25,000 already announced.

The company said it couldn't give a concrete outlook for the full year. "Difficult business conditions and the volatile climate on the market mean that it is as good as impossible from today's perspective to make a reliable prediction of the earnings outcome for the financial year 2008," Chief Executive Norbert Reithofer said in a statement.

BMW said it no longer expects global sales for 2008 to be as high as last year's record level, as sales of luxury cars are suffering amid the downturn. For the first nine months of the year, BMW posted a 1.7% rise in sales from a year earlier to 1.11 million cars, thanks to its compact Mini brand. That brand posted a 12% rise in sales in the January-to-September period to 184,915 cars.

Sales at the core BMW brand edged down 0.1% in the first nine months to 928,230 vehicles.

In August, BMW said it would adjust its U.S. strategy to focus on profitability, rather than sales volume, after higher risk provisions and allowances for residual value risks and bad debts relating to its financial services business shaved €695 million off earnings in the first six months of the year.

Separately, German car makers association VDA said Tuesday that new-car registrations in October in Germany fell 8% to 258,800 from a year earlier as cautious consumers delayed spending on big-ticket items.

—Hilde Arends contributed to this article.

U.S., state prosecutors probe Vytorin marketing

By Jonathan D. Rockoff

Federal and state prosecutors are investigating whether **Merck** & Co. and **Schering-Plough** Corp. improperly promoted the cholesterol-fighting medication Vytorin, adding to the government probes and private lawsuits involving the jointly marketed drug.

The U.S. Justice Department is looking into whether the companies' promotion of Vytorin prompted false reimbursement claims to be made to federal health-care programs. A group of 35 state attorneys general is examining whether marketing violated the states' consumer-protection laws.

Merck, based in Whitehouse Station, N.J., and Schering-Plough, of Kenilworth, N.J., said Tuesday that they were cooperating with the government investigations and working together to respond to inquiries. Merck of the U.S. isn't related to Merck KGaA of Germany.

The disclosures, which the two companies made in securities filings, indicate that official scrutiny of Vytorin marketing is intensifying and the public controversy over the effectiveness of the blockbuster drug won't end soon. Vytorin, which combines Merck's Zocor and Schering-Plough's Zetia anticholesterol drugs into a single pill, posted $1.81 billion in 2008 sales through Sept. 30.

The House Energy and Commerce Committee earlier this year began an investigation into the safety and marketing of Vytorin and Sen. Charles Grassley, an Iowa Republican, has also sought records. Attorneys general from Connecticut, New Jersey and New York had asked the companies for Vytorin documents.

About 140 lawsuits seeking class-action status also have been filed alleging consumer-fraud claims, Merck said in its filing. Other lawsuits allege personal injuries.

Critics last year asserted that the companies were delaying the release of findings from a major study, called Enhance, in order to protect sales. Both companies denied the accusation, but in January they announced that the Enhance study didn't show that Vytorin worked better than a cheaper generic drug at slowing the progress of vascular disease in neck arteries.

Another study, called Seas, linked Vytorin to cancer risks, although those findings are in question.

In late-afternoon composite trading on the New York Stock Exchange, shares of Merck were up 7% to $30.20 while Schering-Plough shares were up 4.4% to $15.14

Strikes continue in Germany

A WSJ News Roundup

Thousands of engineering workers in northern and western Germany walked off the job Tuesday to increase pressure on employers who have so far rejected union demands for an 8% wage rise.

In the northern port city of Hamburg, workers at Siemens AG walked off the job for several hours, while employees at about 300 companies in the western state of North Rhine-Westphalia staged stoppages, trade union officials said.

The limited "warning strikes" also hit car maker Opel, a unit of General Motors Corp., in the western city of Bochum, and workers also rallied in the cities of Bielefeld, Dortmund, Duisburg and Essen. More protests are planned for Wednesday.

Since the strikes started Saturday, a total of 150,000 protesters at 500 companies have participated, union officials said.

The IG Metall union, which has dubbed 2008 a "mega wage year," is seeking an 8% rise for the 3.6 million workers in the engineering sector—the biggest wage increase it has demanded in 16 years.

The trade union has rejected the 2.9% wage rise over 14 months offered by employers group Gesamtmetall.

Union officials argue that workers deserve a share of the gains in competitiveness the economy has created in recent years, but the financial crisis and the unexpected force of a downturn in German industry has undermined their case.

Gesamtmetall argued the union had planned the industrial action six months ago and now failed to recognize the challenging economic reality. Gesamtmetall Chairman Martin Kannegiesser said excessive wage increases would exacerbate job cuts in light of an already slowing economy.

Workers received support from Franz Müntefering, chairman of the Social Democrats party, which shares power with Chancellor Angela Merkel's conservatives.

"I have sympathy for IG Metall's general demand to obtain a significant share of what has been produced together," Mr. Müntefering said after meeting trade union officials in Berlin.

IG Metall is due to resume wage negotiations with Gesamtmetall on Nov. 11 in the southern state of Baden-Württemberg, where agreements often serve as a model for the engineering sector nationwide. If no deal is reached at the next round of talks, IG Metall has vowed to stage all-out strikes to press its case.

Takeda's profit drops 67%; strong yen crimps forecast

By Kazuhiro Shimamura

TOKYO—**Takeda Pharmaceutical** Co. reported a 67% plunge in net profit in its fiscal first half and lowered its outlook for the full year, citing the strong yen as a major concern.

Osaka-based Takeda, Japan's largest drug maker by sales, said the yen's rise and the global economic slowdown are forcing it to take a cautious outlook as more than half of its sales come from overseas.

The company said net profit fell to 71.79 billion yen ($724.6 million) for the first half ended September, from 218.01 billion yen a year earlier, due primarily to the cost of acquiring U.S. biopharmaceutical company Millennium Pharmaceuticals Inc.

Sales rose 14% to 807.14 billion yen from 708.47 billion yen as Takeda consolidated Millennium and made U.S. affiliate TAP Pharmaceuticals a wholly owned unit this year.

Takeda acquired Massachusetts-based Millennium in May for $8.8 billion in an effort to gain a foothold in the lucrative cancer-drug market. The deal remains the largest outbound acquisition from Japan this year and the country's third biggest ever.

For the full fiscal year ending in March,Takeda cut its net profit outlook to 195 billion yen from 200 billion yen and sales projection to 1.56 trillion yen from 1.57 trillion yen.

The outlook revision reflects the impact of the global economic downturn even on companies such as prescription drug makers, whose earnings tend to be resistant to economic cycles. The yen's sharp appreciation and the economic slump in the U.S. are eating into Takeda's profit from the world's largest pharmaceutical market.

Global sales of Takeda's Actos diabetes drug in the fiscal first half already showed the effect of the currency appreciation, slipping 1.9% year-to-year to 203.2 billion yen.

The dollar was at 99.27 yen late Tuesday in Tokyo, versus its level of 114.82 yen a year earlier.

Total Actos sales in regional currencies were up 5%, Takeda President Yasuchika Hasegawa said in a news conference.

"Considering the worsening economic downturn in the fiscal second half, achieving the initially targeted double-digit increase in Actos sales through the fiscal year will be difficult," Mr. Hasegawa said. "We can avoid some impact on other products."

Takeda's earnings results are based on Japanese accounting standards.

China is unlikely to save auto industry

By Patricia Jiayi Ho

BEIJING—Growth in China's once-roaring auto market has slowed to a near-crawl, casting doubt on the country's status as industry savior.

Car-producing giants such as **General Motors** Corp. and **Ford Motor** Co. have been looking to emerging markets—mainly China and India—to provide a much-needed counterbalance to declining sales in the U.S. and Europe.

Until midyear, Chinese auto sales had grown at 14%-24% every month year-to-year. The situation changed in July, when the year-to-year growth rate skidded to 3.88% due to higher emission standards for commercial vehicles, slowing infrastructure investment and property construction, the Beijing Olympic games, and higher fuel prices.

Analysts are now warning that growth in 2008 will be in the single digits, and their outlook for next year is the same, or lower.

"We expect demand to be flat for the balance of 2008, but deteriorating conditions may prove this forecast too optimistic," said John Bonnell, J.D. Power & Associates director of Asia Pacific forecasting. "Consumer confidence is shot."

The market research firm expects sales growth of passenger vehicles this year to be 6.7% over 2007, less than half their forecast of 14.5% at the start of the year. The firm's outlook for 2009 is even bleaker. Mr. Bonnell said he expects next year's sales to be flat, or even decline, depending on how the global financial crisis plays out.

Analysts attribute the weak demand to declining consumer confidence in China. Consumers' wealth has been eroded as the Chinese stock market plunged over the past year, with property prices also falling.

Corporate News

Easy to be green

Consumer psychology is shifting amid the economic downturn > **Page 8**

CORPORATE NEWS

U.K. retailer's net drops

Marks & Spencer takes hit as shoppers tighten their budgets

By Cecilie Rohwedder

LONDON—**Marks & Spencer Group** PLC, often viewed as a bellwether for U.K. consumer sentiment, reported a 43% drop in net profit for its fiscal first half as the retailer took a beating from the recession brewing in Britain.

The London-based company, which sells food, clothing and other household merchandise, said earnings suffered from aggressive promotions and sweeping price cuts that affected 10% of its food lineup. Sales were hurt by shoppers defecting to less-expensive rivals, triggering a slight decline in Marks & Spencer's share of the British food market.

Marks & Spencer said net profit for the six months ended Sept. 27 fell to £223 million ($353.3 million) from £393 million a year earlier. Sales were flat at £4.2 billion.

"Trading throughout October has been volatile, with recent events in the financial markets and their impact on the wider economy further weakening consumer sentiment," said Stuart Rose, Marks & Spencer's chairman. "We remain cautious about the outlook for the remainder of the year."

Marks & Spencer's long-standing strategy of positioning itself as a premium food store is becoming a challenge as consumers cut back. Unlike other Europeans, who have flocked to stores focused on low prices, British shoppers long have valued quality, service and innovation at their grocery stores. But amid financial uncertainty, many Britons are switching to less-expensive goods or cutting spending.

Marks & Spencer, Britain's largest apparel vendor, said consumers are cutting back on clothes as well. The retailer's best-selling men's suit, for instance, used to cost £299. Now its top-seller costs £199.

Discount clothing chain Primark benefited from British shoppers' tight budgets, as fiscal-year operating profit at the retailer rose 17% and revenue jumped 21%.

Primark's parent, **Associated British Foods** PLC, posted fiscal-year net profit of £357 million, down 3% from £369 million the previous year. Revenue for the year ended Sept. 13 was £8.2 billion.

Associated Press

London-based retailer Marks & Spencer's **profit fell sharply** for the first half of 2008 as shoppers tightened their budgets and defected to cheaper rivals.

Adecco earnings suffer as firms hire fewer temps

By Goran Mijuk

ZURICH—**Adecco** SA, the world's largest staffing company by sales, said Tuesday that third-quarter earnings fell 27%. It also warned it won't meet next year's profit target, citing weakening demand in the U.S., France and Britain.

Staffing firms are reporting declining sales as companies in the U.S. and Western Europe lower production and reduce temporary staffing in response to the credit crunch and wider economic downturn, which have crimped consumer spending.

Zurich-based Adecco said net profit for the three months ended Sept. 30 dropped to €168 million ($212.4 billion) from €230 million in the year-earlier period, when it booked a tax benefit in France.

Sales fell 6% to €5.1 billion from €5.44 billion as revenue in key markets including France, the U.S., Britain and Spain continued to weaken sharply. Only Germany, Switzerland and emerging economies saw a rise in revenue, partly boosted by acquisitions.

"Looking ahead, we anticipate a progressively more difficult environment in terms of revenue development," said Chief Executive Dieter Scheiff, adding that Adecco is "unlikely to achieve or exceed a 5% operating profit margin in the quarters to come, and consequently not in 2009."

"We also expect a more difficult situation in Germany in the future. And emerging markets are also likely to grow less fast than in the past," Mr. Scheiff added.

In the third quarter, sales rose 12% in Germany and 11% in emerging markets such as India.

CORPORATE NEWS

ADM to expand in Brazil

Ethanol partnership will put $500 million into biofuel output

By Doug Cameron

Archer-Daniels-Midland Co. unveiled plans Tuesday to enter the Brazilian ethanol market, just as the economics of biofuel production in the U.S. are deteriorating.

ADM, the world's largest grain processor by revenue, also delivered sharply higher fiscal first-quarter earnings, blowing past analysts' expectations.

The U.S. company already has a global footprint in biofuels, producing corn-based ethanol in the U.S., soy-derived biodiesel in Europe and Latin America and fuel made from palm oil in Asia.

Rising biofuel demand has driven earnings over the past two years, and ADM has been seeking ways to enter Brazil's sugarcane-based ethanol market. It will invest $370 million over seven years, with partner Grupo Cabrera adding $130 million.

Pat Woertz, ADM's chairman and chief executive, said the joint venture aims to produce 70 million to 90 million gallons of ethanol a year, with the company exploring other opportunities in Brazil.

While Brazil is the world's largest exporter of ethanol, ADM said

Associated Press

ADM posted **sharply higher earnings** and revenue for its fiscal first quarter.

selling into the U.S. market remained uneconomical because of tariffs and transport costs.

The economics of corn-based ethanol in the U.S. have deteriorated in recent months as companies struggled with the mix of high corn costs and weak ethanol prices. Construction of new plants has ended following a three-year construction boom, and several operators—including **VeraSun Energy** Inc.—have sought bankruptcy-court protection.

Ms. Woertz said ADM would complete its existing ethanol plants in the U.S. and remained interested in "distressed assets."

For the quarter ended Sept. 30, ADM's net profit rose to $1.05 billion, or $1.63 a share, up from $441 million, or 68 cents a share, year earlier. The latest results included an accounting-related credit of $453 million.

Revenue rose 65% to $21.16 billion, even though volume was little changed. Higher selling prices, as well as fluctuations in currency exchange rates, fueled the increase, ADM said.

Analysts polled by Thomson Reuters expected earnings of 69 cents a share on revenue of $15.98 billion.

Operating margin rose to 8.8% from 7.2%

Profit more than doubled at ADM's oilseeds-processing arm and nearly did so at agricultural services, which includes the merchandising and transportation of grains. But earnings at the company's corn-processing division, which includes ethanol production, fell sharply as corn and energy costs surged early in the year.

Share prices in the agribusiness sector have slumped over the past six months amid slowing growth for protein-based feed for animal and human consumption. But ADM has insisted underlying demand remains strong despite the slowdown.

—Emily Schulman contributed to this article.

Viacom's earnings tumble 37%

By Sam Schechner

Viacom Inc. reported a 37% drop in third-quarter net income, dragged down by lower theatrical-film revenue and shrinking U.S. cable-TV advertising sales.

The results add to evidence that the tumultuous U.S. economy is beginning to exact a toll on national television advertising. But Viacom, which issued an earnings warning last month, has shown particular weakness—especially at some of its big TV networks. At MTV, which accounts for about a quarter of Viacom's ad revenue, viewership among its target of 12- to 34-year-olds dropped 22.9% from a year earlier, according to Nielsen Media Research.

"Our advertising business continues to feel the effect of the macroeconomic trends in the quarter," Viacom Chief Executive Philippe Dauman said. Ratings were hit in part by "more competition for that young audience," he said.

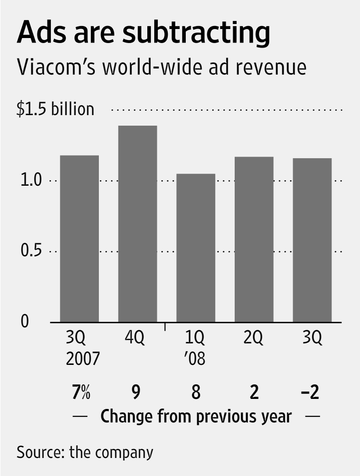
Mr. Dauman outlined plans to increase Viacom's TV-programming spending in the "high single digits" next year to reduce low-rated repeats, especially on MTV. MTV also may import more programming from its siblings in other countries.

Net income fell to $401 million, or 65 cents a share, from $641 million, or 96 cents a share, a year earlier. Revenue rose 4.2% to $3.4 billion. Sales were boosted by 12% growth in fees paid by cable and satellite operators world-wide and a 36% increase in ancillary revenue, led by sales of Viacom's "Rock Band" videogame.

Despite the weak economy, Viacom indicated it will continue its stock-repurchase program. Viacom also said it will pay close attention to costs. Already Viacom has avoided filling some vacant positions, such as that of Hank Close, MTV Networks' president of ad sales, who has decided to leave the company at year end.

"We have taken, and will continue to take, all appropriate steps to prepare for whatever challenges lie ahead," Mr. Dauman said.

Viacom Chairman Sumner Redstone, who last month sold $233 million of Viacom and **CBS** Corp. stock, reiterated that he "does not intend to sell one more share of Viacom or CBS."



BG Group, Gas Natural post higher profits

By James Herron And Bernd Radowitz

BG Group PLC and **Gas Natural SDG** SA reported solid third-quarter earnings, lifted by higher energy prices.

U.K.-based oil-and-gas company BG on Tuesday said net profit jumped to £857 million ($1.36 billion) from £357 million a year earlier. Revenue rose 77% to £3.3 billion. The latest results were boosted by higher oil and gas prices and rising production.

Chief Executive Frank Chapman said BG might delay its key Karachaganak project in Kazakhstan because of high development costs. Mr. Chapman said he expects to see a significant decline in the cost of developing oil and gas projects as raw materials and oil services become cheaper. "We don't want to commit to Phase III costs in their entirety at the peak of the cycle," he said.

BG also unveiled a large reserves boost as confidence grows in the scale of its oil finds off Brazil's coast. The company said it expects its proven and probable reserves to rise by more than two billion barrels of oil equivalent this year, an increase of more than 60%.

Spanish gas distributor Gas Natural reported a 12% rise in third-quarter net profit, boosted in part by its power generation business in Spain, which benefits from steeply higher electricity pool prices.

Net profit rose to €241.9 million ($305.8 million) from €215.5 million. Sales rose 40% to €3.29 billion.

Gas Natural said the financing for its takeover of power company **Union Fenosa** SA is assured, though Chief Executive Rafael Villaseca acknowledged that the pricing for the €18.5 billion credit line has gone up.

Luxury consumers skimp for the sake of the planet

By Jennifer Saranow

In this economy, it's easy being green. Kelli Donley, a 29-year-old executive at a nonprofit group in Tempe, Ariz., says she has always been environmentally conscious, bringing her own bags to the grocery store and limiting her driving. Now she's "conserving clothing," too, by shopping at second-hand stores.

A year ago, when Ms. Donley and her six closest friends got together, they would discuss the latest designer jeans at Nordstrom, Dior's new cosmetics and exotic vacations. More recently, as the value of their stock portfolios and homes has plummeted, the talk has turned to crockpot recipes, coupon clipping and their latest purchases at thrift shops.

"It's definitely all of a sudden very cool to be cheap," Ms. Donley says.

The twin currents of an economic downturn and rising concern about the environment are merging in a shift in consumer psychology. After a decade of conspicuous consumption, many middle- and upper-income Americans are no longer comfortable showing off $300 Gucci sunglasses and $8,000 Hermes Birkin bags. They are developing a distaste for extravagance that promises to affect spending on everything from cars and travel to electronics, fashion and household goods—and to last at least as long as the recession.

"Our retail and manufacturing clients are seeing almost an aversion to consumption," says Todd Lavieri, chief executive of Archstone Consulting, which tracks retail spending patterns. "In previous downturns [such as in 1991 and 2001], we have often seen shopping as therapy." Now, with credit conditions so tight, Mr. Lavieri says, "people aren't shopping to feel better. They actually are *not* shopping to feel better."

And that behavior (to be sure, a luxurious problem in a bad economy with high unemployment) dovetails neatly with environmentalism, another way people like to feel better.

Over the past year, some affluent Americans have simply "given up the fight to keep up with the Joneses," says Pamela Danziger, president of Unity Marketing, a research firm in Stevens, Pa., while others have decided that "spending money on luxury is a poor use of resources in a climate of high gas prices and rising carbon footprint."

Ms. Danziger is already seeing a significant change in behavior. In a Unity Marketing survey of 1,200 affluent consumers in early October, more than half of the respondents, whose average annual household income was about $210,000, said they had shopped less frequently in the past year and were cutting spending by shopping at outlet stores or at sales.

At a panel last week, Peter Boneparth, who was chief executive of Jones Apparel Group Inc. when it owned the upscale Barneys New York chain, said, "The luxury business is in for a really hard time" and that it would be "the slowest to recover." Mr. Boneparth said the global financial crisis had triggered a fundamental change in wealthy consumers' psychology and that "it's no longer chic to be spending" as in the past.

The shift began even before the credit markets broke down and the stock market plunged. Many Americans had already begun to question their "freewheeling consumption" and move toward "a culture of responsibility," says J. Walker Smith, president of global trends researcher Yankelovich, a unit of the Futures Company. For many, he says, environmental concerns were an important factor in this shift.

Environmental consciousness has often been associated with added expenses such as solar panels and organic food. But Wendy Liebmann, chief executive of consulting firm WSL Strategic Retail, has noticed that the economic downturn is accelerating mainstream acceptance of the thriftier behaviors of the green movement, like cutting out bottled water and growing vegetables.

"People are saying, 'We are going to save money, and we are going to save the environment,' " she says.

Lindsay Lefevere, a 31-year-old book editor in Carmel, Ind., has been economizing by cutting out weekly shopping trips to Target and daily coffees at Starbucks. Ms. Lefevere, long an avid recycler and crockpot user, has now begun canning apple butter and cherries for holiday gifts, recycling household items as wrapping paper and consolidating her errands to conserve gas. The economic crisis "is definitely making me more conscious about the environment," she says.

Even when they spend, some people are seeking environmental benediction for their purchases. Miranda Garcia, who at 33 is expecting her first child, recently bought a new Lexus SUV with side air bags that her husband thought would be safer than their old car. Ms. Garcia at first resisted, saying that buying a new car seemed ostentatious. She is still uneasy about it, but is quick to point out that the SUV is a hybrid.

"We wanted to do the right thing," she says.

—Ray A. Smith contributed to this article.

CORPORATE NEWS

U.S. weighs purchasing stakes in more companies

Rescue plan morphs after early success in easing the crunch

BY DEBORAH SOLOMON

WASHINGTON—The U.S. Treasury Department is considering using more of its $700 billion rescue fund to buy stakes in a broad range of financial companies, not just banks and insurers, after tentative signs of the program's success, according to people familiar with the matter.

In focus are companies that provide financing to the broad economy, including bond insurers and specialty finance firms such as General Electric Co.'s GE Capital unit, CIT Group Inc. and others, these people said.

The possible expansion shows how much the Treasury's rescue plan has morphed since it was first proposed in September. Treasury Secretary Henry Paulson originally unveiled a complex plan to buy up financial institutions' hard-to-sell assets such as mortgage-backed securities.

That proposal has yet to get up and running, stymied by operational delays and beset by criticism. People familiar with the matter say the Treasury may scrap part of that early plan—purchasing assets through an auction process—and instead purchase some of these distressed assets directly.

Of the original $700 billion made available to the Treasury, officials set aside $250 billion for equity investments. It already has invested $163 billion in a range of banks including some of the nation's largest, such as Goldman Sachs Group Inc. and Bank of America Corp. That number will likely expand at the expense of the asset-purchase plan, but by exactly how much is unknown.

"We are looking at many ideas for strengthening the financial system and for restoring lending," said Jennifer Zuccarelli, a Treasury spokeswoman. "We are weighing ideas and have made no decisions."

The Treasury's planning could be complicated by Tuesday's presidential election. Mr. Paulson has said he wants to involve the next administration in major decisions between now and January. Sen. John McCain, the Republican nominee, and Sen. Barack Obama, the Democratic nominee, voted for the $700 billion rescue plan, but a new administration is certain to have its own ideas about how best to use the remaining $450 billion.

Sen. McCain has said he wants to steer much of the money toward buying mortgages. Sen. Obama has endorsed buying troubled assets and taking equity stakes. Both have called for imposing tougher conditions on companies receiving funds.

Mr. Paulson originally resisted directly investing in firms and didn't ask Congress for the right to buy equity stakes. Among other things, Mr. Paulson was worried about picking winners and losers and about conditions lawmakers might seek to attach. He argued the most effective way to relieve the credit crisis was to buy troubled assets that were clogging the books of financial institutions and making them reluctant to lend.

But the capital-purchase program, which was inserted into the bailout bill by lawmakers, appears to be helping ease the credit crunch, especially in the short-term funding markets badly hit by last month's financial turmoil. Mr. Paulson has begun assessing whether the financial system could benefit from additional capital purchases.

According to data from the British Bankers' Association, the three-month U.S. dollar London interbank offered rate, or Libor—a key indicator of banks' willingness to lend to each other—fell to 2.70625% Tuesday, the lowest since June 9, from Monday's 2.85875%. The rate peaked at 4.81875% on Oct. 10. Other lending rates, including some mortgages, are pegged to Libor.

An expansion would target institutions that play a role in providing financing. The Treasury's original $250 billion plan was aimed at banks, that have been reluctant to lend to businesses, consumers and each other. But other nonbank financial companies have been pinched by the credit crunch.

Companies such as CIT, a commercial-finance company that makes loans to businesses and individuals, have been struggling to raise money to fund operations.

The potential expansion raises the notion that the U.S. government could eventually own a larger chunk of the American financial system than first envisioned. The new firms under consideration for inclusion would likely be subject to similar terms and conditions applied to participating banks, such as restrictions on dividends and severance pay.

Structuring an expansion could be tricky given that many other entities, from transit agencies to auto manufacturers, are knocking on the Treasury's door for inclusion in the $700 billion fund, called the Troubled Asset Relief Program. Among the questions Treasury is wrestling with are how much additional money to invest and which companies would qualify.

The Treasury is already mulling expanding the rescue plan to inject cash into certain insurance companies and privately held banks. The Financial Services Roundtable, a Washington trade group, has asked the Treasury to include auto companies and others. So far, officials have been unwilling to take stakes in car companies.

Any expansion would likely prompt calls by U.S. lawmakers to attach more conditions. Members of Congress have begun pushing the Treasury to force banks to lend the money they have received, complaining to Mr. Paulson that they are sitting on the cash or using it to fund acquisitions and pay dividends.

The Treasury's original plan to purchase distressed assets now appears to be taking a back seat. The Treasury was expected to conduct auctions as early as this month but has yet to select asset managers to help the government decide what to purchase and how much to pay. The hiring has been complicated by concern over the fees the government will pay and a lack of manpower at the Treasury.

That idea also has been roundly criticized by economists of all stripes, who argue that buying troubled assets is a less effective way to combat the credit crisis than directly pumping capital into firms. Mr. Paulson eventually agreed and announced the program to inject $250 billion into banks. The Treasury is buying preferred shares in the firms and will get warrants giving the government the right to buy common stock at a set price.

—Michael R. Crittenden contributed to this article.

GLOBAL BUSINESS BRIEFS

EADS

Production to be slowed on A400M military transport

European Aeronautic Defence & Space Co. plans to slow production of the A400M military transport aircraft. The slowdown in the €20 billion ($25 billion) project is due to "uncertainties on the agenda of the program," an EADS spokeswoman said. In September, EADS postponed the A400M's first flight indefinitely in a dispute over engine development. The A400M, being built for seven NATO countries, led to €1.4 billion in provisions for EADS a year ago, when it said the project was six to 12 months late. **Thales** SA, which is providing the flight-management system for the A400M, said last week it would miss its 2008 profitability goal after taking a €60 million charge because of delays to the aircraft.

Grupo Ferrovial SA

U.K. regulators recommended significantly lower price controls for Stansted Airport than airport operator BAA Ltd. had requested. The Competition Commission recommended maximum airport charges at Stansted of £6.26 ($9.92) a passenger starting next April with charges increasing by no more than retail-price-index inflation plus 1.75% annually through fiscal 2014. BAA, a unit of Spain's **Grupo Ferrovial** SA, wanted annual increases of inflation plus 7.1%. The regulator also found that Stansted had acted against the public interest by failing to consult adequately with airlines on the development of the airport and its capital-expenditure plans. "We are disappointed that the Competition Commission has failed to reflect large elements of the costs involved in operating Stansted Airport," said BAA.

Skanska AB

Construction company **Skanska** AB warned Tuesday that 2009 will be challenging and that it is planning new cost cuts as it reported a slight drop in third-quarter net profit. In the three months ended Sept. 30, profit fell to 1.2 billion Swedish kronor ($154 million) from 1.24 billion kronor a year earlier. Sales slipped 1% to 36.05 billion kronor. The Stockholm-based company said demand for its services is declining, especially in the Nordic region and the U.K. "It is too early to say exactly how this will affect Skanska, but it is clear that several markets in construction and residential development already are slowing," Chief Executive Johan Karlstrom said in a statement. He said new cost savings will include layoffs, but declined to give more details.

Reed Elsevier PLC

Anglo-Dutch publisher **Reed Elsevier** PLC on Tuesday said Ian Smith will become chief executive officer when current CEO Sir Crispin Davis retires in March. Mr. Smith, who will join the professional publisher and exhibitions organizer in January, was most recently the chief executive of British house builder Taylor Woodrow PLC, staying briefly until the company merged with George Wimpey PLC. Before that, he was at the helm of General Healthcare Group and held senior positions at Royal Dutch Shell PLC and Exel Group. Reed Elsevier, which Sir Crispin helped turn into a leading provider of digital information, is trying to sell its business-publishing unit, Reed Business Information, to reduce its reliance on advertiser-funded media.

Fujitsu Ltd.

Japanese electronics maker **Fujitsu** Ltd. agreed to buy **Siemens** AG's 50% stake in their joint venture, Fujitsu Siemens Computers, for about €450 million ($568.9 million), the companies said Tuesday. Fujitsu and Germany-based industrial conglomerate Siemens currently each hold half of the joint venture, which makes notebook and desktop computers. "Fully integrating Fujitsu Siemens Computers into the Fujitsu Group fits perfectly into our global growth strategy," said Fujitsu President Kuniaki Nozoe. With the move, Siemens continues to focus on its core business, moving away from consumer products. Siemens will book a gain, most likely in the third quarter of fiscal 2009, of about €310 million on the deal, as the book value of Siemens's stake is €140 million, a Siemens spokesman said.

CKX Inc.

CKX Inc., which licenses the rights to images of Elvis Presley and other celebrities, said a $1.33 billion plan to go private has fallen through because of "extraordinary" economic conditions. Formed in 2004, CKX has built a rights portfolio related to the images and creative output of public figures including Muhammad Ali and David and Victoria Beckham. Under the now-scuttled plan, announced in June 2007, a group of managers led by Chairman and Chief Executive Robert F.X. Sillerman and 19 Entertainment CEO Simon Fuller would have paid $13.75 a share, for the company. CKX shares were up 7.4% at $4.49 in Nasdaq Stock Market trading Tuesday afternoon. The corporate vehicle created as the buyer in the transaction will be required to pay a $37.5 million termination fee.

Nokia Corp.

Nokia Corp. announced restructuring plans that will affect more than 600 of the cellphone-maker's employees, primarily in marketing and research. The changes involve 450 employees in Nokia's marketing division, 130 staff at its research center and 35 employees in other units, the Finnish company said. "Today's changes are part of Nokia's constant renewal, where it is important to be close to our customers and ensure that our people are able to focus on the key business priorities," said Nokia Senior Vice President Juha Akras. He said the company would try to find other jobs for as many of the affected employees as possible. The changes will take effect Jan. 1. Nokia also said it plans to close an office in Turku in western Finland and move its 220 employees to another site.

Aegis Group PLC

Aegis Group PLC lost one of its top five media-buying accounts, French carmaker **Renault** SA, to U.S. rival **Omnicom Group** Inc.'s OMD agency, exacerbating already difficult market conditions for the U.K. company as the economic downturn hits advertising spending. The loss amounts to about €450 million ($568.9 million) of ad spending and accounts for approximately 1% of Aegis's annual revenue. Media-buying contracts for both Renault and its alliance partner Nissan Motor Co. were up for review, and the companies decided to combine them, inviting pitches from Aegis's buying agency Carat and Nissan's buying agency OMD. "We have had a great partnership with Renault, and we are proud of what we have delivered for them over the past eight years," said Aegis Media Chief Executive Jerry Buhlmann.

JCDecaux SA

Outdoor-advertising company **JCDecaux** SA reported a 1.6% rise in third-quarter revenue, boosted by strong performance in its street-furniture and transportation businesses. Still, the French company cut its full-year outlook as a number of ad markets weakened. In the three months ended Sept. 30, revenue rose to €495.6 million ($626.5 million). Organic growth, which strips out acquisitions, disposals and currency fluctuations, slowed to 5.2% compared with 12% a year earlier. JCDecaux said it now expects 2008 organic revenue growth of 5.5% to 6%, down from a previous forecast of 6% to 7%.

DLF Ltd.

DLF Ltd., India's biggest property developer by sales, said it may delay completion of hotel construction projects in its joint venture with **Hilton Hotels** Corp. by up to 18 months because of the global credit crunch. New Delhi-based DLF and Hilton formed a joint venture in 2006 to build and manage 75 hotels and serviced apartments in India over seven years. DLF owns 74% of the venture. "DLF is on its way to secure necessary financing for new [hotel] projects, while in the interim, it would continue with all aspects of planning [and] designing," the company said in a statement to the Mumbai Stock Exchange.

MasterCard Inc.

MasterCard Inc. swung to a third-quarter loss on a $515.5 million charge related to the previously announced settlement of a lawsuit with Discover Financial Services, but MasterCard continued to see strong credit-card usage. The second-largest card processor after Visa Inc. posted a net loss of $193.6 million, or $1.49 a share, compared with year-earlier net income of $314.5 million, or $2.31 a share. Excluding the settlement, earnings were $2.47 a share. Revenue rose 24% to $1.34 billion, helped by currency fluctuations.

Bridgestone Corp.

Bridgestone Corp. said its net profit for the first nine months sank 40% from a year earlier as higher costs for rubber and other raw materials offset stronger sales. The Tokyo-based tire maker said net profit fell to 49.47 billion yen ($499.3 million) from 82.34 billion yen a year earlier. Sales rose 1.3% to 2.5 trillion yen from 2.467 trillion yen as high-performance and specialized tires, such as those for construction vehicles, offset sluggish tire sales for passenger cars, trucks and buses in North America, where auto demand is slumping.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.S. economic ills will force winner's hand

Factory activity, auto sales decline; calls for swift action

WASHINGTON—With a fresh blast of bearish news hitting just before the U.S. presidential election, the victor will be under rising pressure to put his stamp on U.S. economic policy well before his Jan. 20 inauguration.

Factory orders in the U.S. suffered another big drop September,

*By **Bob Davis, Jonathan Weisman** and **Timothy Aeppel***

falling 2.5%, following a downwardly revised 4.3% decline in August, the Commerce Department said Tuesday.

Monday, auto makers reported steep declines in U.S. car and light-truck sales for October, with **General Motors** Corp. reporting a 45% drop compared with the number of vehicles sold a year ago. **Ford Motor** Co. was down 30% and **Toyota Motor** Corp. was off by 23%. A senior GM executive said the company's results, when adjusted for population changes, represented "the worst month in the post-World War II era.

"We're dealing with a situation that could develop into another Great Depression, if not handled properly," said Daniel DiMicco, chief executive of Charlotte, N.C.-based steelmaker Nucor Corp.

Few economists predict the world is in for a repeat of the 1930s. But the deepening problems—rising joblessness and home foreclosures, falling consumer spending and tight credit—are prompting calls from businesses and Congress for quick action by the next president to clarify, and begin working on, his economic agenda.

Senate Banking Committee Chairman Christopher Dodd (D., Conn.) says the president-elect should start by picking his Treasury secretary and economic team within days. With Congress planning a session this month to push through a second economic-stimulus package and discuss remaking the nation's financial system, lawmakers will be looking for direction from the future president.

Both campaigns declined to comment on any specific post-election plans. However, Democratic Sen. Barack Obama would likely come under pressure to assure investors that he won't increase income taxes on the wealthy during a recession—as he hinted during the campaign—or boost capital-gains taxes during a market slump. For Republican Sen. John McCain, one challenge would be explaining how he would work with a Democratic Congress after a bitter presidential battle.

The central issue now, says McCain economic adviser Douglas Holtz-Eakin, "is the reality that so many Americans believe that the institutions they rely on—banks, Wall Street, Washington—have failed them. Those failures are the source of the lack of confidence."

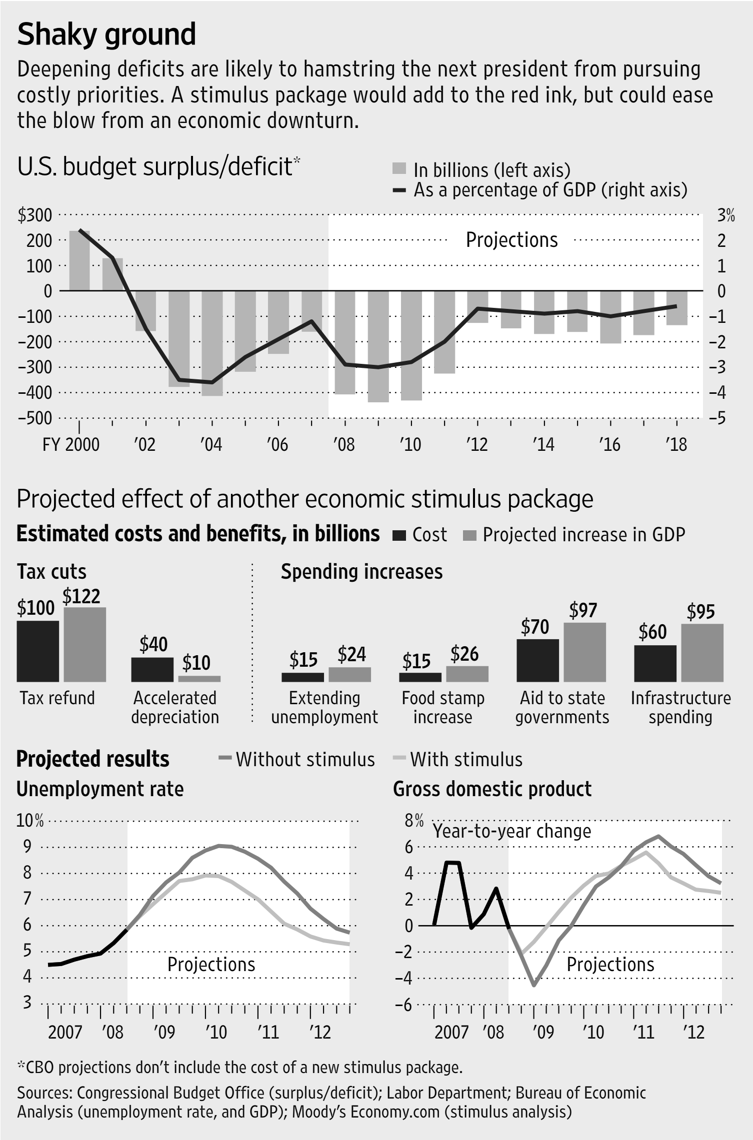
Three economic challenges are apt to dominate the early days of the new presidency: mending the economy, reshaping the battered financial industry, and crafting a policy for China, America's biggest creditor and an economic rival.

The slumping economy is the top issue. Many economists forecast that the U.S. will fall into its deepest recession since the early 1980s, with some predicting unemployment above 8% by 2010, up from 6.1% today.

Sen. Charles Schumer, the New York Democrat who is chairman of the Joint Economic Committee, says an Obama win would mean the Democratic Congress will take up a small stimulus package in a lame-duck session soon and a bigger one in January after inauguration. Even if Sen. McCain were to win, Sen. Schumer says, expected Democratic gains in Congress will help the party leadership push through a package in November.

The previous stimulus package, of \$168 billion, including about \$105 billion in rebate checks, boosted spending in the second quarter of 2008, but not beyond.

Now, stimulus advocates—mainly Democrats—are focusing on infrastructure projects, extension of unemployment-insurance benefits and increases in food-stamp payments. State and local governments—some of which are facing budget shortfalls—would also be targeted.



Another challenge to face the president-elect is deciding how big a role the government should play in the economy, including picking winners and losers among companies competing for federal dollars, and sharpening financial regulation. Many decisions being made now will bind the next administration, especially how to spend the \$700 billion rescue budget.

Some lawmakers want to require more lending from banks in which the U.S. invested. But twisting arms could lead to loans being made to people who aren't qualified, said Robert Litan, a former Clinton administration budget official who is now a senior fellow at the Brookings Institution, a liberal-leaning Washington think tank. "That's how we got into this problem."

Sen. Schumer warns hedge funds and other largely unregulated private-investment firms that they, too, will soon face federal oversight and rules requiring them to disclose their operations—even though heavily regulated banks that have loaded up on risky securities have been at the heart of the financial crisis.

A fight is sure to arise over saving firms considered "too big to fail"—meaning that their demise could lead to a broader economic collapse. The Bush administration and the Fed used that rationale to save investment bank Bear Stearns Cos., mortgage giants Freddie Mac and Fannie Mae and insurer American International Group Inc. Indeed, the one time the government let a major investment firm fail, Lehman Brothers Holdings Inc., credit markets around the world froze. Neither Sen. Obama nor Sen. McCain has said in detail how he would address this issue.

Another battle will focus on who should be responsible for looking at the soundness of the system as a whole. A plan by Treasury Secretary Henry Paulson would give that role to the Federal Reserve. Morgan Stanley economist Stephen Roach would amend the Fed's charter to add "financial stability" to its mission of promoting full employment and price stability, so the Fed would focus more on identifying asset bubbles and deflating them gently before they burst.

A third challenge is trade with China, an issue over which Sens. McCain and Obama have sharply disagreed. Sen. McCain is an avid free trader; Sen. Obama argues that trade agreements have been written to help the wealthy, not average Americans, and has urged that a number of them be renegotiated.

Neither candidate focused on trade during the general election. But the calendar will force the issue on the White House. After a set of textile quotas on China expires on Jan. 1, industry lobbyists will press the new administration to renew them or make them tougher. Then, around May 1, the new president must decide the longstanding question of whether China manipulates its currency to keep it below market value—and thus give Chinese exporters an edge for products priced in dollars.

—Jason Dean, Kelly Evans and Easha Anand contributed to this article.

Obama's ancestral village in Kenya awaits vote results

By Sarah Childress

KOGELO, Kenya—As polls opened in the U.S., residents of Sen. Barack Obama's ancestral village were gearing up for their evening vigil.

Tuesday afternoon, family and well-wishers gathered for an interfaith prayer service in a grassy clearing by the health clinic. Even Sen. Obama's grandmother, known here as "Mama Sarah," attended, dressed in a bright traditional dress and crisp headwrap. She has largely avoided the media this week, withdrawing behind a gated fence and guards.

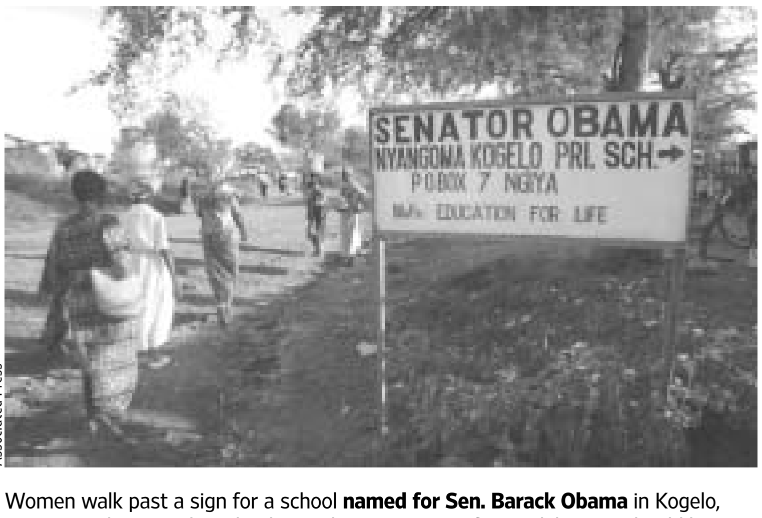
Much of the village planned to watch the election results here early Wednesday morning in the glare of media crews' spotlights, though rain later Tuesday evening threatened to chase away all but the most fervent Obama supporters. Kogelo has no electricity, so generators have been brought in to run the televisions.

A few of Sen. Obama's family members had planned to watch in their own yard. Before the sun went down—and hours before results would be released—some older women were already in their plastic lawn chairs, arranged in front of a small silver television. There was nothing yet to see—a relative was still fiddling with the dials in search of a clear channel.

Once a forgotten plot of land dotted with small mud or brick homes, the tiny village, where Sen. Obama's father was born and several family members still live, has become a tourist attraction and media mecca.

The Kenyan government is ensuring it looks the part. Monday, road crews were busily patching potholes, and dump trucks heaped fresh dirt on the rutted roads. Some villagers have been told they soon will have electricity.

Local officials say a Kogelo upgrade has long been in the works, and they maintain that the timing is coincidental. The locals weren't buying that. "Where a leader comes



Women walk past a sign for a school **named for Sen. Barack Obama** in Kogelo, Kenya. Students at the school are rehearsing songs for a celebration should he win.

from, things have to be done properly," said Joash Otieno Oluoch, 33 years old.

The traffic on Kogelo's narrow lanes usually consists of a few meandering cows, and maybe a hen and her chicks. These days, the paths are also clogged with journalists lumbering around in Land Rovers, and convoys of local dignitaries tracking in and out of the village on official business. The media crush is so intense that one local official Monday called the villagers together for a little press training.

People are fiercely proud of Sen. Obama here, many pinning on buttons emblazoned with his image. Kids at the high school, which is named for the senator, are rehearsing songs for a celebration in his honor, should he win.

He already did, according to people in nearby Kisumu. The city held a mock election Tuesday morning. Sen. Obama won in a blowout, defeating Sen. John McCain 342-42.

Who were the McCain fans? No one was willing to say. But according to the election "monitors," those 42 votes suggest that at the very least, the poll was free and fair.

—Sammy Kagwanja in Kisumu, Kenya, contributed to this article.