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Central banks slash rates across Europe

U.K.'s 1.5-point drop signals recession fear; markets fall on news

European central banks slashed their key rates to stave off prolonged recessions Thursday, with the Bank of England delivering a dramatic 1.5 percentage-point cut.

The U.K. central bank cut its key lending rate to 3% from 4.5%, signal-

By Joellen Perry in Frankfurt and Alistair MacDonald in London

ing deep concern as the British economy struggles with falling house prices and sharply tighter credit conditions.

The European Central Bank, which makes monetary policy for the 15 countries that share the euro currency, cut its key rate by a half-percentage point to 3.25%, as expected. Switzerland's central bank joined in, cutting its key rate target by a half percentage point to 2% in an unusual between-meeting move. The Czech National Bank also cut its key rate by three-quarters of a point to 2.75%, a far bigger cut than analysts expected.

Thursday's moves followed a round of emergency cuts less than a month ago, when the Bank of England and ECB cut their key rates by a half-point, in tandem with the U.S. Federal Reserve and two other central banks.

But the latest round of cuts failed to bolster markets meaningfully on Thursday, as the pan-European Dow Jones Stoxx 600 fell 2.8% to 221.75.

The depth of the Bank of England cut caught many analysts by surprise. Debate in the U.K. had been whether the bank would cut by as much as three-quarters of a percentage point. The central bank's Monetary Policy Committee has never cut its key rate by more than a half-point since it gained independence from the U.K. government in 1997. The central bank's key rate was last as low as 3% in 1954.

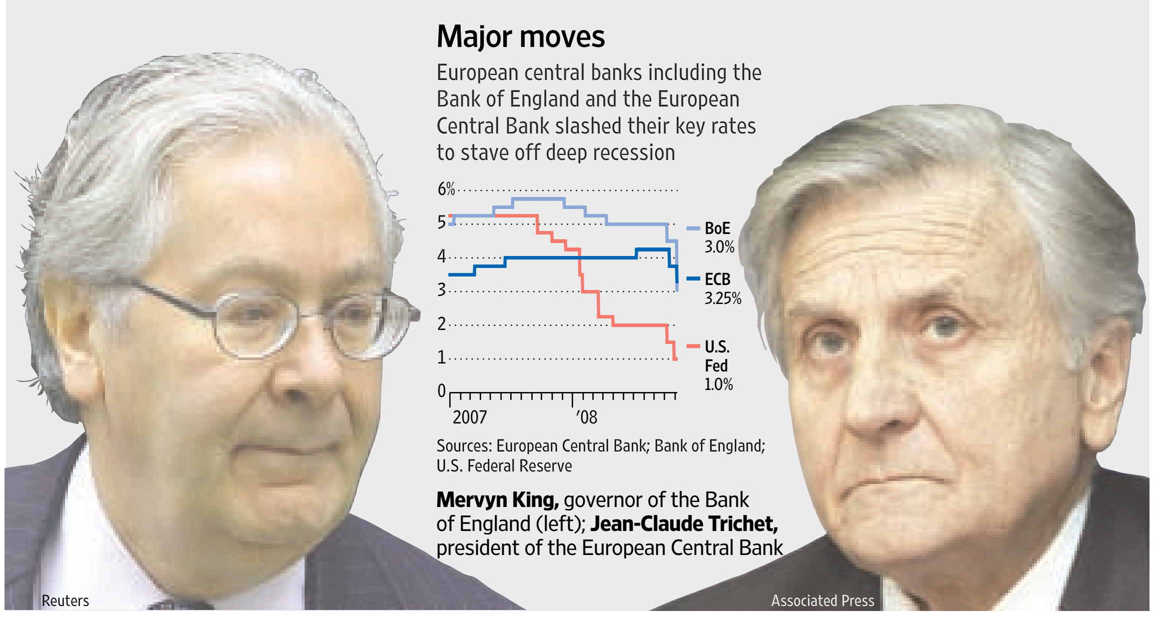
"It's a spectacular move and it confirms that the [central bank] has finally woken up to the seriousness of the situation facing the U.K. economy," said Jonathan Loynes, chief U.K. economist at Capital Economics in London. "But there's much more work to do."

The U.S. Federal Reserve's current interest-rate target is 1%—a level Mr. Loynes expects the Bank of England to reach next year. Economists also expect the ECB to make another half-point cut in December and many see euro-area interest rates falling to around 2% by the middle of next year.

At a news conference following the ECB Governing Council's meeting, President Jean-Claude Trichet signaled policy makers envision further cuts, saying, "I don't exclude that we could decrease rates again."

Highlighting "sluggish domestic and external demand" and tighter credit conditions as factors depressing euro-zone growth, Mr. Trichet said policy makers expect inflation to fall sharply in coming months, reaching their preferred level of just below 2% next year. Inflation in Octo-

Please turn to page 2



Mervyn King, governor of the Bank of England (left); **Jean-Claude Trichet,** president of the European Central Bank

What's News—

Business & Finance

European central banks slashed interest rates to stave off prolonged recessions, with the Bank of England delivering a dramatic 1.5 percentage-point cut, to 3%. The ECB lowered its key rate a half point to 3.25%. Switzerland and the Czech Republic also cut rates. **Page 1**

■ **Stocks around the world** fell on fresh signs companies are struggling. The Dow Jones industrials lost 4.9%. European shares declined despite rate cuts. **Page 1**

■ **The oil-price slump** won't last, the IEA said, and the industry needs to invest in production. U.S. benchmark crude fell $4.53, or 6.9%, to $60.77. **Page 1**

■ **AIG is trying to persuade** the Federal Reserve to ease terms of an $85 billion loan agreement, as financial pressures rise. **Page 17**

■ **Man Group reported** a drop in earnings and performance fees, providing a view across the hedge-fund sector. **Page 17**

■ **Iceland began** the process of restructuring its banks' foreign debt and awaited an IMF loan, while Ukraine got funds. **Page 17**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8695.79	-443.48	-4.85
Nasdaq	1608.70	-72.94	-4.34
DJ Stoxx 600	215.46	-12.67	-5.55
FTSE 100	4272.41	-258.32	-5.70
DAX	4813.57	-353.30	-6.84
CAC 40	3387.25	-230.66	-6.38
Euro	$1.2781	-0.0285	-2.18
Nymex crude	$60.77	-4.53	-6.94

Money & Investing > **Page 17**

World-Wide

The U.S. told Maliki it has accepted many of the changes proposed by the Iraqi cabinet in a draft security pact between the two countries. Because of the largely positive response from the U.S., Iraqi officials say they are warming to a resolution. The cabinet plans to meet Sunday to discuss the deal, which needs to be finalized by year end. **Page 10**

■ **A bombing** by Islamic militants killed 23 members of a tribal militia that Pakistan is backing as part of efforts to defeat the Taliban and al Qaeda. **Page 2**

■ **Obama will visit** the White House on Monday to discuss transition plans. Illinois Congressman Rahm Emanuel agreed to be the next U.S. chief of staff.

■ **The U.S. conceded** that an Israeli-Palestinian peace deal by a year-end deadline is no longer possible, as Rice began another visit to the Mideast.

■ **EU antitrust commissioner** Neelie Kroes signaled possible concerns about deals Austria reached in its bank package.

■ **China largely rebuffed** U.S. attempts to discuss contingency planning for a political transition inside North Korea, U.S. officials said. **Page 10**

■ **A fragile cease-fire called** by rebels in eastern Congo appeared to be unraveling.

EDITORIAL & OPINION

The election's losers
Why left-wing judges and the racial-grievance industry came out on bottom. **Page 12**

Oil supplies will tighten and prices rise, IEA says

By Neil King Jr. And Spencer Swartz

The world faces mounting uncertainty and escalating costs on the energy front as companies scramble to find new pockets of oil and squeeze more production from aging fields, the International Energy Agency says in a largely gloomy annual report.

The agency also says the recent slump in oil prices won't last long and "current global trends in energy supply and consumption are patently unsustainable."

The report comes as the global economic downturn continues to shove down oil prices, which hit a high of $147 in July. On Thursday on the New York Mercantile Exchange, U.S. benchmark crude hit a 19-month low in intraday trading, and closed down $4.53, or 6.9%, at $60.77.

In its report, the Paris-based agency looks beyond the current economic slump to predict that oil supplies will grow tight again as soon as world energy demand picks back up. Oil prices could top $200 a barrel by 2030, the agency concludes.

The IEA represents the interests of consuming nations and often paints a relatively bearish picture of supply.

To keep abreast of rising energy demand and decrepit infrastructure, companies will have to invest over $26 trillion between now and 2030, with slightly over half of that going to increased power generation and distribution. Most of the rest of the investment will have to go to exploring and developing new sources of oil, which will remain the world's primary energy source for decades.

Rising demand and production declines in existing fields will require oil companies to add 64 million barrels a day in capacity over the next 22 years, more than six times Saudi Arabia's current production. Nearly half of that will be needed in the next eight years, the report warns.

However, the agency notes signs of chronic and widespread underinvestment in the oil sector. To keep abreast of natural declines and to bring on crucial new supplies, companies will have to spend around $350 billion a year on new oil and gas projects through 2030. By comparison, the industry spent just $390 billion in total between 2000 and 2007, the report says.

The current economic environment, meanwhile, is throwing cold water on dozens of important projects, leading to delays or out-

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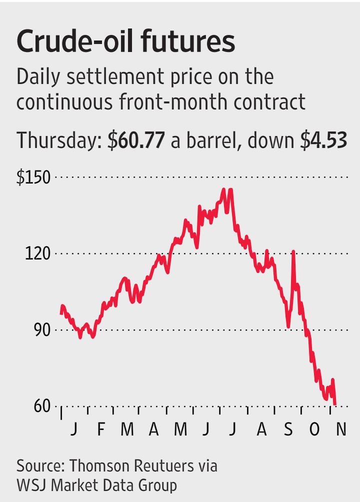

Recession fears knock shares; GM down 13%

Fresh signs that companies around the world and their customers are struggling sent stock markets to a second consecutive round of big losses Thursday.

The Dow Jones Industrial Average, which tumbled 486 points on Wednesday, plunged another 443.48 points, or 4.9%, to 8695.73. The Standard & Poor's 500-stock index fell 47.89 points, or 5%, to 904.88. The tech-focused Nasdaq Composite Index fell 4.3% to 1608.70.

By Peter A. McKay, Steve Goldstein and Jeannie Clarke

In Europe, interest-rate relief from the European Central Bank, the Swiss National Bank and a particularly sharp reduction from the Bank of England weren't enough to offset worries about a likely recession. A number of companies in the region issued profit warnings or disappointing earnings, and the pan-European Dow Jones Stoxx 600 Index had its biggest loss in three weeks. Asian markets also tumbled.

ABREAST OF THE MARKET

"The [U.S.] market just can't get a foothold right now, even though some of the uncertainty with the election is behind us," said Peter Cardillo, chief economist at Avalon Partners in New York. "Company after company is giving horrible guidance, so the market can't begin to price in a recovery in profits yet."

General Motors plunged 13% after the president of its North Amer-

Please turn to page 3

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THE WALL STREET JOURNAL.

Central banks slash rates

Continued from first page

ber was 3.2%. Mr Trichet said the council had discussed cutting rates by three-quarters of a point but settled unanimously on the half-point move.

U.K. policy makers also explained their surprise move by noting that rapidly deteriorating growth prospects raise the specter of falling prices. The Bank of England targets an annual inflation rate of 2%. Commodity prices pushed U.K. inflation to 5.2% in September, but the central bank said in a statement that falling commodity prices and a sharp economic slowdown mean there is "a substantial risk of undershooting the inflation target."

A raft of miserable economic data Thursday underscored the severity of the slowdown gripping Western Europe. Spanish industrial output fell 8.8% in September compared with a year earlier. It is the fifth consecutive monthly fall, marking the longest period of decline since 2001, according to Spain's National Statistics Institute.

Weaker foreign demand and a falloff in capital-goods orders pushed manufacturing orders in Germany, Europe's largest economy, down by 8% in September from August, the steepest pace since records began in 1991.

New car registrations fell in October in all five major European car markets. New registrations were down 23% for the month in the U.K., 7.3% in France, 40% in Spain, 19% in Italy, and 8% in Germany, according to industry figures.

Mr. Trichet highlighted preliminary results from a new survey of bank loan officers, due Friday, showing that euro-zone banks nervous about the economic outlook continued to tighten credit standards in the third quarter, particularly to corporations. Still, Mr. Trichet said, "we see no credit crunch" currently in the euro-zone economy.

In a bid to ensure the central bank's interest-rate cuts filter through to the broader economy, Mr. Trichet encouraged commercial banks to lend to one another more freely. "I would ask the banks to be up to their responsibilities to fully take into account what we and governments have decided," Mr. Trichet said, noting euro-zone governments have put in place sweeping financial-sector rescue plans.

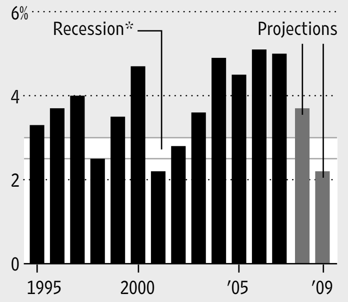
While the rates at which banks lend to one another for longer periods of time have fallen somewhat as the ECB has flooded money markets with funds, they remain well above historical averages. Many euro-zone corporate and household loans use those interbank rates as a benchmark.

Economists said the size of the Bank of England's cut might also have been aimed at ensuring that lenders pass a portion of the decrease onto borrowers, particularly homeowners with variable-rate mortgages. Britain's biggest mortgage lender said house prices fell by a record 14.9% in October compared with last year. The slide, which brought house prices down 15.7% from their peak, was the biggest since records began in 1983.

—Paul Hannon in London and Andrea Thomas in Berlin contributed to this article.

World-wide slowdown

Annual change in global gross domestic product



*At different times, the IMF has defined a global recession as below 2.5% or 3% growth

Source: International Monetary Fund

Bomb in Pakistan kills 23

Taliban takes aim at tribal fighters near Afghan border

By Zahid Hussain and Matthew Rosenberg

ISLAMABAD, Pakistan—A suicide bombing by Islamist militants killed 23 members of a tribal militia that Pakistan is backing as part of the country's effort to defeat the Taliban and al Qaeda. The tribal fighters were killed as they were preparing an assault in Bajaur, a region near the Afghan border racked since August by fighting between Pakistan's army and Islamic militants.

The attack on the Salarzai tribesmen mirrored an Oct. 10 suicide bombing against another government-backed militia, suggesting that the Taliban and al Qaeda see such attacks as a way to keep the people of Pakistan's tribal regions from taking up arms against them.

A senior Pakistani security official said the suicide bomber rushed into a crowd of about 200 tribesmen who had torched the houses of suspected militants and were planning to attack Taliban hideouts near a village in Bajaur.

Several tribal elders were among the dead, the Associated Press reported, and more than half of the 40 people reported wounded were in serious condition. The scene was littered with body parts following the blast, the AP said.

Supporters of a local Taliban commander, Naimatullah, claimed responsibility for the attack, according to Pakistan's private Geo television station.

The militias—known as lashkars—have become a centerpiece of the Pakistani campaign to reassert government control over the rugged tribal regions that border Afghanistan and that have largely fallen under the sway of the Taliban and al Qaeda.

But the lashkars' effectiveness has been limited. They are lightly armed and Pakistani commanders have refused to give them heavy weapons, leaving them overmatched by the well-armed, battle-tested Taliban and al Qaeda fighters.

The lashkars also have proved vulnerable to suicide attacks, as shown by Thursday's bombing. The Salarzai tribesman had gathered and spent hours burning houses before preparing to attack other hideouts. That gave Taliban fighters the information and time needed to launch a pre-emptive suicide attack, a military official in Islamabad said.

In the Oct. 10 bombing, a car drove into a gathering of men of the Orakzai, another of Bajaur's tribes, who were discussing how best to combat the Taliban. That bombing killed more than 50 meeting participants.

In addition to using suicide bombs, the Taliban and al Qaeda have beheaded tribal elders and driven others from their homes in an effort to maintain control over the regions along the Afghan border.

Economy & Politics

Union solidarity?

Organized labor hopes Obama will fight for its agenda > **Page 9**

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

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LEADING THE NEWS

Weak U.S. labor market points to recession risks

Output growth slows as jobless claims stay at high level for week

By Kelly Evans

Sagging output and tough credit conditions are prompting U.S. companies to step up layoffs, raising the risk of a prolonged recession.

The Labor Department said Thursday that U.S. nonfarm productivity growth slowed to a 1.1% seasonally adjusted annual rate in the third quarter, from 3.6% in the second quarter. The slowdown resulted from a sizable decline in total output and an even larger drop in hours worked, a warning sign of future layoffs.

"In this environment where we're about to go into a fairly deep recession, you can bet that companies are going to squeeze as much productivity as they can out of each worker," said Nariman Behravesh, chief economist at IHS Global Insight in Lexington, Mass. His company forecasts the U.S. unemployment rate, currently 6.1%, could rise above 8% as job losses mount, putting pressure on consumer spending and economic growth.

A separate report from the Labor Department released Thursday showed the number of new claims for unemployment benefits was higher than expected last week, with the total number on jobless rolls rising to its highest in 25 years.

New jobless claims slipped a seasonally adjusted 4,000 last week but remained at a high level of 481,000. The four-week average, which economists use to smooth out weekly volatility, held steady at 477,000. The number of people drawing weekly jobless benefits for the week ended Oct. 25 rose to 3.8 million, the most since the 1980-82 recession, from 3.7 million the previous week.

The U.S. lost 159,000 jobs in September, and economists at Goldman Sachs say that number likely approached 300,000 last month, with the unemployment rate rising to 6.4% from September's 6.1%. The government will release its official October tally on Friday.

The prospect of further layoffs was underlined by the 2.7% drop, at an annual rate, in hours worked during the third quarter—the steepest in six years and a sign that companies began cutting labor costs aggressively this summer, even before credit conditions worsened.

Oil supplies will tighten, IEA says

Continued from first page

right cancellations of investments meant to add significant new supplies of oil as well as refined products.

The agency on Thursday released a 15-page summary of its hefty annual study, the rest of which will come out next week. The study focuses on a detailed analysis of production rates and reserves within 800 oil fields around the world.

The world's oil challenge is compounded by the fact that so many of the principal oil fields are getting older and less productive, particularly in nations outside the Organization of Petroleum Exporting Countries, such as Mexico, Norway and Russia. Output from most non-OPEC nations has either topped out already or will do so over the next two decades, the agency said.

The rate at which production from existing oil fields is falling is accelerating as they age, the agency said. Although so-called decline rates vary according to the size and age of the field, the average decline rate world-wide is 6.7% for fields past their peak production, a figure that could rise to 8.6% by 2030.

That means companies must spend more just to keep production from falling.

Declining output in countries outside of OPEC means the big producers within the cartel such as Saudi Arabia, Iran and Iraq will assume an ever-larger portion of world supply. By 2030, the report predicts, OPEC will account for just over half of all global output, up from 44% last year.

At the same time, the countries with the biggest known reserves are also the most restrictive to outside investors and the most likely to move deliberately when it comes to developing new fields.

"Investment by these [OPEC] countries is assumed to be constrained by several factors, including conservative depletion policies and geopolitics," the report said.

The agency, which is funded by big oil-consuming countries such as the U.S. and Japan, strikes a more optimistic note on the renewable-energy front, saying electricity powered by sources such as wind, solar and geothermal will grow by just over 7% a year. Even then, renewable electricity generation, beyond hydropower, will amount to just 4% of the world total by 2030, up from 1% in 2006.

Energy experts now say that the U.S., Europe and Japan will likely never use more oil than they did last year. In a historic shift, all projected increases in oil demand will now come from the developing world, mainly China, India and the Middle East.

The agency predicts robust growth in an array of renewable-energy sources, particularly for electricity generation. But even then, fossil fuels will still account for 80% of the world's energy mix in 2030.

Associated Press

Oil supplies will grow tight again as soon as world energy demand picks back up, the IEA says. Above, oil fields near Awali, Bahrain.

News weighs on U.S. stocks

Continued from first page

ica unit said that the next 100 days will be vital to the survival of the struggling U.S. auto industry. The remarks, part of a speech to an industry group, fueled expectations that GM's third-quarter profit report due Friday will be dismal and that Congress may increase its existing $25 billion loan program to prop up the auto industry.

Investors also paid close attention to a series of reports from retailers on same-store sales in October. **AnnTaylor Stores** plunged 25% in late trading after it cut its third-quarter outlook and said it will expand its restructuring program.

The technology sector was hit by a downbeat forecast from **Cisco Systems**, which is often viewed as a litmus test on corporate investment since purchases of electronics are an important precursor to expansion in most industries. Cisco shares were down 2.8% after the company said on Wednesday that current-quarter sales may decline by 5% to 10%.

Blackstone Group dropped 12% after the private-equity giant posted a wider loss in the third quarter on negative revenue.

Falling oil prices hit energy stocks. The crude-oil contract for December delivery settled at $60.77 a barrel, down $4.53 a barrel, or 6.9%, its lowest settlement since March 21, 2007. Among Dow components, **Chevron** was off 6.7% in late trading.

Significant reductions in interest rates in Europe did little to stanch the stock market's slide. The Dow Jones Stoxx 600 dropped 5.6% to 215.48, leaving it at its lowest close since Oct. 29. The basic-resource sector was hammered, but financial-services and technology stocks also were among the day's biggest losers.

Steel giant **ArcelorMittal** fell 19% in Paris a day after it issued a warning about fourth-quarter earnings. Miner **Vedanta Resources** dropped 21% in London after reporting a 25% decline in six-month profit.

The FTSE 100 index initially rallied on news of the larger-than-expected U.K. cut but then retreated. Most investors viewed the cut as a panic move and questioned how severe the recession will be.

The index dropped 5.7% to 4272.41, pushing it into the red for the month with a loss so far of 2.4%. **Man Group** plunged 31% in London after the hedge-fund manager reported a bigger-than-forecast slide in assets under management.

Among other major markets, the German DAX 30 posted its steepest decline in a month, falling 6.8% to 4813.57, and the French CAC 40 lost 6.4% to 3387.25, bringing two days of losses to 8.2%.

Adding to the gloom were warnings from a number of companies. **Adidas** dropped 9.6% in Frankfurt as the maker of sporting goods withdrew its 2009 outlook.

Specialty chemicals company **Altana** cut its 2008 sales outlook because of the deteriorating economic environment. But shares soared 38% in Frankfurt after it received a takeover offer from its majority owner, Susanne Klatten.

Consumer goods and adhesives producer **Henkel** fell 7%, also in Frankfurt, as it lowered its full-year earnings guidance.

Legrand skidded 12% in Paris after the electrical-equipment company cut its full-year sales guidance for the second time, citing worsening market conditions.

Hermes International lost 5.3% in Paris after the luxury-goods company slightly lowered its full-year outlook because of "moderating" retail activity.

AXA dropped 9.1% in Paris as investors reacted poorly to a fall in nine-month sales and a contraction in some margins.

CORPORATE NEWS

Beer sales flatten in emerging countries

As economic growth slows, Brazil, Russia lose taste for imports, pressuring earnings at multinational brewers

A Russian, a Brazilian and a South African walk into a bar. None of them buys a beer.

The punch line is none too funny if you're a multinational brewer.

By ***David Kesmodel*** *in Chicago,* ***Aaron O. Patrick*** *in London and* ***John Lyons*** *in São Paulo*

Beer sales in emerging economies are cooling, sapping a key source of profit growth for the world's brewing giants. The abrupt weakness, especially in Eastern Europe, is putting pressure on brewers' profits and could accelerate consolidation in an industry that has seen several multibillion-dollar deals in the past few years.

Beer titans ratcheted up investments in emerging markets in recent years, partly to offset weakness in mature markets like North America and Western Europe. But recent high inflation and slowing economic growth are prompting consumers in some developing economies to buy less beer.

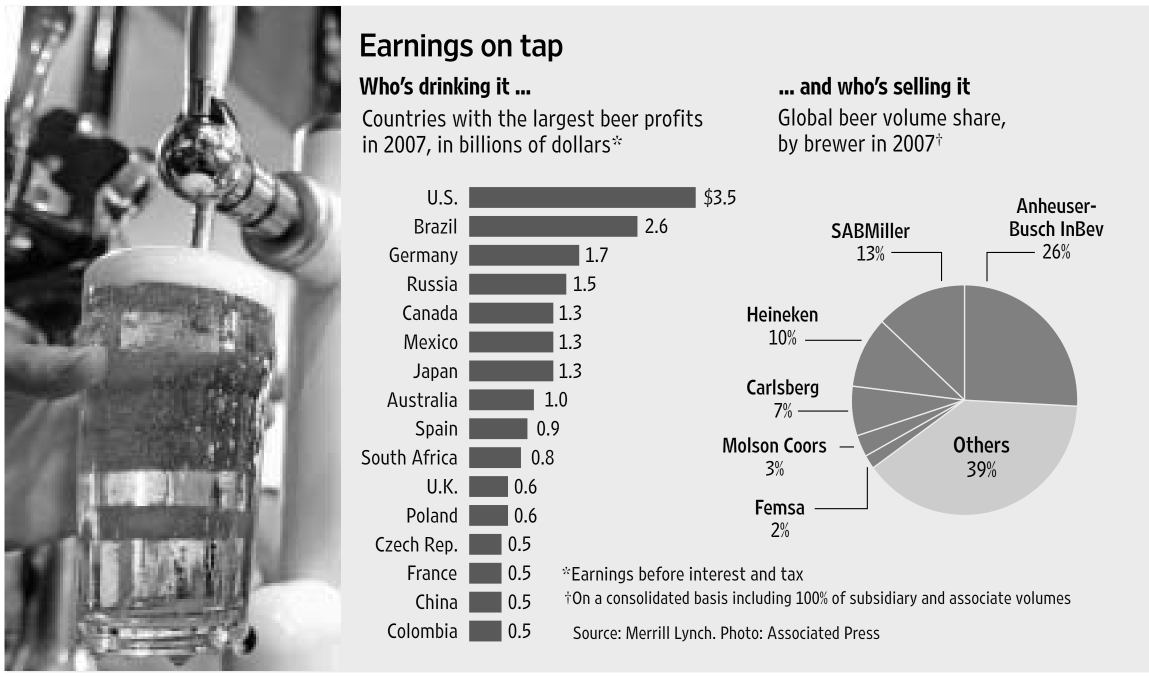
On a recent evening at Ilarco in Bogotá, Colombia, bartender German Delgado said some customers have switched from beer to *aguardiente*, a less-expensive local spirit. "They get drunk faster and spend less," he said. "People are taking good care of their money."

Kris Kippers, an analyst with Petercam, a securities firm in Belgium, said the shift is "a serious hit for brewers." In Russia, especially, "we've seen a huge setback."

InBev NV, the brewer of Stella Artois and Beck's, said Thursday that beer unit volume in Russia dropped 11% in the third quarter, compared with a 14% increase a year earlier. Volume in Brazil rose just 1.1%.

InBev, based in Leuven, Belgium, reported net income fell 14% to €447 million ($557.4 million). Revenue rose 4.5% to €3.95 billion.

Carlsberg AS Wednesday said unit volume in Russia, where it has a major presence, fell 1% in the third quarter. The Danish brewer also lowered its profit forecast for the full year.



And London's **SABMiller** PLC—which has one of the heaviest presences in developing markets—next week is expected to report slowing growth in some of its markets when it reports earnings for its fiscal first half. Three of its worst-performing markets are Russia, Colombia and South Africa.

Dawn Gourcia, manager of a popular beach bar called Dizzy's in Cape Town, South Africa, said sales of SABMiller's Castle Lager have fallen in recent months. "There has been a clamp down on credit," she said. "I think there is less money around."

Beer sales in some parts of the emerging world are still strong, including Peru, where SABMiller reported a 10% increase in sales by volume for its first half, which ended Sept 30.

Because beer is something of a luxury product in the emerging world, sales are more likely to fall in an economic slowdown, analysts said. Drinkers in poor countries can turn to less-expensive alternatives, including vodka in Russia, sugar-cane rum and aguardiente in Latin America and sorghum wine in China.

The weaker growth in developing markets has coincided with prolonged rising input costs for brewers for such items as barley, glass and aluminium. However, those cost pressures are starting to ease, which may help blunt the impact of softer sales.

Carlsberg has been hit especially hard. The company in April bought the 50% stake of the maker of Baltika, Russia's most popular beer, that it didn't already own. The deal made Carlsberg the biggest brewer in one of the world's fastest-growing beer markets. Analysts initially welcomed the purchase, predicting Carlsberg would increase Russian sales by as much as 9% this year. But Carlsberg said Wednesday that unit volume rose only 1% in the first three quarters.

Carlsberg Chief Executive Joseph Rasmussen said he remains happy with the investment. Russians "have an underlying drinking culture being stronger than what we have in Europe," he said in an interview. "There is a lot of room for growth in value terms."

The beer market in Latin America generally appears to be in better shape than those in Russia and other Eastern European countries. But there are reasons for concern.

Until recently, the resource-rich region was riding a surge in commodity prices. Those prices have collapsed, prompting economists to slash growth forecasts for the region in recent weeks. Morgan Stanley says Mexico's economy, for example, may not grow at all next year. Morgan Stanley earlier forecast 3% growth.

Declining consumption isn't the only worry. Latin American currencies plunged in October as the economic outlook deteriorated. If that trend holds, the region would contribute less to international beer companies that calculate earnings in dollars or euros.

Part of the reason for slower sales growth in Brazil is a tough new "dry law" that punishes drivers caught with any detectable trace of alcohol in their blood. Enforcement is saving lives but has hurt sales of *choppes*, the trays of beers with copious fizz that are popular at Brazilian happy hours.

Declining growth in emerging markets raises the capital-intensive industry's need for purchasing power, which often comes through consolidation, said Mr. Kippers, of Petercam. This year, InBev agreed to buy **Anheuser-Busch** Cos., the largest U.S. brewer.

Analysts said they expect further consolidation, though the credit crunch could get in the way. SABMiller and **Molson Coors Brewing** Co., which formed a U.S. joint venture this year called MillerCoors, are among the most likely candidates to buy other brewers, analysts said. Among their possible targets: **Foster's Group** Ltd., of Australia. Carlos Laboy, an analyst with Credit Suisse Group, said Molson Coors's recent decision to acquire an indirect 5% stake in Foster's indicates the Denver brewer may consider some kind of deal with the beer and wine maker. SABMiller is interested in buying Foster's beer operations, according to a person familiar with the situation. Molson Coors declined to state its intentions for the stake. A Foster's spokeswoman declined to comment.

Separately, InBev said Thursday that it remains on track to acquire Anheuser-Busch in the next two months. The $52 billion purchase will create the world's largest brewer. Anheuser Thursday posted a 5.7% decline in third-quarter net income, as restructuring charges offset a better-than-expected 6.5% jump in revenue.

—Inti Landauro in Bogotá, Colombia, contributed to this article.

Oil majors look for aid before committing to renewables

BY RUSSELL GOLD

Anticipating a stronger emphasis on renewable fuels from President-elect Barack Obama, oil-industry executives say they want to see a substantial increase in federal research funding before they commit considerable muscle.

During the campaign, companies were criticized for spending too little of their record profits on developing new fuel sources. But oil companies contend the technology for cleaner energy sources, such as plant-derived fuels, isn't yet ready for wide-scale deployment. Their money is better spent finding new supplies of fossil fuel, they argue.

ConocoPhillips said this week it is deferring an "aspiration" to become a broader energy supplier, and will remain focused on its traditional oil and natural-gas businesses.

"We want to live within our means," Chairman and Chief Executive James J. Mulva said in an interview, citing the credit crisis as part of the reason for postponing more investment in renewable fuels. "We would like to become more of a complete energy company. That strategy has not changed. The timing by which we would do it is going to take longer."

Mr. Mulva said ConocoPhillips took a hard look at diversifying into renewable fuels, as well as coal and nuclear, but only in the last few months decided against it. He said the government should use "more aggressive programs and more resources" to develop advanced fuel technology before throwing its weight behind any particular fuel sources. ConocoPhillips and other oil giants, which have large research operations, would be logical recipients of increased federal support. So far, none have said what amount of federal spending would be needed.

The Houston-based company earned $14.77 billion in the first nine months this year. Combined, the three largest U.S. oil companies—**Exxon Mobil** Corp., **Chevron** Corp. and ConocoPhillips—earned $71.2 billion during the same period.

ConocoPhillips doesn't plan to abandon current research efforts, Mr. Mulva said. Among them: studying how to turn coal into natural gas and produce biodiesel from animal fat. According to congressional testimony in May, ConocoPhillips said it spent about $150 million last year on research into renewables, about 1% of its capital budget.

Observers say ConocoPhilips and other oil giants are converging on a strategy for working with a new Democratic administration, which they believe is intent on pushing for environmentally-friendly fuels at the expense of traditional fossil fuels. It entails arguing for financial assistance in the form of research dollars, just as the coal sector receives aid for researching clean coal technology, and the auto industry for improving fuel efficiency.

"It's political judo," said Kevin Book, an energy analyst with Friedman, Billings, Ramsey Group Inc. "If you make a reasoned argument that your enemy can help you to your goals faster than you can get there by yourself, you might actually succeed. It's using the weight of political opposition to your advantage."

Kenneth Cohen, an Exxon Mobil vice president who oversees the Texas company's public affairs and lobbying efforts, said in an interview last week that the government should use tax policy and grants to speed up investigation of new fuel sources. He cautioned that the government should "avoid picking winners and losers" among fuels.

The argument for more study is criticized by those who see it as a delaying tactic. "We need to do a lot more than study at this point. We need to be moving aggressively," says Daniel Lashof, director of the National Resources Defense Council's climate center.

But the oil industry is vigilantly protecting its pocketbook, arguing that until the market for renewables matures, the global economy needs oil and natural gas, and the federal government shouldn't take steps that could hurt fossil-fuel production. One such step could be the windfall-profits tax that Mr. Obama raised last spring as oil topped $100 a barrel.

On the whole, an Obama administration is expected to pursue policies that could hurt oil companies' profits. Industry analysts expect the new administration to consider climate-related surcharges on fossil fuels. It also could cap greenhouse-gas emissions and auction off "credits," permission slips to emit gases, to finance research into alternative fuels.

Still, even oil-industry critics support some role for big oil in the growth of renewable fuels. Producing and deploying new fuels on a global scale is something oil companies are well suited to do, says Tracey Rembert, a corporate governance analyst with the Service Employees International Union and a longtime critic of oil companies' reluctance to embrace renewable fuels. "Those of us who have been pushing Big Oil for a long time in this area will have to bite our tongues because we need the energy," he says.

ConocoPhillips's Mr. Mulva says expectations are already too high "in terms of what ultimately could be done in a short period of time."

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Airbus expects downturn in jet orders next year

By Jeffrey Ng

European aircraft maker Airbus cautioned that it expects a substantial decline in new jet orders next year because of the global economic slowdown, which has already resulted in some order cancellations and deferrals.

Airbus Chief Operating Officer John Leahy said the expected slowdown shouldn't affect Airbus's deliveries in the next few years because it has a sizable backlog of orders, adding the company is overbooked until 2011.

John Leahy

The aircraft maker, a unit of **European Aeronautic Defence & Space** Co., said it had about 3,700 jets on order as of last month, including around 850 orders that were made this year.

Mr. Leahy said the plane maker has received cancellations for about 100 orders so far this year, though no Asian carriers were involved. The cancellations include 65 orders from bankrupt U.S. startup Skybus Airlines Inc., he said. The company has no current plans for layoffs, Mr. Leahy added.

There is a big order backlog, with the company overbooked until the year 2011.

"We don't need large orders next year. ... We'd be happy with no orders" given the plane maker's big production backlog, Mr. Leahy said, adding that some cancellations and deferrals are necessary to alleviate the overbooking problem.

Even so, Airbus said last month it would suspend a planned production increase in response to the turmoil in the global economy and weakness in the airline industry. It had planned to raise output by almost 20% over the next two years, but will now scrap that increase and re-evaluate its plans in the first half of next year.

Airbus said it will maintain its rate of producing 36 single-aisle planes in the A320 family each month, rather than increasing the rate to 40 planes a month by 2010 as previously planned. The company will also slow an increase in production of its larger A330 and A340 widebodies.

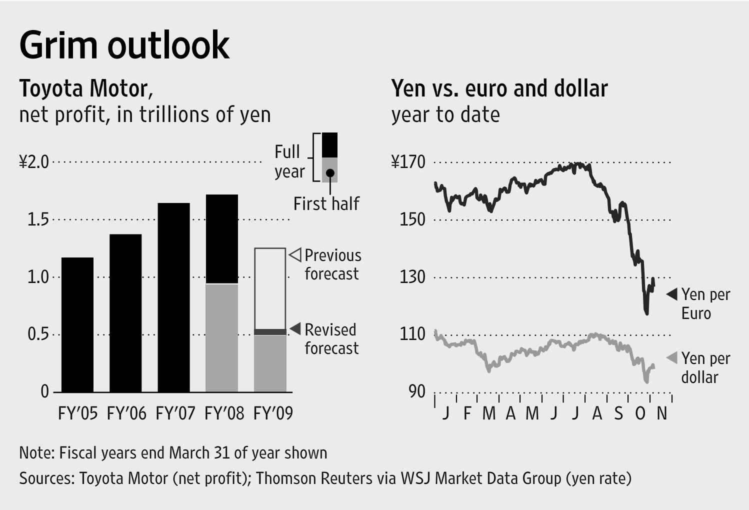
Separately, Airbus said that last month, it delivered 42 aircraft to customers and booked orders for nine planes, including four A330-200s and one A340-500 aircraft.

—David Pearson contributed to this article.

Toyota pares its outlook

Profit plunges 69% on weak U.S. sales and increased costs

By Yoshio Takahashi And John Murphy



Toyota Motor Corp. reported a 69% drop in net profit for its fiscal second quarter and slashed its full-year forecast by more than half. The company now projects that profit will fall to its lowest level since 1999, in light of a steep decline in U.S. sales and the global financial crisis.

The dismal outlook by Toyota—which for most of this year has ranked as the world's biggest auto maker—is the latest evidence of the troubles besetting the global motor-vehicle industry, which is suffering from a drop in demand in major markets amid global economic turmoil and higher costs for materials. Facing these headwinds, **Honda Motor** Co., **BMW** AG and other car makers recently reported sluggish earnings for the quarter ended September.

U.S. auto giants **General Motors** Corp. and **Ford Motor** Co. will release their results on Friday.

Compared with the deep crisis hitting Detroit auto makers, Toyota remains strong and competitive. Still, after years of expansion and huge annual profit, Toyota is now forced to cut its temporary work force in Japan, scale back production and look for other ways to trim costs and shore up earnings as it prepares for at least another 12 months of slow sales.

"This is the toughest [business] environment that we have ever experienced," said Mitsuo Kinoshita, Toyota's executive vice president, at a news conference.

Mr. Kinoshita said that Toyota has set up a committee headed by its president, Katsuaki Watanabe, to improve earnings through deeper cost cuts in sales and production operations and by rolling out new vehicles like its recently launched ultra-super-compact car iQ.

Toyota said it will continue to focus its resources on expanding the development and sales of its popular hybrid vehicles, with plans to introduce four new hybrid cars in 2009, including a new Prius and Lexus hybrids.

Even as business remains strong in emerging markets such as China and the Middle East, sales in those regions haven't been enough to offset losses in the U.S., where Toyota garners half its profit. Toyota's U.S. sales have plunged 12% this year.

In the July-September period, Toyota, which topped GM to become the world's biggest auto seller in the first nine months of this year, posted a net profit of 139.8 billion yen ($1.4 billion), down sharply from 450.9 billion yen a year earlier.

Revenue fell 8% to 5.975 trillion yen from 6.49 trillion yen. Its operating profit slipped 72% to 169.5 billion yen from 596.7 billion yen.

Mr. Kinoshita said he doesn't expect demand in the U.S. to pick up until at least the end of 2009.

Toyota lowered its net profit forecast for the full year ending March to 550 billion yen from its previous forecast of 1.25 trillion yen. That would mark the smallest profit for the auto maker in 10 years and a 68% drop from net profit of 1.717 trillion yen for the previous full year.

The auto maker also reduced its operating profit projection to 600 billion yen from 1.6 trillion yen and cut its sales revenue projection to 23 trillion yen from 25 trillion yen.

Even before Toyota announced its earnings after the markets closed in Japan, media reports of a possible lower forecast at Toyota pushed the auto makers's shares down 10% Thursday in Tokyo.

Toyota reports its earnings under U.S. accounting standards.

Deutsche Telekom's profit triples as tax bill declines

By Archibald Preuschat

Deutsche Telekom AG said its third-quarter net profit more than tripled because of a lower tax bill, though revenue fell slightly on currency fluctuations.

Germany's former state telecommunications monopoly Thursday said it hasn't felt an impact from the current financial crisis and reiterated its 2008 targets.

Deutsche Telekom said net profit came to €895 million ($1.16 billion), compared with €256 million a year earlier, when the company wrote down €700 million on deferred taxes because of German corporate-tax revisions.

Revenue fell 1.5% to €15.45 billion from €15.69 billion, hampered by the strength of the euro against the U.S. dollar. The currency impact was lower than in the second quarter, said Chief Financial Officer Karl-Gerhard Eick.

In the U.S., Deutsche Telekom's T-Mobile unit gained 670,000 customers in the third quarter, on par with the second quarter but 22% below the net additions in the year-earlier period, in part because more customers left the operator after the expiration of two-year contracts introduced in 2006.

"I consider Deutsche Telekom to be well prepared for the challenges ahead in the coming months," said Chief Executive René Obermann. He said that despite the current financial and economic crisis, business has remained stable, including at T-Mobile's U.S. operations.

Deutsche Telekom confirmed its outlook for 2008, saying it expects full-year adjusted earnings before interest, taxes, depreciation and amortization of €19.3 billion, unchanged from last year, and free cash flow of €6.6 billion, also flat with the 2007 level.

For next year, the company said it expects adjusted Ebitda to be unchanged or slightly above the 2008 level, and free cash flow at the 2008 level. The 2009 outlook excludes the impact of the acquisition of a 25% stake in Hellenic Telecommunications Organization SA. Deutsche Telekom bought the stake in the Greek company earlier this year in a €3.2 billion deal, and expects to consolidate it in January.

Deutsche Telekom's 2009 outlook is in line with market expectations, according to analysts at Nomura.

Weak retail sales in U.S. set scene for sorry holiday

By Kevin Kingsbury

U.S. retailers largely reported October sales declines in a month that saw consumer confidence plunge amid the nation's financial crisis and spreading layoffs.

The sector's weak performance sets the scene for what looms as a dismal holiday-shopping season.

Numerous companies reported sharp declines, led by teen retailer **Abercrombie & Fitch** Co., which saw a 20% drop in sales at stores open at least a year. Upscale retailers like Abercrombie have been feeling the pain more than lower-end stores.

At discount giant **Wal-Mart Stores** Inc., results improved and topped its modest projections. But rival discounter **Costco Wholesale** Corp. fell short of analysts' expectations.

Target Corp. extended its slump, reporting a 4.8% decline in same-store sales. President and Chief Executive Gregg Steinhafel called the October results "very disappointing" and said the woes likely will continue into the holidays and beyond.

Wal-Mart said U.S. same-store sales, excluding fuel, rose 2.4% last month. The company had projected 1% to 2% growth. Eduardo Castro-Wright, head of Wal-Mart's U.S. operations, said store traffic was high and seasonal sales were strong. Helping the cause was "competitive pricing, especially on basics throughout the store," he said.

For November, Wal-Mart expects its total U.S. same-store sales to rise 1% to 3%.

Thomson Reuters said its same-store-sales index for October fell 0.7%, double the expected decline, while the drop excluding Wal-Mart was 4.1%. The results are the worst since the measure's inception in 2000.

"Consumers are clearly putting their wallets under lock and key and reacting to the severe economic conditions at play right now," said Patricia Walker, a partner with the North American retail practice of Accenture Ltd.

The fact that some discount retailers aren't capitalizing on the budget-tightening is also telling, she said. "It seems to me that consumers are not only trading down but some are trading out."

October's weak retail results follow what the U.S. government said last week was the worst quarter of consumer spending in 28 years. The initial reading of third-quarter gross domestic product had consumer spending falling 3.1%, the first decline since the early 1990s.

Costco reported a 1% decrease in October same-store sales; analysts were expecting growth of about 4%. Assuming no change in currency values, Costco said total same-store sales would have risen 3%.

J.C. Penney Co. posted a 13% decrease in same-store sales, while **Saks** Inc. had a 17% slide and **Kohl's** Corp. reported a 9% drop. **Macy's** Inc. said same-store sales for the month dropped 6.3% and projected a decline of 1% to 6% for the fourth quarter.

Some apparel chains reported big declines, including **Gap** Inc.'s 16% drop. Despite the big fall in same-store sales, Gap said margins have remained significantly higher than a year earlier and its fiscal-year earnings guidance remains intact.

AnnTaylor Stores Corp. cut its third-quarter earnings and revenue forecasts and said it plans to step up cost-cutting efforts. **Urban Outfitters** Inc. said its same-store sales for the fiscal third quarter ended Friday climbed 10%.

Vodafone sets its sights on Africa

U.K. company seeks control of Vodacom in $2.31 billion deal

By Robb M. Stewart

JOHANNESBURG—**Vodafone Group** PLC, the world's largest mobile-phone operator by revenue, said it will take majority control of South African's Vodacom Group Ltd. in a 22.5 billion rand ($2.31 billion) deal that sets Vodafone up for further acquisitions in Africa.

The U.K. company, which owns 50% of Vodacom, will buy a further 15% interest from venture partner **Telkom** SA, bringing its stake to 65%. It also will take on Vodacom debt of roughly 1.55 billion rand.

With mobile-phone penetration rates in Africa among the lowest in the world, phone companies have increasingly been looking to the continent for customer growth. MTN Group Ltd., Africa's largest operator with businesses in 21 countries, has led the charge and earlier this year attracted merger offers from two Indian operators.

Vodacom is South Africa's largest mobile-phone operator by subscribers. As of March, it had more than 34 million subscribers, most of them in South Africa. It also has subscribers in the Congo, Lesotho, Mozambique and Tanzania

Vodafone said it will maintain the Vodacom brand and the company will become its exclusive investment vehicle for acquisitions in sub-Saharan Africa, excluding Ghana and Kenya, where Vodafone is already present.

"We will continue to support the management team in their strategy of transforming Vodacom into a full service provider in Africa," said Vodafone Chief Executive Vittorio Colao.

Vodacom will be listed on the Johannesburg securities exchange. Pretoria-based Telkom said it will spin off its remaining 35% stake in the joint venture to its shareholders and will return half the proceeds from the sale to investors via a special dividend.

In London Thursday, shares of Vodafone fell 7.8% to end at 107.90 pence.

The companies expect the deal to be completed in the first half of 2009.

CORPORATE NEWS

Shareholder makes play for Germany's Altana

Klatten offers to buy rest of chemicals firm in $1.8 billion deal

By Natascha Divac
And Heide Oberhauser-Aslan

FRANKFURT—One of Germany's richest women, Susanne Klatten, Thursday offered to buy the rest of specialty-chemicals company **Altana** AG in a €910 million ($1.18 billion) deal.

The interest from Ms. Klatten—who is a member of the Quandt family, the leading shareholders in car maker BMW AG, who already own 50.1% of Altana—came even as the chemicals company cut its 2008 sales forecast.

Ms. Klatten, who owns the stake in Altana via holding company Skion GmbH, said she is offering the remaining shareholders €13 per Altana share, a 38% premium to the company's closing share price of €9.39 Wednesday. If all outstanding shareholders accept the offer, Ms. Klatten will pay a total of €910 million for the 49.9% stake she doesn't own.

Altana said it is "open in principle" to the offer. "We appreciate Mrs. Klatten as a shareholder who is interested in the long-term success of the company," said Altana Chief Executive Matthias Wolfgruber. Ms. Klatten's investment vehicle, Skion, said it doesn't rule out delisting Altana.

Skion supports Altana's strategy and has full confidence in the work and goals of its management, said Skion spokesman Jörg Appelhans, adding that no personnel changes are planned.

Altana's shares closed up 38% at €12.95. Some analysts said Ms. Klatten's offer, which values the whole company at about €1.83 billion, was too low. "The premium is not sufficient to reflect the potential of Altana in the long term," said Marcus Konstantini of Sal. Oppenheim.

Still, Merck Finck analysts said the offer is fair, given the economic uncertainty. "Even though our fair value estimate amounts to about €16, we think that €13 is quite a fair bid, bearing in mind the quite significant uncertainties of the current economic environment," the brokerage said.

Like many of its peers, Altana is vulnerable to changes in the price of crude oil, an ingredient in some of the coatings, sealants and pigments the company produces. Oil prices soared to historic levels this summer but have since fallen back. The dollar's weakening against the euro earlier this year also cut into Altana's U.S. sales.

"The world-wide financial crisis now has noticeable effects on the real economy," Altana said. "There is uncertainty with respect to the development of the economy, the exchange rate ratios as well as the price development for crude oil and other important raw materials."

Altana also released third-quarter earnings, reporting a 7.3% rise in net profit to €32.3 million. It pared its 2008 forecast, saying it expects sales to be at or slightly above last year's €1.38 billion level.

—Klaus Brune contributed to this article.

German market lifts RTL but drags on ProSiebenSat.1

By Archibald Preuschat

FRANKFURT—Results at the two largest pan-European broadcasters hinged on German markets, where a weak showing hampered **ProSiebenSat.1 Media** AG and a strong performance by **RTL Group** SA helped offset its weaker regions.

The companies each said they are contending with the global economic slowdown, but the results were dramatically different.

Good performance by RTL's German unit and its production unit compensated for a slowdown in several advertising markets, an investment in the 2008 European football championship and restructuring charges in the Netherlands, RTL Group said.

RTL, the largest pan-European broadcaster by households, reported that earnings before interest, taxes, depreciation and amortization rose 1.6% to €577 million ($745.4 million) in the nine months ended Sept. 30, from €568 million a year earlier. Sales were basically flat at €4.05 billion. The company didn't release a net-profit figure.

In contrast, ProSiebenSat.1 said Ebitda fell 17% as weak results in the German business offset the benefits of consolidating SBS Broadcasting Group, which the company acquired in June 2006 and integrated in July 2007. The company's German business spans Austria, Switzerland and Germany, but most revenue comes from Germany.

Recurring Ebitda, the company's main yardstick for its operational strength, fell to €103.1 million in the third quarter from €124.8 million.

ProSiebenSat.1 is pessimistic about future earnings, because the company said it can't rely on a stable core market at least until the end of this year. "We expect an overall weakening for the fourth quarter," said ProSiebenSat.1 Chief Executive Guillaume de Posch, who is set to leave the company by year end.

Total revenue rose 26% to €2.18 billion from €1.72 billion.

ProSiebenSat.1 said its net loss for the third quarter was €10.7 million, compared with €77.9 million a year earlier.

GLOBAL BUSINESS BRIEFS

KBC Group NV

Belgian bank reports loss amid write-down on CDOs

Belgian bank and insurer **KBC Group** NV swung to a third-quarter net loss, hit by a write-down. Chief Executive Andre Bergen said KBC's financial position remains solid, especially after a €3.5 billion ($4.5 billion) cash injection from the Belgian government. KBC posted a net loss of €906 million, compared with a year-earlier net profit of €639 million. The latest quarter included a €1.6 billion write-down on the bank's collateralized debt obligations, which are complex pools of mortgage bonds. Knocking out the effects of the write-downs, the banking units in Central and Eastern Europe performed well, increasing net profit by 55% to €201 million from €130 million a year earlier. KBC owns a string of banks and insurance companies in the region, including Kredyt Bank in Poland.

Virgin Media Inc.

U.K.-based **Virgin Media** Inc. said its third-quarter net loss widened because of currency movements even though it added 8,300 new cable and broadband subscribers. The company, which operates cable-television channels in the U.K. as well as broadband and telephone services, posted a net loss of £121 million ($192 million)—almost twice as big as the £61 million net loss it reported a year earlier. The company attributed the loss to adverse foreign-exchange movements in its unhedged $1 billion senior convertible loan notes. All other foreign-currency debt balances are fully hedged for currency exposure, said Virgin Media. Revenue, meanwhile, dropped 1.5% to £991 million, and operating cash flow, a key measure, was down 5% at £325 million.

Vedanta Resources PLC

India-focused miner **Vedanta Resources** PLC reported a 25% decline in its first-half net profit and said it might scale back some capital expenditures and temporarily shutter high-cost production. The lower earnings and reconsidered investment and production plans follow falling prices for metals and an uncertain outlook for commodity prices. Net profit fell to $350 million in the six months ended Sept. 30 from $465 million in the year-earlier period. The company's bottom line was hit by falling prices for key commodities, such as zinc, and rising costs. Revenue rose 2.2% to $3.97 billion. Vedanta said it may curtail capital expenditures by $5.1 billion by reducing outlays on its alumina, aluminum and zinc-lead expansion projects.

Randstad Holding NV

Randstad Holding NV reported a 22% drop in third-quarter net profit, and the staffing company based in the Netherlands said it expects slowing economies and the credit crisis to further curb demand for workers. For the three months ended Sept. 30, net profit fell to €76.7 million ($99.1 million) from €97.8 million a year earlier, hurt by a goodwill impairment of €50 million related to the reassessment of its Dutch payroll business. Amortization on acquisition-related intangible assets amounted to €40.5 million. Randstad acquired Dutch rival Vedior in May in a €3.2 billion deal. Total sales fell 3% to €4.47 billion. The year-earlier figures are reported as if the Vedior acquisition had already taken place.

Raiffeisen International

Raiffeisen International Bank-Holding AG reported a 32% rise in third-quarter net profit, but the Austrian banking company warned of a fall in profit in the fourth quarter. Net profit rose to €295.8 million ($382.1 million) from €224.3 million a year earlier as net interest income surged 25% to €844.1 million, driven mainly by strong loan growth in Central and Eastern Europe. However, the bank, which is the publicly listed arm of Raiffeisen Zentralbank Österreich, said it lowered its full-year profit target to reflect a worsened market situation in the region. Raiffeisen International now expects net profit to come in at €950 million, down from a previous target of €1 billion. Fourth-quarter earnings will be hampered by foreign-exchange volatility and the credit crisis, Chief Financial Officer Martin Grüll said.

EasyJet PLC

EasyJet PLC said it carried 18% more passengers this October than it did in the same month last year, helped by acquisitions of rivals in the face of an economic downturn. The takeover of rival British carrier GB Airways Ltd. earlier this year allowed easyJet to increase flight offerings from its base at London Gatwick. EasyJet, Europe's second-largest discount airline by passengers behind Ryanair Holdings PLC, said it flew 3.96 million people in October. Load factor, or the percentage of seats filled, rose 1.4 percentage points to 84% in October.

Alstom SA

French power-station equipment and train maker **Alstom** SA said net income in its fiscal first half surged 36%, thanks to an improved operational performance and positive financial income. Net profit for the six months ended Sept. 30 rose to €527 million ($681 million) from €388 million a year earlier, as sales were up 12%, at €8.96 billion. Alstom, which makes turbines for nuclear power stations and France's TGV high-speed trains, said new orders jumped 20% to hit €15.4 billion in the first half. The company, which skirted bankruptcy in 2003, said it still expects to achieve an operating margin of about 9% by March 2010. In the first half of this fiscal year, the operating margin was 7.8%, up from 7.2% a year earlier. "Crisis or no crisis, infrastructure needs remain significant," said Chief Executive Patrick Kron.

Hermès International SA

Luxury-goods company **Hermès International** SA on Thursday posted a 4% rise in third-quarter sales but slightly lowered its full-year outlook as deteriorating economic conditions began to weigh on demand for its high-end goods. Hermès, known for its silk ties and leather handbags, recorded third-quarter sales of €410.5 million ($530.3 million), up from €394.7 million a year earlier. Growth was driven by strong sales of silk and leather goods in Hermès's own stores, which outpaced a drop in sales of perfumes, watches and tableware sold through outlets not run by Hermès. The company cut its full-year target of 10% growth in revenue at constant exchange rates to between 9% and 10%, citing a slowdown in growth in October retail sales. Hermès said it doesn't plan to pull back on store expansion and renovation plans in Asia and the U.S.

Axa SA

French insurance company **Axa** SA reported nine-month revenue down 3.1% from the year before, as a weaker result in life and savings and asset management was only partly offset by a rise in income from property and casualty activities. Falling equity and bond markets, as well as the failure of the world's biggest insurer and a weakening global economy, have undermined an assumption that insurers were a relatively safe haven in the credit crunch. Axa's shares have fallen as a result. Revenue in the first nine months of 2008 fell to €69.46 billion from €71.65 billion in the same period last year. Axa's annual premium equivalent, measuring new business growth for life insurance, was down 7.8% at €5.16 billion. Revenue from property and casualty business in the first nine months was up 2% at €20.03 billion. Axa said its solvency position was strong.

Delhaize Group

Belgian supermarket chain **Delhaize Group**, which also operates the Food Lion, Hannaford and Sweet Bay chains in the U.S., posted a 3.1% drop in third-quarter net profit. Delhaize said net profit fell to €100 million ($129.2 million) from €103.2 million a year earlier. Sales fell 1.7% to €4.67 billion. In the U.S., where Delhaize does about three-quarters of its business, sales fell 5.2%, while sales in Belgium increased 4.3%. The weakness of the dollar against the euro eroded both the top and the bottom line, the company said. Stripping out currency fluctuations, the company said net profit would have increased 4.2% and sales would have risen 4.8%. Delhaize is now reaping the benefits from hard-hitting cost-savings programs, said Pascale Weber, retail analyst at KBC.

Adidas AG

Adidas AG, an apparel maker, said third-quarter profit rose 1.3% on higher sales and confirmed its outlook for the rest of the year. But uncertainty led it to pull its forecast for 2009, the company said. Net profit rose to €302 million ($390.1 million) from €298 million a year earlier. Sales increased 4.8% to €3.08 billion. Reebok revenue declined 1%. Adidas said it still expects net profit growth of 15% in 2008, but it abandoned its outlook for next year. The company said it expects sales and profit to grow next year, but not by as much as in 2008.

Barclays PLC

U.K. bank **Barclays** PLC said it bought the Italian residential-mortgage business of Australia's **Macquarie Bank** Ltd. for an undisclosed sum. Barclays, which raised £7.3 billion ($11.6 billion) from Middle Eastern investors last month, said the purchase increases the value of its mortgage book by €1.1 billion ($1.42 billion), or nearly 10%. Before this deal, Barclays' mortgage book was worth roughly €12 billion. "Our existing Italian mortgage business has grown through the combination of a prudent lending policy and careful management of customer relationships," said Frits Seegers, chief executive of Barclays' retail and commercial banking arm. Macquarie has been seeking to exit the Italian market.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Labor wants Obama to take on big fight

After their work to help elect Democrat, groups count on president-elect to introduce union-organizing legislation

BY KRIS MAHER

Organized labor sees a historic opportunity with Tuesday's U.S. election and is counting on the incoming Obama administration to back its agenda in what promises to be a landmark battle with business.

At the top of labor's wish list is passage of the Employee Free Choice Act, which would make it harder for companies to fight union-organizing drives. "It is the most important issue that we have," said John Sweeney, president of the AFL-CIO.

President-elect Barack Obama has promised to fight for the legislation, but whether it is introduced in the first 100 days of his administration could signal how strongly he is aligning himself with the progressive wing of the Democratic Party, say political consultants. Moderate Democrats and those who have just won seats in traditionally Republican states are expected to argue against making the legislation an early priority.

Unions failed to get major labor legislation passed under the last two Democratic administrations, Jimmy Carter's in the late 1970s and Bill Clinton's in the 1990s. Meanwhile, union membership has declined to 7.5% of U.S. private-sector workers from about 20% in 1980, according to Labor Department data.

After unions spent more than $400 million on the election and mounted massive voter-turnout efforts for Mr. Obama, they are inclined to push for bringing the Employee Free Choice Act up for a vote early next year, believing they have a narrow window to get it passed. They are worried other issues could emerge to eclipse the legislation, and that business would have more time to mount opposition the longer action is delayed.

AFL-CIO President **John Sweeney**, right, and the labor group's secretary treasurer, **Richard Trumka**, supported Barack Obama.

"This is one the business community is united on," says Dan Yager, spokesman for HR Policy Association, a corporate lobbying group. "Now that it looks like it has a serious possibility of being enacted we think it will galvanize the community even more," he said.

The U.S. Chamber of Commerce and large employers, especially those that have resisted union organizing like **Wal-Mart Stores** Inc., vehemently oppose the legislation. Business groups, including the Chamber, spent a combined $50 million this year on advertising against it and say they will ratchet up ads and lobbying.

Some Democrats worry the issue could produce a divisive fight early in the Obama administration, imperiling the new president's broader agenda.

Paul Blank, a consultant who ran the United Food and Commercial Workers campaign against Wal-Mart before leaving to work for the presidential campaign of former North Carolina Sen. John Edwards, said he expects "political World War III" between labor and business over the issue.

Both sides say the legislation would lead to increased unionization. Unions say that would lift wages and help the middle class, while businesses say it could increase costs and eventually lead to widespread layoffs.

The bill would give unions—rather than companies under current law—the choice of having workers vote for a union by signing cards instead of through a secret-ballot election. Card-signing is preferred by unions because it can be done without an employer's knowledge. With secret-ballot elections, companies typically have months to mount an opposition.

The bill also authorizes an arbitrator to impose a first contract if a union fails to reach agreement with a company by 120 days following the union's formation. Under current law, if the two sides don't reach a contract within a year, the union typically loses its right to be the exclusive bargaining agent for the workers.

"If we're going to build a stronger labor movement and have a stronger campaign on behalf of workers, we need the passage of the Employee Free Choice Act," Mr. Sweeney said.

With Democrats failing to win a key 60-seat majority in the Senate, some say a compromise on the controversial card-signing provision is more likely now.

Hal Coxson, a management-side labor lawyer in Washington, said he expects the AFL-CIO to propose shortening the notice before elections to five days, which would give companies less time to campaign against a union, but allow Democrats to say they preserved secret-ballot elections. "If they overreach, they lose," Mr. Coxson said of the AFL-CIO.

Randel Johnson, vice president of labor policy for the Chamber, said he thinks unions proposed an "outrageous" bill in order to win a lesser compromise that would still be a big victory for labor. But he added, "any combination that still leaves the binding-arbitration in there would still be unacceptable to the business community."

U.S. House leader wants stimulus now, tax cut in '09

BY GREG HITT
AND JONATHAN WEISMAN

WASHINGTON—House Speaker Nancy Pelosi is suggesting a two-staged effort to boost the shaky U.S. economy, arguing for action now on a $60 billion-to-$100 billion stimulus package, followed early next year by a companion measure that would include a "permanent tax cut."

The California Democrat's call for aggressive action came as President-elect Barack Obama prepared for an emergency meeting Friday of his economic advisers. Taken together, the moves signaled the flagging economy will receive immediate attention from a Democratic Party fresh off huge electoral wins Tuesday but anxious about its prospects amid turmoil on the stock market, a shriveling job market, plunging home prices and rising food and energy costs.

In an interview Thursday, Rep. Pelosi pointed to weakness in the U.S. employment market and urged the Bush White House, long skeptical of Democratic-led stimulus efforts, to work with Congress in the waning days of the president's term.

"Let's see if we can't do something, working together now, that gives us a two-month jump," she said, noting any measure enacted in a lame-duck session of Congress this month would be a downpayment on additional stimulus enacted later. "We'll take the longer view as soon as we take over in January."

Rep. Pelosi said she doesn't favor a capital-gains-tax cut, as pushed by congressional Republicans. But she does say the "second piece" of the stimulus should include a tax cut.

The speaker said she prefers a direct tax cut over a tax rebate like the one pushed by President George W. Bush a year ago. The speaker said a direct tax cut can have a more immediate impact on the economy, especially if the government speeds dollars into worker paychecks by adjusting tax-withholding tables. "The impact is faster than a rebate, which takes a few months to get into people's hands," she said.

Details of the tax cut are yet to be determined.

For the second day since his election triumph, Mr. Obama remained out of sight, as he huddled with aides and advisers, including Vice President-elect Joe Biden and Illinois Rep. Rahm Emanuel, who accepted the post of White House chief of staff Thursday. With Rep. Emanuel's decision, the transition team is free to begin assembling an administration, and aides say staffing the Treasury Department is the most pressing task.

The president-elect will meet with his top economic advisers in Chicago Friday, including Lawrence Summers, a top candidate to be Treasury secretary, former Federal Reserve Chairman Paul Volcker, another Treasury candidate, and Robert Rubin, a former Treasury secretary with an outside chance at a return engagement. Also invited are other advisers who could play roles in the Obama economic team, such as billionaire investor Warren Buffett, Google Chief Executive Eric Schmidt, former Clinton White House National Economic Council director Laura Tyson and Roger W. Ferguson, a former Fed vice chairman who now heads the giant public employees' pension fund TIAA-CREF.

Nancy Pelosi

Mr. Obama will speak to the press after the meeting, offering his first public statement since he claimed the presidency late Tuesday night before more than 200,000 people in Chicago's Grant Park.

Rep. Pelosi's two-stage plan dovetails with planning within the Obama transition team. Even before Election Day, economic aides were saying Congress would likely take up a small economic-stimulus plan during a lame-duck session of Congress this month but leave the bulk of the rescue package to the first days of the Obama administration. Mr. Obama and Democratic leaders foresee an initial burst of legislation that they believe will have broad bipartisan support, beginning with an economic plan, a previously vetoed measure to expand the State Children's Health Insurance Program and another to fund stem-cell research.

Candidate Obama ran hard on a detailed economic-stimulus plan of his own, which included $25 billion for state and local governments to defray the costs of health care, education, housing and heating assistance, and $25 billion for road, bridge and school building and repair. He also proposed a $1,000 tax rebate ostensibly aimed at offsetting rising energy bills and paid for with a windfall profits tax on oil companies. But with the price of oil plunging, Mr. Obama recently conceded the rebate may not be paid for.

Longer term, Mr. Obama wants a $500-per-worker, $1,000-per-family, tax credit for households aimed at offsetting the cost of the payroll tax without cutting into the Social Security and Medicare trust funds. He has proposed eliminating taxes on senior citizens with incomes below $50,000.

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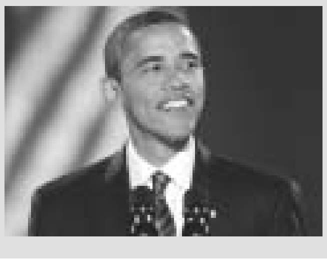
Peek at the future

A look at the new regulatory landscape in Obama's first term > **Pages 14-15**



ECONOMY & POLITICS

Iraq pact clears hurdle

U.S. accepts changes sought by Baghdad in security mandate

BY GINA CHON

BAGHDAD—The U.S. notified Iraqi Prime Minister Nouri al-Maliki it has accepted many of the changes proposed last week by the Iraqi cabinet in a draft security agreement between the two countries.

Because of the largely positive response from the U.S. on Thursday, Iraqi officials say they are warming to a resolution. But the two sides have appeared close to a deal before, only to face further setback.

The Iraqi cabinet plans to meet Sunday to discuss the pact, which is needed to replace a United Nations mandate that expires at the end of this year. If Iraqi ministers approve the deal, parliament could take up the pact next week.

Iraqi government spokesman Ali al-Dabbagh said the "atmosphere was really positive and the two sides are very close," to a final agreement. An Iraqi official in the Islamic Supreme Council of Iraq, the largest Shiite political party, whose support is key to sealing an agreement, said a deal is closer than ever before.

Time is running out to conclude the pact. Because of major Muslim holidays in December, Iraqi lawmakers would need to approve a deal by the end of this month, although parliament could delay its break by holding emergency sessions.

The main points of the deal don't change under the accepted amendments by the U.S. The draft agreement still contains clauses that state U.S. troops would leave Iraq by the end of 2011, and American soldiers would leave cities by the end of June 2009. The pact also still states that U.S. soldiers who commit certain violent crimes while off base and off duty could be prosecuted in Iraqi courts.


Nouri al-Maliki

The U.S. refused an Iraqi request to allow Baghdad to decide when troops should be considered off duty when determining whether they could be prosecuted in Iraqi courts. The issue of legal jurisdiction over U.S. soldiers has been one of the most contentious issues.

The U.S. agreed to changes aimed at giving Iraqi officials political cover, according to people familiar with the matter. For example, the U.S. agreed to delete a paragraph that said the Iraqi government could ask U.S. troops to stay beyond 2011 to train and support Iraqi forces. That clause had caused confusion and protest among some Iraqi officials, who saw it as a way for the U.S. troops to stay permanently. Even without the clause, the Iraqi government could still request U.S. training and support, and likely will do so.

Washington also rejected a proposal giving Iraq the right to inspect all U.S. shipments coming into the country, although it said Iraq could request to examine shipments.

The Iraqi side had requested more than 100 changes, most of them minor and cosmetic in nature. Substantive requests from the Iraqi government were aimed at silencing critics of the deal, who have charged the security pact could be a way for the U.S. military to stay in Iraq indefinitely.

Iran has also put pressure on Iraqi officials to reject the agreement, saying it could be used by the U.S. to stage attacks in the region.

Polish shipyards ordered to repay billions in aid

A WSJ NEWS ROUNDUP

The European Union ruled illegal billions of euros in aid that the Polish government has paid to keep alive two shipyards that played roles in the country's break from communism.

Thursday's demand by EU Competition Commissioner Neelie Kroes that the shipyards in Gdynia and Szczecin repay about €2.3 billion ($2.97 billion) in state aid ends a long and politically charged tussle between the EU and Warsaw.

It also spells the end of the yards in their current form, as the repayment would send them into bankruptcy.

Ms. Kroes said there was no viable future for the shipyards without the state aid and no other solution for the yards could be found. Under EU competition rules, governments can subsidize individual companies only if the money will allow them to become viable, self-supporting businesses again.

The decision was a difficult one but it will create clarity and present new economic activities and new job opportunities at the yards, Ms. Kroes said.

The European Commission has been investigating the state aid case for four years. Though not as famous as the Gdansk shipyard, the Szczecin and Gdynia yards also took part in strikes that helped pressure Poland's communist regime into ceding power. A plan for restructuring the Gdansk yard, where the anti-communist Solidarity trade union movement was born, is still under consideration. The Gdansk yard was sold to Donbass, a Ukrainian conglomerate, in a 2007 privatization.

The commission said in a statement that the Polish government has committed to sell the assets of the two state-owned shipyards at Gdynia and Szczecin, reclaiming the state aid in the liquidation process. Companies buying the assets therefore wouldn't have to shoulder liabilities for repaying the aid, the statement said. The deadline for the sales was set as May 2009.

The two yards together employ nearly 10,000 people but the Polish government had said as many as 60,000 jobs could be at risk, including suppliers and related sectors. EU aid for possible redundancies will be available, the EU statement said.

China rebuffs U.S. on Korea plan

The Chinese government has largely rebuffed Bush administration attempts to directly discuss contingency planning for a political transition inside North Korea amid uncertainty over dictator Kim Jong Il's health, according to current and former U.S. officials.

Mr. Kim, 67 years old, is believed to have suffered a stroke in mid-August, and his exact condition remains unknown. Pyongyang released photos over the past week showing the North Korean leader visiting military units and a soccer match, but the pictures were undated.

By Jay Solomon in Washington and Jason Leow in Beijing

Because of this uncertainty, State Department and White House officials have reached out to their Chinese counterparts in recent months to gauge Beijing's potential response to any leadership change inside Pyongyang, according to U.S. officials involved in the diplomatic process.

The Chinese side, however, has largely declined to engage, in part over concerns that any talk of a leadership transition inside North Korea could be viewed negatively in Pyongyang, these officials said. "The Chinese don't want to have anything to do" with such a dialogue, said a U.S. official involved in the process.

The diplomat said the overtures were largely made through the six-party negotiating framework that Washington and Beijing established in 2003 to seek an end to North Korea's nuclear-weapons program.

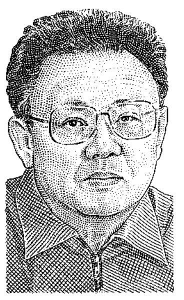
An official in China's Ministry of Foreign Affairs said last week it had no knowledge of any approach by the U.S. to discuss such issues.

Current and former U.S. officials said the Bush administration has intermittently attempted over the past eight years to discuss with Beijing the different scenarios that might ensue inside North Korea should Mr. Kim exit the scene, but with little success.

In particular, Washington has been trying to establish some general principles to govern a coordinated response by the U.S., South Korea, and China in the event that a leadership transition breeds instability in the reclusive Stalinist country.

The U.S., for example, has sought assurances that the Chinese military won't cross the Yalu River into North Korea in response to any instability, said the officials. Washington and Seoul also want guarantees that South Korea would take the lead in overseeing any humanitarian operations for the North.

"There's potential there [for cooperation], though it might be difficult to formalize any contingency plan with China," said Michael Green, who helped to coordinate North Korea policy in the White House during President George W. Bush's first term.


Kim Jong Il

Beijing's position illustrates the divisions between China on the one hand, and the U.S. and South Korea on the other, at a time when the longevity of Mr. Kim's tenure is increasingly in question.

U.S. officials acknowledge they have very little understanding of Pyongyang's succession process, due to its secrecy. Mr. Kim hasn't taken any of the very public steps his father, Kim Il Sung, took in preparing for his son's ascension in 1994. The consensus is that one of Kim Jong Il's sons, in partnership with the North Korea military, would succeed him, but U.S. officials said this largely is a guess. "There's no a clear succession process as there was in July 1994," said Victor Cha, the White House's point man on North Korea from 2004 to 2007.

Beijing isn't overly alarmed about North Korea's stability should Mr. Kim pass from the scene, said Chinese scholars, noting that it believes Washington hypes the security concerns. These academics add that Chinese diplomats and military officers fear that any planning for a political transition inside Pyongyang, even at a low level, could unnerve North Korean leaders and feed the perception that the outside world is conspiring against North Korea.

China has long played the role of Pyongyang's closest military and economic partner, as well as its intermediary to the outside world.

"One of China's diplomatic principles is noninterference in others' internal affairs," said Zhuang Jianzhong, vice director of the Center for National Strategic Studies at Shanghai's Jiaotong University. "Acting on a belief that Kim is ill and North Korea will descend into chaos invariably affects domestic outcomes in Pyongyang, and that violates China's own principle of noninterference."

Based on those considerations, Beijing's default response will be to do nothing, Mr. Zhuang said.

An adviser in a Chinese government think tank who is closely linked to policy formulations on North Korea said he believes any preemptive approach by Washington is wrongheaded and reflects a misreading of how the Chinese perceive a post-Kim regime. He said many Chinese officials disagree fundamentally with the prevalent view in the Bush administration that a North Korea without Mr. Kim will trigger immediate chaos, manifested by power struggles in Pyongyang and an outpouring of economic migrants to neighboring countries.

Washington counters that a transition of power inside North Korea risks destabilizing Northeast Asia, with profound implications for U.S. soldiers stationed in South Korea and Japan.

A messy power shift in North Korea could send hundreds of thousands of refugees over its borders and raise questions about the security of Pyongyang's nuclear and biological weapons, said U.S. officials. It also risks placing the Chinese and American militaries on opposing sides of efforts to stabilize North Korea.

China to back poor nations at global economic summit

BY JASON LEOW

BEIJING—A senior Chinese official played down speculation over whether China will offer funds to help address the global financial crisis at next week's economic summit in Washington, saying China's focus at the meeting will be on lobbying for the interests of developing countries.

"The summit will not be about whether China will spend money to bail out" other countries or financial institutions, He Yafei, vice minister of foreign affairs, said Thursday at a briefing on the summit, which is scheduled for Nov. 15. Chinese officials expect to press issues that will improve "fairness" in the global financial system for developing nations, he said.

Global leaders are watching carefully what role China will play amid the global financial uncertainty. China so far has limited its response to aiding its domestic economy, and to calling for cooperation and coordination in the global response. But the country sits on nearly $2 trillion in foreign-exchange reserves and its banks are well capitalized, prompting some governments to urge the Chinese government to do more.

French President Nicolas Sarkozy has said he wants emerging nations such as China and India to exercise more clout in global economic decision-making. Gordon Brown, the British Prime Minister, also recently called on China and oil-rich Persian Gulf states to fund an increase in an International Monetary Fund bailout fund.

Beijing hasn't indicated what specific proposals it might bring to the Washington summit, which will gather top officials from leading economies. China's delegation is to be led by President Hu Jintao, and include central bank chief Zhou Xiaochuan, and Minister of Finance Xie Xuren.

Mr. He on Thursday didn't rule out a funding commitment from China. He said the government "will take a serious look" at any bailout plan because "China is a responsible nation." But he also reiterated statements indicating Beijing's focus is on its domestic economy—whose continued health, he said, is itself a major contribution to global financial stability.

China could face significant local resistance to any announcement of new funding for global financial institutions. Critics in the country have blasted the government over its investments overseas, and called for the use of resources to stimulate China's own economy. **China Investment** Corp., the government's investment fund, has racked up big paper losses on multibillion stakes it bought last year in Blackstone Group LP and Morgan Stanley.

China sits on nearly $2 trillion in foreign-exchange reserves.

Mr. He said China's goal "is to use the summit to send strong signals that countries will not only address short-term concerns, but also have a long-term focus on systemic weaknesses."

He said international institutions such as the IMF and the World Bank "need reforms." One major issue is inadequate voting rights for developing nations, and Chinese officials will ask for more representation for them, Mr. He said.

China, he added, also will urge other governments not to neglect developmental concerns, particularly for the world's poorest nations, while expending resources to tackle this crisis.