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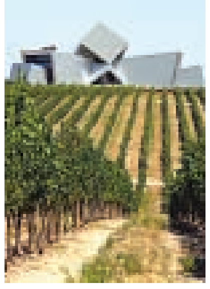

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California could point the way for U.S. in recession

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RBS is seen as likely to go to the U.K. government for funding under its new bailout plan, after CEO Goodwin said for months that the bank was in good shape. Banks can sell stakes to the government or raise money on their own. Page 1

■ **Iceland halted trading** until Monday, seized its No. 1 bank, created a new state bank and assured customers business would go on as usual. Page 17

■ **Oil-producing nations** are feeling the pinch as the credit crisis and falling crude prices squeeze government budgets. Page 1

■ **Iran looks set to win** high wholesale-gas prices from the U.A.E. as part of an export deal, as the price of the fossil fuel continues to surge. Page 3

■ **Dubai's ability** to bankroll its ambitious growth strategy is being questioned as its international debt mounts. Page 2

■ **The credit crisis** seems to be playing a role in commodity-market drops as investors back away from complex products tied to oil, gold and grain. Page 17

■ **Germany postponed** the IPO of its national railway, Deutsche Bahn, citing "extreme uncertainties" in markets. Page 17

■ **The Dow industrials** dropped below the 9000 mark for the first time in over five years. European stocks faltered. Pages 18, 19

■ **Dexia's new deposits** and loans will be guaranteed for at least a year, after France, Belgium and Luxembourg moved to support the bank. Page 4

■ **Shares of Aegon** and Aviva jumped as the European insurers moved to boost their capital and reduce risk. Page 4

■ **GM reported** a 1.9% European sales decline for the first nine months of the year, hurt by sinking consumer confidence. Page 2

■ **Sarkozy called for loosening** of EU rules on state aid to industry, saying France will spend $547 million to help auto makers develop greener cars. Page 9

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8579.19	-678.91	-7.33
Nasdaq	1645.12	-95.21	-5.47
DJ Stoxx 600	221.78	-4.53	-2.00
FTSE 100	4313.80	-52.89	-1.21
DAX	4887.00	-126.62	-2.53
CAC 40	3442.70	-54.19	-1.55
Euro	$1.3646	-0.0008	-0.06
Nymex crude	$86.59	-2.36	-2.65

Money & Investing > Page 17

World-Wide

The U.S. economy has sunk into a recession and government action is needed, according to economists surveyed by The Wall Street Journal. On average, they expect U.S. GDP to contract in the last two quarters of 2008 and the 2009 first quarter. U.S. jobless claims fell. Pages 1, 28

■ **IMF and World Bank leaders** called for swift, coordinated action to address the global financial crisis, ahead of G-7, IMF and World Bank meetings. Page 10

■ **Militant attacks in Pakistan,** including a suicide bomber who struck antiterrorist police headquarters, left 12 people dead, as Parliament met to decide how to tackle terrorism. Page 11

■ **North Korea halted** U.N. monitoring of its nuclear complex. Pyongyang deployed missiles on its west coast for a test launch, a South Korean newspaper said.

■ **U.S.-led troops killed** 21 militants in southern Afghanistan as insurgents killed 10 civilians. Gates pushed NATO allies to target the country's heroin trade.

■ **France's Jean-Marie Le Clezio** won the Nobel Prize in literature for novels that focus on the environment, especially the desert.

■ **Montenegro recognized** Kosovo's independence, defying Serbia, which expelled Montenegro's ambassador. But Serbia reinstated its envoys to the U.S. and other Western countries that had recognized Kosovo.

■ **NATO is sending** a seven-ship force to help protect vessels off Somalia's coast, as pirates softened their ransom demands for a Ukrainian ship loaded with tanks.

■ **Democrats hold** a pronounced spending advantage over Republicans in the battle for control of the U.S. Congress. Page 10

■ **China's Communist Party** leaders began a policy-setting meeting, focusing on the nation's 730 million farmers. Page 11

■ **An Iraqi lawmaker** loyal to anti-U.S. Shiite cleric al-Sadr was killed when a roadside bomb struck his convoy in Baghdad.

■ **China rejected** concerns it would torture 17 Chinese Muslims if they are returned from Guantanamo. A U.S. court delayed the Uighurs' release for a week.

EDITORIAL & OPINION

Let them go bankrupt

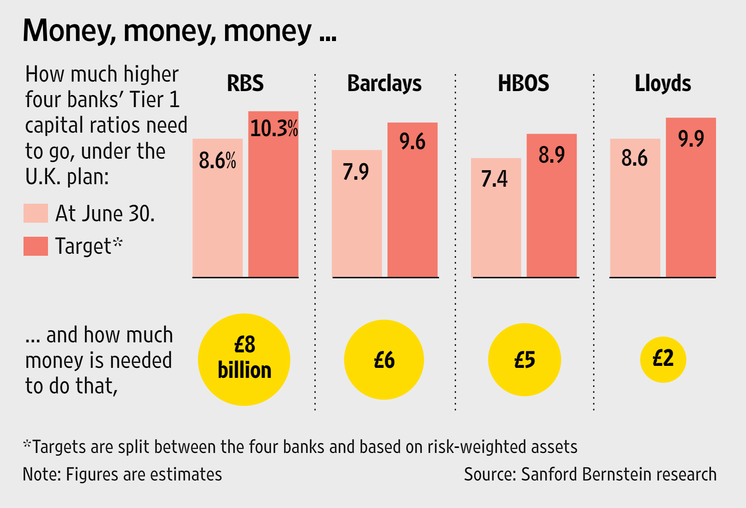
That's cheaper than bailing out the banks and prolonging the paralysis. Page 13

RBS walks a tightrope as U.K. prepares bank aid

Barclays, HBOS are also expected to tap government

By Sara Schaefer Muñoz and Dana Cimilluca

Reuters



LONDON—**Royal Bank of Scotland Group** PLC's chief executive, Fred Goodwin, is walking a tightrope. After saying for months that his bank was in good shape, he is expected to be among the most likely to go hat in hand to the government for funding under the U.K.'s ambitious new bailout plan.

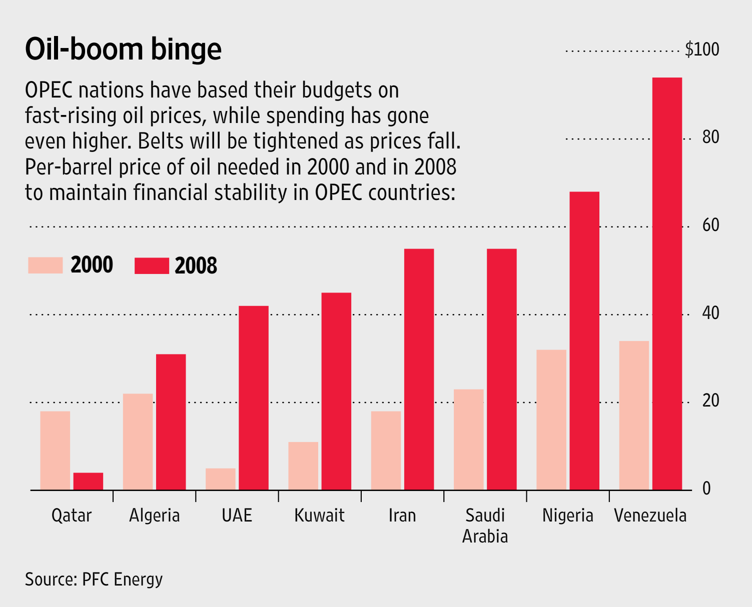
The core plank of the U.K. plan requires the banking industry to raise its capital by £25 billion ($43.2 billion) in the next three months. Banks can sell shares to the government or raise money on their own. The government wants banks to keep more capital on hand as a cushion for potential future losses.

Unlike other rescue measures, such as the government program that lets banks exchange toxic assets for government bonds, the recapitalization measure isn't anonymous.

"The stigma won't come from recapitalizing per se; the essential stigma comes if you have to raise the capital from the government rather than from the private sector," says Bruno Paulson, a senior analyst with Sanford Bernstein. Banks that go to the government may see their stock punished, he says.

Raising funds from private sources also avoids the strings attached to government funds. While the banks don't yet know what the government will charge, the govern-

Please turn to page 27



Oil exporters feel squeeze as crude prices retreat

By Neil King Jr. and Spencer Swartz

Big oil-producing countries are showing signs of distress as the global credit crunch and falling crude prices begin to squeeze government budgets and delay projects.

Fears that the boom days are fading appear strongest in Iran and Venezuela, whose governments have come to rely on oil prices to prop up otherwise shaky economies. Both countries this week led a chorus within the Organization of Petroleum Exporting Countries calling for an emergency meeting of the cartel, now set for Nov. 18, to weigh a production cut.

The global economic crisis is eating into oil demand, particularly in the U.S. and Europe, and helping drive down crude prices. Some fore-

Please turn to page 27

Economists see recession, pain for U.S.

By Phil Izzo

The U.S. economy has sunk into a recession and government action is critical to stem the damage, according to economists in the latest Wall Street Journal forecasting survey.

"We're in the middle of a very dark tunnel," said Brian Fabbri of BNP Paribas, referring to the worsening credit crunch. "Each day we see another crack in the system."

Those cracks are quickly adding up. On average, the 52 economists surveyed now expect U.S. gross domestic product to contract in the third and fourth quarters of this year, as well as the first quarter of 2009.

This is the first time that survey forecasts for those periods have turned negative. If those predictions bear out, it would mark the first time the U.S. GDP—the total value of goods and services produced—has contracted for three consecutive quarters in more than a half century. Economists put the odds of recession in the next 12 months at 89%, up from 60% in last month's survey.

It is a challenging scenario for the next president, as the election moves into the homestretch. Either Sen. John McCain or Sen. Barack

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THE WALL STREET JOURNAL.

THE FINANCIAL CRISIS

Dubai's debt raises worry

Emirate's ability to fund fast growth could be strained

By Chip Cummins

DUBAI—The global credit crisis is raising fresh questions about this Mideast boomtown's mounting international debt load and its ability to fund its ambitious growth strategy.

Dubai, one of seven emirates that make up the United Arab Emirates, has been spending heavily on roads, a subway system and other infrastructure projects to keep up with the city-state's explosive growth. The government, through a collection of state-owned or state-controlled real-estate developers, has also embarked on a series of ambitious property projects aimed at turning Dubai into a tourism and business destination.

Emaar Properties PJSC, partly government-owned, is building the world's tallest skyscraper. On Sunday, **Nakheel**, a government-backed developer, unveiled plans for a kilometer-high tower here. Nakheel is already building a palm-tree-shaped archipelago of man-made islands packed with luxury villas and hotels.

Unlike other Persian Gulf sheikdoms, Dubai doesn't have big reserves of hydrocarbons. Instead, it has been bankrolling much of its building boom through international debt markets. With those all but shut these days, analysts are warning of a slowdown if global markets don't free up soon.

"Given the magnitude of the projects that Dubai is taking on, it will certainly need to borrow internationally," said Philipp Lotter, a Dubai-based analyst at Moody's Investors Service. "If that access is impaired for longer than a temporary period, certain investments have to be put on hold."

A Dubai finance official declined to comment, and the government didn't respond to emailed questions about its debt management.

Dubai is among the most heavily indebted governments in the wealthy Persian Gulf. Standard & Poor's estimated at the end of last year that Dubai government debt represented 41.8% of its gross domestic product, compared with 22% in Bahrain and 2.9% in Abu Dhabi.

While Dubai doesn't have much oil, its economy is diversified and growing. But it hasn't obtained a government-debt rating from international rating agencies. A rating might reassure debt investors somewhat that government assets and revenue are sufficient to back up all that borrowing.

In today's panic-stricken debt markets, the uncertainty means higher costs for big and prudent borrowers. The cost of insuring $10 million of Dubai debt for five years has risen to $247,500 a year, up more than fivefold from the beginning of the year, according to CMA DataVision, a price-discovery service.

CMA, which calculates a "cumulative probability of default" for sovereign borrowers, estimates the likelihood of Dubai defaulting over the next five years is just shy of 20%. That's up from 4.3% at the beginning of the year.

Still, many analysts and economists say chances of the government getting into real trouble remain low. Most assume that next-door-neighbor Abu Dhabi, one of the world's largest oil producers, would extend a lifeline in a pinch.

While autonomous in many ways, the emirates that make up the UAE are tied into a federal system. Abu Dhabi's hereditary ruler is the UAE's president. Dubai's ruler is the federation's prime minister.

There are other headwinds buffeting Dubai, further clouding the ability of the government and its corporate entities to raise cash. Banks have significantly tightened lending, and local borrowing costs have soared. Dubai's red-hot real-estate market shows signs of cooling off. Property prices here haven't fallen yet, but a number of analysts are now predicting declines as early as next year, as new supply comes on the market. Also, Dubai's stock markets have fallen sharply in recent days. That has wiped out billions of dollars of wealth among the bourse's mostly retail investors, further constraining local liquidity.

CORRECTIONS & AMPLIFICATIONS

A **Louis Vuitton** boutique in Hangzhou, China, was closed after the local industry and commerce authority seized most of its products in June. A photo and caption on Wednesday's Corporate News page incorrectly implied the boutique closed because of the financial crisis.

GM shares sharply down as Western Europe drags

By John D. Stoll

Sinking consumer confidence in Western Europe is undercutting the gains **General Motors** Corp. racked up in Eastern Europe's emerging markets earlier in the year, leading the U.S. auto maker to report a 1.9% drop in overall European sales for the first nine months of the year.

GM, which is battling **Toyota Motor** Corp. for the leading share of global auto sales, faces increasing pressure in Western Europe, where a weakening economy and high fuel and raw-materials prices are depressing demand. GM earlier this week said it will pare production of Opel vehicles built in the region. The cutbacks could cause the company to burn through more cash than planned as it incurs expenses even as productivity decreases.

GM Europe's performance adds pressure for the auto maker at a time when concerns about a miserable U.S. economy and dwindling cash reserves have knocked the company's shares to their lowest point in nearly six decades. Shares of GM continued falling Thursday after declines earlier in the week. In late-afternoon trading Thursday on the New York Stock Exchange, the shares were down $1.34, or 19%, to $5.57.

This year's sales performance for GM Europe stands in contrast to the first nine months of 2007, when GM recorded an 8% increase on the Continent thanks to sizzling sales in Russia. Sluggish demand in several of Europe's more mature auto markets, including Spain and Germany, more than offset the continued increases in Eastern Europe during the first three quarters of 2008.

"We are facing an unprecedented set of economic challenges due to the global economic crisis," GM Europe President Carl-Peter Forster said in a statement. "The credit crisis and inflation from surging oil and commodities prices have seriously hurt consumer confidence."

GM said that its Western European sales fell about 11% during the first three quarters of the year, while Eastern European sales increased 43%. The Chevrolet brand, which relies on Eastern European markets for sales, posted a sales increase, while the higher-margin Opel brand reported a sales decline.

GM delivered a total of 1.62 million vehicles in Europe between January and September. Sales in Eastern Europe hit 318,245 vehicles, which led the auto maker to a 10.4% market share in the region. GM will report world-wide sales results on Oct. 29.

The decline in Western Europe comes just as the region appeared to be getting back into black ink after billions of dollars and several years worth of restructuring.

On Wednesday, foreign auto makers selling vehicles in Russia collectively reported a 22% sales increase in September, but GM's Chevy brand and **Ford Motor** Co.'s Ford were the only two of five foreign brands to register declines. Chevy fell 2%, while Ford sales slipped 13%, according to the Association of European Businesses.

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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

Iran's gas pricing power

Booming Arab states scramble for supply; U.A.E. export deal

BY ROSHANAK TAGHAVI

TEHRAN, Iran—Oil prices may be softening, but the price of that other fossil fuel, clean-burning natural gas, is climbing sharply in the Persian Gulf, thanks to the booming economies of the Arab petro-states.

Iran looks set to squeeze the region's highest wholesale gas prices from the United Arab Emirates as part of a 25-year, $2 billion natural-gas-export deal between the two countries. **Crescent Petroleum**, based in the emirate of Sharjah, has offered to pay about $5 per million British Thermal Units for Iranian gas, according to a person familiar with the matter.

Unlike oil prices, gas prices vary widely from region to region. But the price is almost four times what the U.A.E. currently pays for gas from Qatar. And it is more than five times the average weighted regional gas price for the Middle East and North Africa.

Iran's new pricing power comes as the Islamic regime tries to kick-start long-stalled gas-development plans. It also comes amid a growing energy gap in the booming economies of the Arab petrostates. A shortage of clean-burning natural gas to fuel economic expansion in the U.A.E. has the country scrambling for new sources.

Gulf countries are experiencing sharp economic growth amid today's super-charged oil prices. The U.A.E., in particular, has developed into a real-estate and industrial powerhouse. The U.A.E. is the Organization of Petroleum Exporting Countries' fourth-largest oil producer. But it has become increasingly dependent on natural gas to fuel new power plants, desalination plants and provide feedstock for new industries. The country is struggling to secure new supplies, both domestic and overseas.

The U.A.E. has become a real-estate and industrial powerhouse.

"Natural gas is a fuel of choice for clean and efficient power generation" in the U.A.E., said Majid Jafar, Crescent's executive director. The U.A.E. isn't the only Gulf country looking for more gas. In a report released Tuesday, Moody's Investors Service said "fuel supply and resulting power shortages" were the biggest risks to long-term growth in the Persian Gulf region.

The price agreement is a small victory for Iran's struggling oil and gas industry, hobbled for years by international sanctions. Iran has spent around $1.5 billion on the project, building a 280-kilometer undersea pipeline linking Iran's Salman offshore gas field to Crescent's gas-processing facilities in Sharjah. As part of the deal, another Sharjah-based company, **Dana Gas** PJSC, will transport and process the Iranian gas.

A joint venture between the two Sharjah companies will market the gas to end users. Iran sits atop the world's second-largest gas reserves, but ambitious plans for liquefied-natural-gas export facilities have faltered. Only a few big oil companies have the know-how to build LNG facilities. Sanctions have put a halt so far to any technology transfer.

At the same time, Iran hasn't developed its reserves efficiently enough to meet its own consumption. The country imports roughly 5% of its gas needs from Turkmenistan. Crescent, Dana and the **National Iranian Oil Co.** signed the deal in April 2001. Original export plans were delayed because construction of offshore processing platforms for the deal weren't completed by Iranian contractors until earlier this year, Mr. Jafar said.

First exports could begin within months. But fresh corruption allegations from Iran's government threaten more delays. Iranian President Mahmoud Ahmadinejad suggested in September that the deal was tainted by behind-the-scenes dealing, but he wasn't specific.

Crescent said it "categorically denies any wrongdoings or corruption." But Mr. Ahmadinejad also said he would endorse the deal as long as it was concluded based on regional market prices.

Crescent Petroleum

A **gas-processing platform** that is part of an export deal.

Dexia's second bailout

Deposits guarantee new loans for a year; investors reassured

By Carolyn Henson And Allesandro Torello

A Dexia bank branch in Brussels

Source: Thomson Reuters Datastream
Photo: Associated Press

BRUSSELS—France, Belgium and Luxembourg stepped in to guarantee **Dexia** SA's new loans and deposits for at least a year, following the three governments' bailout of the Belgian-French bank last week.

The move reassured investors. Dexia shares rose 16% in Thursday trading in Belgium to close at €5.81 ($7.94). Before the announcement, the bank's shares had slid around 40% over the past five days, despite a cash injection of €6.4 billion provided by the three governments last week, as investors reacted to the collapse and dismantling of rival Fortis and the widening credit crisis.

Belgian Prime Minister Yves Leterme said the extendable one-year guarantee will reassure depositors that Dexia will have sufficient cash to meet all its obligations. The move came after all-night talks between the three governments on how best to shore up the bank, a specialist in local government lending.

Mr. Leterme said the guarantee would cover interbank and institutional borrowing, as well as new debt financing with institutional investors with a maximum maturity of three years. The Belgian government said it will extend similar support to other Belgian banks if needed.

The guarantees include Dexia's troubled U.S. bond insurer Financial Security Assurance, which will remain part of the company despite speculation that it would be stripped out. FSA provides financial guarantees for asset-backed securities and is heavily exposed to the troubled U.S. housing market. It has come under pressure in the economic crisis because of worries over mounting claims.

Dexia's new chairman, former Belgian Prime Minister Jean-Luc Dehaene, said FSA falls under strict U.S. regulations and it was difficult to maneuver. Thursday's move "allows us to calmly see how to deal with" the FSA unit within the Dexia group, he said.

French Finance Minister Christine Lagarde said there were no plans to split the Belgian-French bank along national lines—as happened to Belgian-Dutch bank Fortis in a government bailout last week. Ms. Lagarde said a guarantee for the entire French banking sector wasn't necessary.

The European Commission Thursday said it was being informed by the French and Belgian governments of their plans to aid Dexia, and once it had a full notification of the measures it would try to assess quickly whether any illegal state aid was taking place.

Dexia was created by a 1996 merger of Credit Local de France with the Credit Communal de Belgique, two local government lenders, in what was one of Europe's first cross-border banking mergers.

The Belgian government and the Belgian regions hold 11.4% of its stock while the French state and its investment vehicle CDC together hold 25%.

—Adam Cohen and Peppi Kiviniemi contributed to this article.

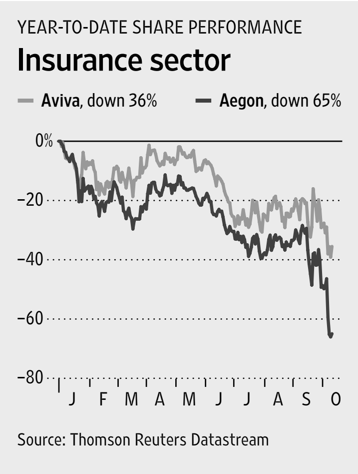
Shares of Aegon and Aviva rise

A WSJ News Roundup

European insurance shares rose on Thursday, as Dutch insurer **Aegon** NV announced steps to boost capital and reduce risk while British insurer **Aviva** PLC bolstered its hedges against slumping stock markets.

Aegon shares rose 3.2% and Aviva rallied 5.9%, after being caught in a wave of broadworries over the viability of the financial system as banks in the Benelux region, Britain and the U.S. seek merger partners or are nationalized.

Aegon, which has seen its share price cut in half since the global credit crisis intensified in September, projected a €275 million ($375.8 million) third-quarter charge on credit impairments, a figure one analyst described as "not extraordinary." The Dutch company has two-thirds of its operations in the U.S., where it operates insurer Transamerica.



Source: Thomson Reuters Datastream

Aegon shares rose to €4.24 on the day's trading in Amsterdam.

Aviva said it will protect itself from stock-market declines through increased hedges, and that a further 40% fall in equity markets would reduce its surplus regulatory capital by £700 million ($1.2 billion), compared with an estimated drop of £1.3 billion as of June 30 this year.

Its shares jumped to 434 pence on trading in London.

"The announcement is clearly more positive than the market had feared," said Peter Eliot, analyst at Man Securities. Aviva's comments follow concerns in the U.K. media this week that the company may have had a significant amount of its capital surplus wiped out by the financial crisis.

The insurers' announcements came as shares in Europe's biggest insurers rebounded in a market recovering from steep losses, as efforts by governments and central banks to thaw credit markets helped to calm jittery investors.

Aviva, owner of the Norwich Union brand, also said its surplus regulatory capital had risen to £1.9 billion as of Sept. 30 from £1.8 billion three months earlier.

Aegon said it expected to maintain a level of capital above AA rating requirements and a strong liquidity position. It added that it would stick to its strategy announced in June to become less dependent on U.S. income, sell underperforming assets, and seek growth via new products and acquisitions.

Aegon Chief Executive Alex Wynaendts said that "in the current extraordinary environment, I am more convinced than ever that our strategy is the right one."

Aegon's exposures to troubled U.S. banks and insurers, announced last month, were included in the projected third-quarter impairment, an Aegon investor-relations spokesman said. Aegon said it had €65 million of fixed-income exposure to Lehman Brothers and £125 million to Washington Mutual Inc.

The company also said it has hedged its U.S. dollar position at current levels for the rest of 2008 and 2009. Aegon, which gets around two-thirds of its profit in the U.S., is seeking to reduce its reliance on income there.

Money & Investing

Starring role

Lawyer for nearly all of Wall Street navigates stormy times > **Page 23**

At U.S. firms, downturn forces cuts big and small

By Ilan Brat, Ellen Byron And Jennifer Levitz

At **Quality Environmental Professionals** Inc. in Indianapolis, the crumbling economy forced a decision about the doughnuts.

When the environmental consulting business renewed its credit line last month, the interest rate nearly doubled, to 10% from 5.25%. Fuel costs for the company's vans and trucks had risen. Customers were taking longer to pay bills.

Chief Executive Deb Peters says she didn't want layoffs, so she asked some of her 33 employees to mow the company's lawn and do other yardwork, saving $7,000. Another $7,000 in savings came from switching the ink on Quality's letterhead to black from color.

Then the operations manager tried to halt delivery of $130 of doughnuts, bottled water and vanilla coffee creamer for a monthly staff meeting. No way, Ms. Peters said. Employees who work billable hours agreed to work one or two more per week to pay for the treats.

"It's like riding a roller coaster," she says of running her business stores have been ordered to compare the cost of renting a car versus expensing the use of their own vehicle at federal mileage rates.

At Shooters Restaurant & Sports Bar in Wareham, Mass., food sales have dropped almost 80% in the past month, prompting a new menu of "recession specials," says Jim Hoban, an owner. Spaghetti and meatballs has been cut to $4.99 from $8.99. The fried clam plate is $7.99, down from $9.99.

"No one has got any money to eat out," Mr. Hoban says of his largely blue-collar clientele. "We are basically giving the food away, hoping that they'll buy a beer" or something else extra.

The Mashantucket Pequot Tribal Nation, which operates two casino complexes in Connecticut, plans to lay off 700 employees, or about 6% of its work force, as revenue falls. Among the first to go was the nation's chief executive, Patricia Irvin, whose position was eliminated. "Although it has taken a few months, the recession's impact can now be clearly seen in our industry," Michael Thomas, tribal council chairman, said in a statement.


Louis Licari

Colorist Kathy Galotti of the Louis Licari salon on New York's Fifth Avenue, one of many businesses across the U.S. **watching costs and cutting waste.**

these days.

Across the U.S., companies are looking for cuts in every budgetary nook and cranny in an economy dragged down by slowing consumption, an imploding stock market and tight credit. They are cutting payrolls and scrimping on everything from photocopying to free coffee. Some are having to reluctantly turn away business because they can't borrow enough money to accommodate it.

Louis Licari, founder of the tony Louis Licari salons in New York and Beverly Hills, Calif., recently installed new weight scales so haircolor solution could be more precisely measured. Hair-washers who use too much shampoo and conditioner will be scolded, he says. "There's no more by-the-eye measuring—too much waste goes down the sink," says Mr. Licari, whose salons employ about 120 people.

Still, to keep customers coming, he says he can't afford to cut some costly perks, like the "major arrangement" of flowers at the front desk that is replaced every week. "We'll still do coffees, teas, cookies and brownies," he says. "Even if I have to bake them myself."

At **2nd Wind Exercise Equipment** Inc. of Minneapolis, "We're analyzing things with a magnifying glass," says Chief Executive Dick Enrico. Sales managers traveling to the company's fitness-machine

And construction by a different tribe, the Mohegan Tribal Gaming Authority, of a 39-story, 919-room hotel in Uncasville, Conn., recently was stopped because of the economy. The Mohegans had planned to spend $734 million on the hotel, a restaurant, a retail center and concert venue.

Others are missing opportunities. Three weeks ago, **Vista Window Co.** of Warren, Ohio, received a surge in orders for its vinyl replacement windows after a competitor shut its doors. Vista sought a $1.75 million loan to hire workers, buy machinery and raw materials and secure more warehouse space, says Ed Kalaher, vice president of corporate affairs. Its bank refused, saying it was no longer comfortable with Vista's debt-to-assets ratio. Vista turned away the business and will delay further expansion plans for at least a year, Mr. Kalaher says.

The company's sales have grown by at least 40% a year since the company opened seven years ago and this year are expected to hit more than $20 million. "In years past, there was a certain amount of value that momentum, growth, opportunity brought with lenders," Mr. Kalaher says. "That doesn't hold any weight anymore."

—Timothy Aeppel, Paulo Prada, Philip Shishkin and Sara Silver contributed to this article.

When collaboration is at your core,
there's only one thing to do
when you celebrate your Centennial...

THANK EVERYONE
WHO'S GOTTEN YOU THERE.

Thank you Deans Jain, Jacobs, Barr, Donham, Davies, McDaniel, Vanderblue, Fagg, Heilman, Swanson and Hotchkiss.

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Thank you families.

Thank you, especially, alumni and students.

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CORPORATE NEWS

CREDIT CARDS

MasterCard fee structure comes under new scrutiny

Associated Press

THE EUROPEAN Commission said it is looking at **MasterCard**'s new fee structure to see whether it infringes an earlier European antitrust decision.

This month, MasterCard raised the "scheme fees" it charges banks that process retailers' credit-card payments. Retailers argue this amounts to the same thing as the interchange fee—a charge passed from a merchant's bank to the credit-card holder's bank. The commission had ruled last December that MasterCard's cross-border interchange fees inflated costs for retailers and had to be changed within six months. MasterCard said it doesn't comment on pricing. *—Peppi Kiviniemi*

AIRPORTS

More flights are cleared for London's Stansted


IndexOpen

THE U.K. government Thursday gave permission to increase the number of flights to and from London's Stansted Airport as well as the maximum number of passengers allowed to use the airport every year.

The move will allow Stansted to serve up to 35 million passengers a year, up from 25 million currently, and raises the number of flights to and from the airport to 264,000 from 241,000. Following competition concerns, airport operator BAA, the owner of Stansted and a unit of Spain's **Grupo Ferrovial** SA, put Gatwick Airport up for sale last month. It also owns London's biggest airport, Heathrow. *—Kaveri Niththyananthan*

BREWING

InBev chooses Edmond as North American head


InBev

INBEV SA named AmBev Chief Executive Luiz Fernando Edmond, left, to lead North American operations after the Belgian brewer's $52 billion merger with **Anheuser-Busch** Cos.

David A. Peacock, now Anheuser-Busch's vice president of marketing, will become president of Anheuser-Busch and manage all U.S. operations of the combined company, including the brand management of Budweiser. Both men will be based in St. Louis, which will be the North American headquarters of the combined company. Anheuser-Busch's shareholders are to vote on the merger Nov. 12; InBev's shareholders have approved the deal.

Retailers brace for lean holidays in the U.S.

Stronger chains vie to bring in shoppers; store closings on rise

By Miguel Bustillo And Ann Zimmerman

FORGET CHARLES DICKENS. For America's retailers, it's looking more like a Charles Darwin Christmas.

On Wednesday and Thursday, many major store chains reported ominous declines in their September sales, signaling a worsening outlook for what already was expected to be the gloomiest holiday shopping season in nearly two decades.

Sharply falling sales forced several national retailers in the U.S., including **Target** Corp., **Nordstrom** Inc. and **J.C. Penney** Co., to lower profit forecasts for the fiscal third quarter ending in October. Some chains are stepping up store closures in an effort to bolster their bottom lines by abandoning weaker-performing locations.

Monthly retail-sales figures are a critical barometer of how Americans are spending—or not spending—and the September numbers show a nation paring back in the face of economic uncertainty, fleeing extravagance in favor of low-priced basics. Discretionary spending is drying up as Americans grapple with higher food and energy prices, depressed home values and diminished retirement accounts.

Last month's sales declines came as Americans were being bombarded with news of bank collapses, steep stock-market selloffs and government efforts to limit the damage. The impact was particularly severe at department stores. Sales at stores open a year or more were down 12% from a year earlier at J.C. Penney and **Dillard's** Inc. and fell 9.6% at Nordstrom. According to Thomson Reuters, retail sales, excluding **Wal-Mart Stores** Inc., rose a paltry 0.4% last month.

In the bleak climate, stronger retailers are seizing the chance to squeeze weaker rivals. **Kohl's** Corp. has said it hopes to grab more market share; Though its September sales were down 5.5%, the retailer did slightly better than analysts had expected.

Eduardo Castro-Wright, president of Wal-Mart's U.S. operations, said his company is well-positioned to boost its already huge share of U.S. sales during the holiday season. The store has been ramping up price rollbacks and other promotions.

Wal-Mart fired an opening salvo in what could be a toy-price war this fall, slashing prices on 10 top toys by as much as 40% last week in a move rivals are scrambling to counter.

Electronics retailer **Best Buy** Co. has been gaining market share all year against competitors such as **Circuit City Stores** Inc. and **RadioShack** Corp. One strategy some rivals have had trouble matching: no-interest financing on big-ticket items, such as home-theater systems, that cost a total of $999 or more.

Burt P. Flickinger III, managing director of Strategic Resource Group, a retail consulting firm, said he expects 1,000 to 1,500 stores to close in the two months following Christmas, up sharply from an earlier prediction of 200 to 300 stores.

The International Council of Shopping Centers expects a total of 144,000 stores—or 36,000 a quarter—to close in 2008, an increase of 7% from last year. Though closings will be partially offset by new-store openings, many chains, from **Office Depot** Inc. to Kohl's, have significantly ratcheted back store growth this year.

Associated Press

Sales slump U.S. retail sales for September

	Total September sales in millions	Total September sales Change from year ago	Comparable stores* Change from year ago
Discounters			
Wal-Mart	$36,229.0	+5.8%	+2.4%
Costco	6,670.0	+10.0	+6.0
Target	5,320.0	+2.5	−3.0
Department Stores			
J.C. Penney	$1,446.0	−11.0%	−12.0%
Kohl's	1,335.8	+0.6	−5.5
Nordstrom	718.0	−5.8	−9.6
Dillard's	568.5	−12.0	−12.0
Neiman Marcus	415.0	−11.0	−13.0
Saks	273.2	−11.0	−11.0
Teen Apparel			
American Eagle Outfitters	$229.2	+2.9%	−6.0%
Pacific Sunwear of California	91.2	+4.1	−5.0

*Comparable sales for U.S. stores only, excluding fuel sales
Sources: the companies; WSJ Market Data Group (share prices)

Mr. Flickinger said his new estimates reflect growing concern over retailers' reliance on store credit-card promotions, deferred payments on flat-panel television sets and other financing gimmicks that threaten to end amid the credit crunch.

These days, by contrast, anxious consumers are a big part of the problem.

John Hernandez, a Houston contractor, says the economy is forcing him to make hard choices, and he doesn't see things getting better anytime soon. He finds it hard to afford the $300 monthly fees for his 5-year-old daughter's private Catholic school. He has been packing her lunch at home, instead of paying the school an extra $5 a day.

"Everything is getting really expensive, and my wallet is only getting smaller because, jobwise, things are slow," he said as he left a Target store. "I just spent $25 on a lunchbox. That's my whole week's spending right there."

An analysis of credit-card transactions released this week by MasterCard Advisors found that American shoppers spent less in every category in September than they did a year earlier: 4.9% less on hotels, 5.5% less on apparel, 13.3% less on furniture, and 13.8% less on electronics and appliances.

Apparel chains fared especially poorly in September. **Gap** Inc. reported an 11% drop in September same-store sales. The company's Banana Republic chain managed to beat projections with a decline of 4%, compared with a projected double-digit drop, and its namesake chain also performed better than expected. But Old Navy turned in a 24% decline, more than double the drop analysts had predicted.

Consumer spending continues to shift toward discounters, but even there results are spotty. Wal-Mart Stores said that company-wide its sales grew just 2.4% last month, within the retailer's own forecast, but slightly below analysts' expectations. At Target, sales fell 3%—twice the expected decline.

Off-price retailer **TJX** Cos., which was expected to turn in a 0.5% rise amid shoppers' movement toward discount retailers, missed expectations. TJX reported a 1% drop and lowered its third-quarter and fiscal-year guidance.

TJX now expects quarterly earnings of 55 cents to 58 cents a share, four cents lower than its prior view. It also shaved its August-boosted outlook for the year by four cents to $2.15 to $2.20.

Some experts hold out hope that the dismal September sales may not be the harbinger of doom that so many in the industry fear.

Cash-strapped consumers may be saving for the holidays, they say, and consumer confidence could improve quickly if the public becomes convinced that the worst of the bleeding on Wall Street is over.

"Obviously, it was a difficult month," said Myron E. "Mike" Ullman III, Penney's chief executive. "But the holidays are coming up, and those are times when the mall tends to overperform. We're not ready to give up."

In the bargain-shopping market, sales continued to show strength last month. Warehouse chains **BJ's Wholesale Club** Inc. and **Costco Wholesale** Corp, posted sales of 5.6% and 6%, respectively, excluding fuel. Costco also reported a nearly 7% rise in quarterly earnings.

Before same-store sales numbers were released Wednesday, Goldman Sachs retail analyst Adrianne Shapira already had cut 2008 earnings estimates by an average 3% on 12 of the 23 companies she covers, including Penney, **Saks** Inc. and Target.

Charles Grom, an analyst with J.P. Morgan Securities, says he was struck by the broad swath of retailers affected by the downturn, including discounters. "It was even worse than my worst fears," Mr. Grom said.

"I don't think there's any place for retailers to hide. Even the former safe havens of Wal-Mart and Costco are having a harder time," he added.

—Cheryl Lu-Lien Tan contributed to this article.

CORPORATE NEWS

Wal-Mart triggers a war among toy sellers

Arsenal includes a $10 price point on well-known items

By Miguel Bustillo And Ann Zimmerman

Two shoppers move past the $10 toys on display at a **Walmart Supercenter** last week in Rosemead, Calif.

Associated Press

Retail price wars are starting early in the U.S. this year, and the latest weapon is the $10 toy—as retailers brace for a rough-and-tumble Christmas shopping season.

Wal-Mart Stores, Inc., which accounts for more than a fourth of U.S. toy sales, last week sent a clear message that it didn't plan to be undersold when it announced 10 well-known toys, including some Barbie dolls and Hot Wheels car sets, for $10.

KB Toys Inc., the nation's largest mall-based toy seller by stores, told Wal-Mart to bring it on. It cut prices to $10 or less on more than 200 toys, including other Hot Wheels sets, Matchbox cars and classic games such as Yahtzee.

Following Wal-Mart's cuts, which were 25% to 40% below the prices of **Toys "R" Us** Inc. and **Amazon.com** Inc., **Target** Corp. began matching prices on three of the four toys it shares with Wal-Mart's $10 list.

Amazon and the individual toy sellers it promotes on its sites also matched prices, but their discounts were offset by shipping charges. A Barbie Mariposa doll cost $10, for example, but had a $6 shipping fee.

The lower prices highlight an emphasis on high-volume staples as retailers gird for a Christmas season in which cash-strapped consumers may favor no-frills basics over flashier merchandise.

M. Eric Johnson, a Dartmouth College professor who follows the toy business, said Wal-Mart is using cheaper toys to "get people into the stores, but not necessarily giving away the store." Supplies of the $10 toys are ample but scattered across store aisles, he said.

"It feels more laser-focused, strategic kinds of moves to drive behavior, but not the good, old Wal-Mart that cuts prices everywhere," said Prof. Johnson. Still, any rival that follows Wal-Mart's cuts on those toys "will definitely be losing money," he added.

Wal-Mart's pinpoint cuts this year contrast with 2003 and 2004, when it slashed toy prices across the board in an aggressive bid to gain a larger share of toy sales. The brash move showcased the enormous pressures the retailer can apply to prices—and devastated some of its competitors.

Toys "R" Us lost its status as the nation's largest toy seller by revenue to Wal-Mart in 1998. After a bruising 2004 Christmas, it was bought by investors including **Bain Capital Partners** LLC and **Kohlberg Kravis Roberts** & Co. for $6.6 billion.

The company, based in Wayne, N.J., now believes it can succeed this year by selling a wider selection. Parents can find Star Wars toys that fit a variety of budgets. It also believes it has a better handle on the season's trendy toys, such as Elmo Live, an animated version of the Sesame Street character that will sell for $59.99 beginning Oct. 14.

Wal-Mart is betting big on Elmo Live, too, and will sell it for $59.88.

Gerald L. Storch, the chief executive officer who joined Toys "R" Us in 2006, downplayed the emphasis on lower-priced toys, predicting that parents will continue spending more on toys despite the economy.

"Christmas will come, and parents will buy toys for their children, just like they have in all the 60 years Toys "R" Us has been in business," he said. "We know some customers will be stretched these holidays, and we plan to meet them. But value is not just about cheapness."

KB Toys declared bankruptcy in 2004 after a cutthroat price war with Wal-Mart. A unit of **Prentice Capital Management** LP took majority ownership in 2005 and began closing about 150 underperforming stores last November amid continuing problems.

But the retailer, which now operates about 430 stores, down from more than 1,200, believes it has a winning formula in discount toys. The Pittsfield, Mass., company sells videogames or two DVDs for as low as $9.98. The items are generally older and less fashionable but still in demand among cost-conscious parents.

"This is going to be a very competitive season, yes, but our sales are robust," said Geoffrey Webb, the company's director of advertising and sales promotion. "Our traffic counts...are up, and not many retailers can say that," he added.

LVMH's sales growth is slowing

By Christina Passariello

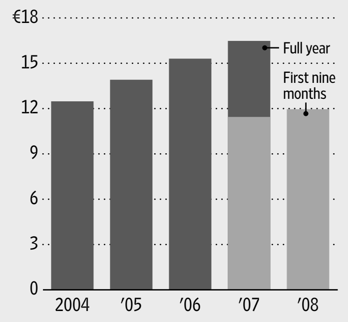
PARIS—**LVMH Moët Hennessy Louis Vuitton** SA, the world's largest luxury-goods group, said third-quarter sales rose 3.1%, in the first indication of how spending on high-end trinkets tapered off over the summer.

The group, home to fashion house Louis Vuitton and Veuve Clicquot champagne, sought to reassure investors by confirming its full-year target of a "tangible increase" in net profit. Sales between July and September totaled €4.16 billion ($5.69 billion), up from €4.03 billion last year.

Until recently, the luxury-goods industry seemed remarkably resilient amid the financial crisis. Wealthy clients in emerging markets propped up weakening demand in mature markets such as the U.S., Japan and Europe. Yet faltering stock markets in Russia and China, coupled with a slowdown in tourism during the Olympic Games in August, have led to concerns that the party is over. LVMH's sales decelerated from 5% in the first half to 3.1% in the third quarter.

Luxury price

LVMH's sales, in billions of euros



Source: the company

At LVMH, the Olympic Games put a brake on spending in Asia, a region that accounts for 21% of group sales, excluding Japan. Many Chinese stayed home during the two-week event, putting pressure on LVMH's duty-free chain, DFS.

LVMH's star Louis Vuitton brand recorded organic sales growth—excluding currency effects—slightly below 10% in the third quarter, compared with growth of more than 10% in the first half. The wines and spirits division has clocked strong growth since the beginning of the year in Russia and China but the company said it's a "contrasting situation" in the rest of the world.

Vodafone in Vodacom deal

By Kathy Sandler And Robb Stewart

LONDON —**Vodafone Group** PLC has offered its South African mobile joint venture partner **Telkom** SA 22.5 billion South African rand ($2.5 billion) for an extra 15% stake in **Vodacom Group** Ltd., giving the British mobile giant a 65% controlling stake.

The acquisition is a likely platform for Vodafone to expand in fast-growing African markets. Vodacom is South Africa's largest mobile operator by subscribers and has operations in Democratic Republic of Congo, Lesotho, Mozambique and Tanzania.

The deal is still subject to conditions but has the approval of both the Telkom board and the South African government, which owns 38% of Telkom.

ArcelorMittal sticks to its forecast

By Alex MacDonald And Geraldine Amiel

ArcelorMittal, the world's largest steel producer by volume, Thursday confirmed its forecast for the third quarter and the second half of the year despite a global economic slowdown that has curtailed steel demand from key automotive, appliance and construction sectors.


Lakshmi Mittal

"Despite the current financial crisis, the Chinese economic slowdown and the strong [sell-down of steel inventories] taking place on steel markets, we are pleased to expect profitability improvement in the second half of this year," ArcelorMittal Chairman and Chief Executive Lakshmi Mittal said in a statement.

ArcelorMittal said it still expects earnings before interest, taxes, depreciation and amortization, or Ebitda, "in excess" of $8.5 billion in the third quarter, compared with $4.9 billion a year ago. The company also expects Ebitda as well as cash flow for the second half of this year to rise from the first half.

The upbeat outlook provided some relief for the company's share price. The shares rose 9.1%, to €25.10 ($34.30) on the Paris Stock Exchange. The stock has fallen 62% since its June 6 peak of €65.19 on concerns about a global recession.

Spot steel prices hit a record over the summer but have since fallen back because of the global economic slowdown, spurring analysts to cut their projections of steelmakers' earnings. The U.S., European Union and even China, the world's largest steel consumer, have reported declines in automotive, appliance and construction-related sales.

Still, ArcelorMittal expects to generate strong profit in the third quarter thanks to higher prices and volumes. Steel prices in markets such as U.S. and Europe have remained relatively strong. Steelmakers in those regions had to make up for a shortfall in imports from emerging markets.

The Luxembourg-based company generated record earnings in the first half by passing on rising raw-materials costs to customers amid a global constraint in steel supplies and strong demand for steel products, particularly in emerging markets.

Last month, ArcelorMittal said it planned to cut production by as much as 15% to support prices. ArcelorMittal is more exposed than other steelmakers to weakening steel prices because it sells 80% of its steel on the spot market rather than fixed contracts, in which it can lock in the price.

CORPORATE NEWS

Renault tries to make a sensible car sexy

Auto maker relies on whiff of the forbidden to jazz up the Twingo

By Leila Abboud

PARIS—Many French Web sites these days carry a link to a site called "Must Be 18 to Enter," which features a warning—against a backdrop of boudoir-like pink silk—that it "contains adult images."

But anyone hoping to get a peak at some porn is bound to be disappointed. Those who click on the link end up on a site promoting the Twingo, a car made by France's **Renault**, which wants to give the vehicle a racier image.

ADVERTISING

The Twingo is shown resting atop a pile of pink and red silk sheets. A window pops up, and asks: "The Twingo wants to chat with you, do you accept?" The Twingo follows up with a more-brazen invitation, saying, "Come, I want to see you!"

The risqué campaign is an attempt to cope with a flagging car market and looming downturn in Europe. Car sales could suffer further if the current financial crisis makes it harder for people to get loans.

Renault hopes the Web site and accompanying TV and print ads will make its small, economical—and not all that exciting—Twingo model sexy.

The campaign is part of a broader effort by Renault to overhaul its image. The Twingo is the kind of car that appeals to many first-time buyers, and Renault hopes it can help the company develop brand loyalty in younger consumers. Twingo sales in France jumped 17% in September, the month the campaign started.

Renault's two TV ads, which started mid-September, feature potentially awkward family moments. In one, a young man, driving a black Twingo at night with his pals, sees his father—dressed as a drag queen—filing into a nightclub. The son at first looks shocked.

But the tension is soon resolved. "Hey Dad!" the son calls out cheerily. "Can you get us in?"

The ad uses the tagline "We live in modern times," suggesting that the world of the Twingo is fun, liberated and at ease with itself.

The commercial is a departure for Renault, which is known for making economical cars for Europe's masses. The auto maker has long had a sensible, even staid image.

Renault's cars are "a bit too safe and me-too," says Jay Nagley, managing director of Spyder Automotive, a London-based auto-industry consulting firm. "

Their cars are perfectly logical," he says. "But they don't have enough emotional appeal, at a time when some of their competitors have been able to combine both."

Renault

To address that problem, Renault Chief Executive Carlos Ghosn hired Stephen Norman last year as Renault's director of global marketing. Mr. Norman, who previously headed global marketing for Italy's **Fiat**, following stints at Germany's **Volkswagen**, believed Renault could boost its sales if it inspired a more playful and seductive feeling in consumers. He was following in the steps of competitors, like Fiat's retro-looking 500 and **BMW**'s Mini, which had built strong brands with retro design and savvy marketing.

"We needed to get a bit more modern in our image and marketing," says Mr. Norman. "The [Twingo] ads are an elegant way to be subversive," he says.

The ads were designed by **Publicis Groupe** Renault's longtime agency. The creative team at Publicis had to walk a fine line between two very different target demographics: women with families and young, single men.

It was hard to attract one without turning off the other, says Olivier Altmann, international creative director at Publicis Conseil.

"We decided to look for what they both had in common," he says.

The team came up with the idea of depicting the Twingo as the car for people in step with the times.

The second TV ad in the campaign features a mother driving her teenage daughter in a Twingo, and pulling up in front of a billboard. The billboard is advertising a cabaret, and features a huge photograph of a topless woman in pink panties and silk gloves but little else.

The daughter looks stunned—it's her picture on the billboard, and her mother has just discovered what she gets up to at night.

But, instead of freaking out, her mother turns to her, smiles proudly, and says: "What? You mean you found a job and didn't even tell me?"

For now, the ads are running only in France, where sexual imagery in ads and other media tends to be widely accepted. The ads have scored with French focus groups, and Renault plans to roll them out across Europe in January.

Mr. Nagley, the auto industry consultant, says Renault is on the right track with the Twingo campaign. But he questions whether an edgy ad campaign by itself can make up for the Twingo's somewhat bland design, compared with competing models with more adventurous design like the Fiat 500 and **Ford Motor**'s recently launched Fiesta.

"The risk is that Renault is trying to inject emotional appeal into a car that doesn't intrinsically have any," Mr. Nagley says. "If the product isn't right, then the best ad campaign in the world won't save it in the long run."

J&J veteran is tapped to head global drug unit

By Shirley S. Wang

Johnson & Johnson named longtime company executive Sheri McCoy world-wide chairman of its pharmaceutical division, the largest but weakest-performing of J&J's three business segments.

Ms. McCoy, 49 years old, who currently heads the health-care conglomerate's surgical-care unit, will become one of the highest-ranking women in the drug industry. She will succeed Christine Poon, who has led the pharmaceutical division since 2000. Ms. Poon announced last month that she intended to retire in March.

Ms. McCoy will take her new post on Jan. 1.

Like the rest of the pharmaceutical industry, J&J is facing increased generic competition while struggling to refill its pipeline of patented drugs. Sales at J&J's medical-devices division grew 12% in the second quarter compared with a year ago, and its consumer-health sales rose 13%. Sales from its pharmaceutical segment rose just 3.1%. Excluding favorable currency-exchange rates, though, sales at the segment fell 1.3%.

A chemical engineer by training, Ms. McCoy was named in January to be chairman of the surgical group and to join the New Brunswick, N.J., company's executive committee. In 2005, she was appointed head of a J&J surgical subsidiary called Ethicon and head of the medical-devices division in Latin America.

Ms. McCoy's background doesn't specifically include pharmaceuticals, but J&J views breadth of business experience as an asset, according to J&J Chief Executive William Weldon. Ms. McCoy brings more research experience to the position than her predecessor, having started her career in 1982 as an associate scientist and serving in several senior research-and-development positions in J&J's personal-products division.

Factors that were considered in the decision include "track records of driving performance in different businesses, developing talent, and making decisions that reflect our company values," Mr. Weldon wrote in an email sent via a spokesman.

The company declined to make Ms. McCoy available for comment. Ms. McCoy wasn't named to the additional post of J&J vice chairman, a title Ms. Poon also holds.

Also Thursday, J&J said Alex Gorsky, 48, currently head of Ethicon, will succeed Ms. McCoy as chairman of J&J's surgical-care segment. Mr. Gorsky spent 15 years at J&J's pharmaceutical subsidiary, Janssen, in sales, marketing and management roles. He served as head of J&J's pharmaceutical business in Europe until 2004, when he left to head Novartis AG's North American pharmaceutical business. He rejoined the company earlier this year.

J&J is slated to report third-quarter results on Tuesday.

GLOBAL BUSINESS BRIEFS

IKB Deutsche Industriebank AG

Quarterly net loss widens but rescue helps stabilize

IKB Deutsche Industriebank AG reported a wider net loss for its fiscal first quarter but said a government rescue package had helped it stabilize. The German bank, which has reported heavy losses from the effects of the subprime-mortgage crisis, reported a net loss of €540 million ($738 million) for the quarter ended June 30, compared with a year-earlier loss of €502 million. Net interest income fell 14% to €121.2 million. In February, German Economy Minister Michael Glos said the government would provide $1.5 billion to help bail out IKB. IKB said its net assets and financial position have been stabilized as a result of the rescue package. "The continued development of IKB depends to a large extent on its ability to obtain adequate refinancing," IKB said in a statement.

Deutsche Börse AG

Exchange operator **Deutsche Börse** AG will decide at its next regular meeting on Tuesday about The Children's Investment Fund's call for an extraordinary shareholder meeting to consider ousting supervisory-board chairman Kurt Viermetz, said two people familiar with the matter. On Tuesday, Deutsche Börse—whose shares have fallen 42% over the past year—said it had received a request from TCI for a holder meeting to discuss the ousting of Mr. Viermetz. TCI has joined forces with **Atticus Capital**; together they control about 19.9% of Deutsche Börse. The next largest stake holders, hedge fund **Lone Pine Capital** LLC and **Fidelity International**, didn't comment.

UniCredit SpA

Italian Prime Minister Silvio Berlusconi Thursday said **UniCredit** SpA no longer had problems following a capital increase and urged Italians to weather the global financial crisis by holding on to their shares. "The UniCredit problem is solved" after the Bank of Italy asked the lender to raise more funds, Mr. Berlusconi said, a day after his government approved an emergency decree allowing it to take nonvoting stakes in troubled banks, in an effort to boost investors' confidence. Mr. Berlusconi told Italians they shouldn't be taken by the sale frenzy, which has hit stock markets around the world. The Italian stock exchange reacted well to the government decree until late in the trading day, with the benchmark S&P/MIB finishing 1.8% lower. UniCredit shares rose 9.2% to €2.67 ($3.65).

British Airways PLC

British Airways PLC said Thursday about 450 of the 1,350 entitled managers have accepted its offer for buyouts. They will leave the company at the end of the year. "We are pleased with the take up for the scheme," a BA spokesman. "The number is in line with our expectations and means we can deliver on our commitment to reduce our management headcount." However, more numbers still needed to be analyzed before exact savings from these departures could be calculated, the spokesman said. The airline announced the buyout offer last month in an attempt to cut costs, given the tough environment it faces amid weakening demand and high fuel prices. Despite oil prices coming off peaks seen in mid-July, BA still expects its full-year fuel costs to rise by £1 billion ($1.73 billion).

Cie Financière Richemont

Shareholders of **Cie Financière Richemont** SA backed the spinoff of its stake in **British American Tobacco** PLC. Shedding the stake will turn the Geneva-based seller of Cartier watches and high-end pens into a company focused solely on luxury goods. Together with South Africa's **Remgro** Ltd.—also controlled by the family of Chairman Johann Rupert—Richemont held a 30.1% stake in BAT. Mr. Rupert said that the company was well placed to cope with difficult trading conditions, thanks to its presence in emerging markets. Like its French rival **LVMH Moët Hennessy Louis Vuitton** SA, Richemont has seen its shares fall sharply this year amid concerns about deteriorating financial markets and consumer sentiment.

IBM

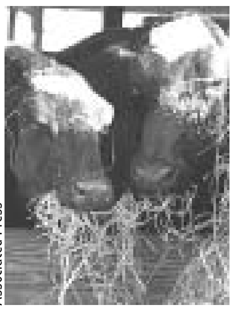
International Business Machines Corp. reported better-than-expected earnings for its third quarter, although revenue growth slowed from previous quarters. The earnings gave shares a boost Thursday and could provide support for a market that has been buffeted by the financial crisis. The broad-line information-technology provider said third-quarter net income was $2.8 billion, or $2.05 a share, from continuing operations, up 20% from the year-earlier third quarter, when earnings per share were $1.68. Analysts surveyed by Thomson Reuters had predicted IBM would report earnings of $2.02 a share. IBM's revenue grew 5% to $25.3 billion, with three points coming from currency-translation gains.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

EU

Trans-Atlantic rift found on using clones for food



Associated Press

MORE THAN HALF of European Union consumers said cloning animals for food production would never be justified and they would never buy meat or milk from cloned animals.

In a survey of 25,000 people released Thursday by the EU, 58% said cloning for food would never be justified. If cloned food ever ended up in European shops, 83% said it would require special labeling. The poll highlights a trans-Atlantic rift on the topic. The U.S. has called it safe and said it would consider proposals to sell genetically engineered animals as food. The European Commission is expected to propose ways to deal with such food. *—Associated Press*

GERMANY

Exports post a sharp fall as trade surplus shrinks

Associated Press

GERMAN EXPORTS posted their biggest annual decline in five years in August, the clearest sign a global economic slowdown is weighing on Europe's largest economy.

Germany's trade surplus shrank to €10.6 billion ($14.5 billion) from €13.8 billion in July and was 2.5% narrower than the surplus a year earlier, as major exporters dealt with high commodity prices and a strong euro, data from the Federal Statistics Office showed. Exports fell to €75.7 billion in August from €77.7 billion a year earlier.

"The German export engine is now increasingly sputtering," UniCredit SpA's chief German economist Andreas Rees said. *—Roundup*

EURO ZONE

ECB policy makers signal lowered growth forecasts

ECB

TWO TOP European Central Bank policy makers said the institution might need to cut further its growth forecasts in the wake of the financial crisis.

"Our forecast of 1.2% growth for 2009 will be reviewed downward," Lorenzo Bini Smaghi, an executive-board member, was quoted as saying in Italian newspaper Il Sole 24 Ore. He said economic activity in the euro zone may have contracted in the third quarter.

Separately, Jürgen Stark, another executive-board member, told German daily Stuttgarter Zeitung that euro-zone growth "will remain very weak for at least a period of several quarters." *—Liam Moloney*

Sarkozy calls for looser EU rules on aid

France will spend $547 million to help develop greener cars

*By **David Gauthier-Villars** in Paris and **Edward Taylor** in Frankfurt*

French President Nicolas Sarkozy called Thursday for the European Union to loosen rules restricting state aid to industry, and said France will spend €400 million ($547 million) of public funds to help its auto makers develop greener cars.

EU officials recently have given the impression that they may be growing more lenient on state-aid restrictions as European governments struggle to respond to the global financial crisis. And many EU countries have adopted emergency domestic bailout plans without consulting their neighbors.

But some economists said that with his proposal to soften state-aid rules, Mr. Sarkozy was trying to use confusion over the European Commission's role to push a favorite project: the resurrection of government-sponsored industrial policy. In France, several big industries—nuclear power, high-speed trains and aerospace—have grown as a result of state aid and guidance.

"Mr. Sarkozy is resuming his lobbying," says Jean-François Jamet, an economist and consultant for the World Bank. "I am not sure many EU member states will support him."

European antitrust authorities have rejected several attempts by the French to prop up their auto industry, on the grounds that such aid would violate EU rules against state aid. In February, the commission blocked a French plan to grant Peugeot up to €100 million in state aid.

European car makers squeezed by the financial crisis are pressing the EU to agree to a €40 billion soft-loan package. Mr. Sarkozy said during a visit to the Paris Auto Show that it was time for the EU to loosen its antitrust rules and allow countries to help key industries—or risk their decline. The French president, who holds the EU's rotating presidency until the end of 2008, said it was urgent to take action because the U.S. was drafting a $25 billion package to support its auto makers.

By sticking to the current rules which restrict EU subsidies, "I think we are being naive," Mr. Sarkozy said. "And I think it's been going on for too long."

AFP

Above, French Minister for Ecology Jean-Louis Borloo and **President Nicolas Sarkozy** with Peugeot's CEO Christian Streiff at the Paris Auto Show.

The commission will examine the latest French plan as soon as it is notified by Paris, according to a spokesman for Antitrust Commissioner Neelie Kroes. "Under the current framework, governments can provide aid for research and development, training and environmental projects," spokesman Jonathan Todd said.

The bulk of the French funds for greener vehicles will go toward electric-car projects, Mr. Sarkozy said as he visited the stands of French auto makers **PSA Peugeot Citroën** SA and **Renault** SA at the Paris auto show.

He also said France will replace all government cars more than 10 years old with fuel-efficient vehicles. In addition, the country will extend until 2012 a €5,000 subsidy to buyers of ultra-low-emission cars.

The French government fears that the financial crisis, as it has in the U.S., will damp demand for cars—big-ticket items that most customers buy on credit.

The gloomy economic outlook and change in credit conditions have already hurt passenger-car sales in Western Europe, a key market for the French auto makers. In September, car registrations in Spain fell 32% on the year. Spanish car manufacturers' association Anfac attributed the drop to "higher mortgage payments and the overall increase in prices," which had "decreased disposable income."

Italy's new-car registrations in September dropped 5.5% from a year earlier. In Germany, passenger-car registrations fell 1.5%; new-car registrations in the U.K. skidded 21%. It was the U.K.'s fifth consecutive month of decline, and these are "the most difficult economic conditions the industry has faced in 17 years," the U.K. Society of Motor Manufacturers and Traders said. SMMT Chief Executive Paul Everitt called for "government action to restore consumer confidence and boost demand in the real economy."

—Neal E. Boudette in Detroit contributed to this article.

Yushchenko sets December date for Ukrainian elections

A WSJ News Roundup

KIEV, Ukraine—Ukrainian President Viktor Yushchenko set a Dec. 7 date for new parliamentary elections after dissolving the legislature following failed efforts to replace his shattered pro-Western coalition.

Thursday's decision was likely to deepen political turbulence in the former Soviet republic, with Prime Minister Yulia Tymoshenko's camp and even some members of Mr. Yushchenko's own party vowing to challenge the move. It makes it even less likely that Ukraine will join the North Atlantic Treaty Organization soon.

The dissolution of parliament on Wednesday marked a tactical victory for Mr. Yushchenko in a power struggle with Ms. Tymoshenko, his partner in the 2004 Orange Revolution, who has fought to keep her job as prime minister.

The two leaders have turned into rivals before the 2010 presidential vote. Russia's war against Georgia in August deepened that rift, exposing serious differences between the two when it came to dealing with the Kremlin.

The parliamentary vote will be the third in as many years, adding to debilitating political turmoil in a country battered by the global financial crisis. Some analysts say it could lead to a more pro-Russian government, since polls show the Kremlin-friendly Party of the Regions is well placed to emerge as the victor. If it goes on to successfully stitch together a new coalition, its leader, Viktor Yanukovych, would become prime minister. Like the majority of Ukrainians, he opposes NATO membership.

"If Yanukovych is prime minister, there's absolutely no chance of Ukraine joining NATO or of accelerating its progress toward NATO," said Geoffrey Smith, a Kiev-based independent political analyst.

NATO countries are to meet in December to discuss granting Ukraine and Georgia membership action plans, a prerequisite to membership in the military alliance. Analysts say NATO countries are likely to use the lack of a stable government as yet another excuse to delay a decision already fraught with difficulty. Russia is against either Ukraine or Georgia joining the alliance.

Ms. Tymoshenko has said dissolving parliament before late November is unconstitutional and has vowed to challenge the decision. Her party has threatened protests. Ms. Tymoshenko has also suggested holding a new presidential election alongside any early parliamentary vote, hinting that she would run.

Mr. Yushchenko accused Ms. Tymoshenko of betraying the country for the sake of her personal gains and said the early vote was a way to preserve democracy and national interests. Ms. Yushchenko pulled out of the nine-month-old coalition with Mr. Tymoshenko last month, after she sided with the opposition to adopt a series of laws that trim his powers.

Mr. Yushchenko has harshly criticized Russia for its August war in Georgia and assailed Ms. Tymoshenko for her reluctance to condemn Moscow's actions. Ms. Tymoshenko says she opposed the war, but calls for balanced ties with Russia.

Mr. Yushchenko asked parliament to pass a series of laws Thursday needed to hold the election, but it was unclear whether that would be done. Many lawmakers, including some from Mr. Yushchenko's party, said they would refuse to vote in protest.

Republicans play up vote fraud concerns

Registration drives add millions to rolls, fueling suspicions

By Evan Perez

ALBUQUERQUE, N.M.—As most states finalize voter rolls this week, Republican officials are reviving alarms about vote fraud.

One of the biggest instances of suspicious registrations is here in New Mexico, where the Federal Bureau of Investigation has opened a preliminary investigation into 1,400 potentially fraudulent voter registrations in the state's most populous county.

It's far from clear that the number of suspicious registrations is enough to affect the outcome of the presidential vote, even in tight states, elections officials say. They say enforcement efforts are likely to spot any big collections of fake registrations before votes are cast. What's more, a fake registration doesn't necessarily mean an ineligible vote is tallied. Officials say canvassers sometimes make up registered names to impress bosses or earn bonuses, but that doesn't result in anyone ineligible casting a vote.

The issue is of particular interest this year as registration drives are adding millions of new voters to the rolls. Sen. Barack Obama's campaign has run its own registration operation in areas where higher turnout could benefit the Democrat from Illinois.

The Republican National Committee is trumpeting registration problems on part of its Web site titled, "You can't make this up." Among the incidents: In Virginia, a third-party registration group fired three workers who it said falsified nearly 100 applications.

In Nevada on Tuesday, state election officials raided the offices of the Association of Community Organizations for Reform Now, known as Acorn, after receiving information about falsified registration cards. "We have complaints every election that fraudulent registration forms are being turned in, and no one does anything about it. People have lost faith in the electoral process," said Democrat Ross Miller, Nevada's secretary of state.

Bertha Lewis, Acorn's interim chief organizer, said the raid was "a stunt," and that Acorn had flagged the suspicious applications to Nevada officials.

In New Mexico, there is a history of razor-thin election margins, magnifying the impact of any potential fraud. At the end of election night in 2000, George W. Bush led by four votes. After discovering a box of misplaced ballots, officials declared Al Gore the winner by fewer than 400 votes out of about 600,000 cast. And in 2004, President Bush beat John Kerry by about 6,000 votes in the state.

Maggie Toulouse Oliver, the clerk of Bernalillo County, which includes Albuquerque, has turned over to law enforcement the 1,400 voter-registration cards that raised suspicions of fraud. Ms. Toulouse Oliver, a Democrat overseeing her first presidential vote, says her office's review of cards works. "That's 1,400 cards here sitting in a file; they're not entered into the system," she said.

A mile from Ms. Oliver's office, Acorn operates a major New Mexico registration effort. Young workers there worked late one night this week preparing to submit registration forms. Acorn and other groups have registered nearly 80,000 new voters in a drive focused on the state's Democratic-leaning urban areas.

Acorn is a frequent target of Republican voter-fraud allegations, and it had workers in two states last year convicted of submitting fake registrations. Acorn says it works hard to root out bad apples. A sign at the organization's office here reads: "Anyone committing fraud will be reported to the Bureau of Elections, prosecuted and terminated immediately."

Acorn's quality-control manager at the office, Bianca Brown, says employees check each application and have a call center attempt to confirm the information with applicants. She says such reviews caught a person who registered as Batman and another who has tried to register 70 times. Acorn says it has fired about 80 workers in New Mexico since December 2007 over potentially fraudulent registrations.

New Mexico law requires Acorn to turn in all applications, no matter how suspicious-looking, within 48 hours. Elections officials do their own quality control on registrations, but Acorn officials say their own process helps the government save time.

Acorn workers play down the chances that the problems will result in ineligible voters casting ballots, and experts in the field largely concur. J. Adam Skaggs, counsel with the Brennan Center for Justice at New York University, says: "A lot that gets lost in the hysteria of the issue is the fact that the people on those [fraudulent] forms are not showing up to vote."

Justine Fox-Young, a Republican state legislator from Albuquerque, says that even if illegal votes are relatively rare, "every fraudulent vote cast cancels out a legitimate one. This is New Mexico, where every election is close."

Pressure to investigate voter fraud in New Mexico contributed to a Bush administration scandal that cost former Attorney General Alberto Gonzales his job last year. An internal Justice Department investigation concluded that David Iglesias, the U.S. attorney in New Mexico, was fired in 2006 largely because he didn't satisfy high-ranking Republicans' calls to investigate alleged vote-fraud cases. President Bush had privately complained to Mr. Gonzales about vote fraud in Albuquerque, blaming it for his loss to Mr. Gore in 2000, the investigation found.

Mr. Iglesias said a task force set up after the 2004 election struggled to find a prosecutable case. In one typical example, a woman who faked registration forms "was doing it to get paid. She could not care less about the outcome of the election." She wasn't charged.

U.S. Democrats hold money edge

By Greg Hitt
And T.W. Farnam

WASHINGTON—The Democratic Party is heading into the campaign homestretch with a decisive spending advantage in the fight for control of the U.S. Congress, as Republicans scramble to prevent a blowout loss.

The Democratic money edge extends across all congressional races, but is most pronounced in House contests. Through Oct. 6, the party had spent $16 million, compared with $500,000 spent by national Republicans. The money is being used on television and radio advertisements, as well as direct mailings, aimed at swaying undecided voters and moving supporters to the polls.

In Senate races, Democrats have shelled out nearly twice as much—$21.1 million compared with $9.1 million for Republicans—according to Federal Election Commission filings.

The spending advantage exacerbates the Republican Party's weakened position, as the crisis in financial markets has moved the political debate into favorable territory for Democrats and raised President George W. Bush's profile at a time when many Republicans are trying to distance themselves from him.

If current trends hold, the Republicans could lose 20 to 30 seats in the House, double the number anticipated last summer, several Republican strategists said. That would reduce the party's ranks to levels not seen since before it took control of the House in the "Republican Revolution" of 1994.

In the Senate, as many as eight to 10 Republican-held seats could be at risk, the strategists said. Republican stalwarts such as Senate Minority Leader Mitch McConnell of Kentucky and Sen. Elizabeth Dole of North Carolina are teetering. In Georgia, Sen. Saxby Chambliss, who voted for Mr. Bush's controversial financial-industry rescue plan, now is running only slightly ahead of his Democratic challenger, a former state representative with relatively little money. Sen. Chambliss until recently was seen as a safe bet for reelection.

"We could wind up after the election back to 1992 levels," said veteran Republican pollster Tony Fabrizio.

In the House, Democrats hold a 235-to-199 advantage over Republicans. Democrats control the Senate 51-to-49, with two independents caucusing with Democrats.

Democrats are pouring money into races in the fight for control of Congress.

Republican hopes rose in early September that the party could limit its losses in Congress and retain numbers large enough to frustrate the Democratic agenda next year even if Illinois Sen. Barack Obama wins the White House. Alaska Gov. Sarah Palin's addition to the Republican national ticket had energized the party's conservative base, and Arizona Sen. John McCain, the party's standard-bearer, was looking forward to a fall debate on issues such as energy and taxes.

But any momentum Republicans enjoyed evaporated in mid-September, after the financial markets faltered and Mr. Bush urged Congress to pass his $700 billion rescue plan despite strong grass-roots opposition.

Sen. McCain and other Republicans could still gain ground if they—or events—shift debate away from the economy. And the McCain campaign is stepping up attacks on Sen. Obama.

But warning signs abound.

The nonpartisan Cook Political Report last week reported that 37 Republican-held seats were up for grabs, rated as either tossups or leaning Republican, compared with 18 similarly rated seats held by Democrats. In July, Cook said 33 Republican-held seats were in play, compared with 20 Democrat-held seats.

Moreover, polls suggest voter attitudes today are similar to those in 2006, when Democrats picked up six seats in the Senate and 29 in the House. The latest Wall Street Journal survey found voters prefer a Democrat-controlled Congress over a Republican-led one by 49% to 36%. A Wall Street Journal/NBC News poll in October 2006 showed that preference at 48% to 39%.

With Election Day looming, Democrats have begun transferring millions of dollars to state parties from the party's national coffers, paying for efforts to identify supporters, register new voters and get them to the polls. Democrats have transferred $16 million to state affiliates, with $11.2 million coming from its Senate party committee and $3.8 million from the House pool. Republicans haven't made any significant transfers, according to FEC reports through August, the most recent data for such transfers.

Democrats are also pouring money into individual House races, spreading funds across 32 Republican-held districts and 14 Democratic-held districts.

Republicans say they will continue to compete for votes. Rebecca Fisher, a spokeswoman for the National Republican Senatorial Committee, said "the bottom hasn't fallen out." Yet in the fight for the Senate, only one Democratic seat, held by Louisiana Sen. Mary Landrieu, is considered competitive out of about a dozen seats in play in 2008.

IMF, World Bank leaders urge coordinated action

By Tom Barkley

WASHINGTON—Leaders of the International Monetary Fund and the World Bank called for swift, coordinated action to address the global financial crisis.

World Bank President Robert Zoellick said Thursday that the Group of Seven major economic powers need to take steps to combat the financial crisis and also help poor countries deal with their problems.

"I hope the G-7 will point toward coordinated action to show that authorities are getting ahead of the curve," Mr. Zoellick said ahead of weekend meetings of the IMF and World Bank and Friday's meeting of G-7 finance ministers and central-bank governors.

IMF Managing Director Dominique Strauss-Kahn said in a separate briefing: "Our view is that the situation is very serious, but at the same time that we can solve problems if we act quickly, forcefully and cooperatively."

European leaders, in particular, need to increase cooperation beyond the central-bank level, he said.

"I urge European countries to work together," Mr. Strauss-Kahn said, adding that there are "no domestic solutions" to the problems.

He reiterated that rate cuts in advanced economies are welcome and that fiscal stimulus should be used where possible. However, he said, those traditional policy tools won't work without addressing problems in the financial system.

On the economic outlook, Mr. Strauss-Kahn said the world is "on the cusp of a global recession," but that he expects a recovery to begin by the end of 2009.

Wednesday, the IMF cut its global forecast for 2008 to 3.9% growth, down from the estimate of 4.1% in July. It also cut expected 2009 growth from 3.9% to 3%, which would be the weakest level since 2002 and around what the fund considers the threshold for a world recession. Mr. Zoellick urged the G-7 nations to look beyond the financial turmoil affecting their countries to help the most vulnerable countries. Because the crisis is international, "the actions and reforms need to be multilateral," he said.

Poor countries already dealing with the "double jeopardy" of rising food and fuel prices are now facing a "triple hit" as the financial troubles continue to spread, said Mr. Zoellick, reiterating that many of them are at a "tipping point."

Earlier this week, the World Bank president called for a doubling in the size of the G-7, saying it "is not working." Mr. Zoellick said Thursday that his proposed steering group would represent a change in how global leadership decisions are made, with a flexible membership and network that interacts with multilateral institutions and other organizations.

Corporate News

Lean forecast

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