# THE WALL STREET JOURNAL.

DOWJONES Newswires — WSJ.com — EUROPE — DOWJONES A News Corporation Company

VOL. XXVI NO. 179 — MONDAY, OCTOBER 13, 2008

For information or to subscribe, visit www.services.wsje.com or call +44 (0) 207 309 7799 - Albania Lk 370.00 - Austria €3 - Belgium €2.90 - Croatia HRK 20 - Czech Republic Kc 110 - Denmark Dkr 22 - Finland €3.20 - France €2.90
Germany €3 - Greece €2.90 - Hungary Ft 530 - Ireland (Rep.) €2.90 - Italy €2.90 - Lebanon LE 4000 - Luxembourg €2.90 - Morocco Dh 24 - Netherlands €2.90 - Norway Nkr 27 - Poland Zl 10.50 - Portugal €3 - Slovakia Sk 100/€3.32 - Spain €2.90
Sweden kr 27 - Switzerland SF 4.80 - Syria SE 150 - Turkey YTL 4.25 - U.S. Military (Eur) $2 - United Kingdom £1.40


# Euro-zone economies to prop up banks

## *Options include nationalization, guaranteed loans*

The euro zone's biggest economies prepared to unveil plans to spend tens of billions of euros in state funds to prop up their banking systems as leaders agreed on a menu of measures to cope with the growing financial crisis.

*By David Gauthier-Villars in Paris and Marcus Walker in Berlin*

At a Paris summit, the leaders of the 15 countries that use the euro said they would partially nationalize their banks when necessary. Other choices on the menu of measures to cope with the growing financial crisis included state-guaranteed loans and the loosening of mark-to-market rules, which force banks to book their assets at the price they would get if they sold them now. Leaders also repeated a pledge to save any distressed bank.

French President Nicolas Sarkozy, hosting the meeting, said Germany, France and Italy would detail their national plans at about same time on Monday.

"We must restore the capacity of our banks to lend money," he told a news conference.

The accord among the euro-zone countries was an attempt to overcome the bloc's disarray in the past week. Diverging national attempts to prevent banks from collapsing have failed to convince financial markets that Europe's leaders are capable of taming a crisis that is spilling across national boundaries. As the credit crunch spilled over into bourses, the pan-European Dow Jones Stoxx 600 index lost more than a fifth of its value last week.

Suggestions by France and the Netherlands for a pan-European fund to rescue banks have been vetoed by Germany, which fears its taxpayers would have to pay for costly bailout schemes in other countries. The U.K., which doesn't use the euro but is a member of the 27-nation European Union, is also opposed to a common European bailout fund. That means a European equivalent of the U.S.'s $700 billion bailout plan is off the agenda for now.

Participants in Sunday's summit

*Please turn to page 31*

Associated Press

ECB President Jean-Claude Trichet, left, Nicolas Sarkozy, Gordon Brown and European Commission President José Manuel Barroso, **at the crisis summit** Sunday.

## What's News—

### *Business & Finance*

**The U.K. government** was finalizing plans Sunday night to take control of RBS by purchasing a big stake in the banking giant while injecting at least £15 billion into it. The government already has nationalized two other lenders and is poised to become one of the world's biggest bankers. Stephen Hester was tapped as the likely CEO of RBS. Page 1

■ **Investors and lenders** are pulling back from financially overstretched economies in Eastern Europe. Page 4

■ **GM held** merger talks with Chrysler and Ford. Though both discussions are on hold, they reflect the intense pressure on the U.S. auto industry. Page 8

■ **Ford is exploring the sale** of its controlling stake in Japan's Mazda as part of an effort to shore up its finances. Page 8

■ **Russia sought** to accelerate its $200 billion bailout of financial markets as investors grew increasingly doubtful of the Kremlin's commitment to reversing the rout. Page 5

■ **Retail investors could be** scared away from stocks for a long time to come by the severity of the recent plunge. Page 19

■ **The flight to the safety** of the dollar and yen is likely to persist in the near term if statements on tackling the crisis fail to appease investors. Page 20

■ **Saudi Arabia and the U.A.E.** both promised fresh financial support to their domestic banking industries. Page 22

### Markets

| MARKET | CLOSE | NET CHG | PCT CHG |
|---|---|---|---|
| DJIA | 8451.19 | -128.00 | -1.49 |
| Nasdaq | 1649.51 | +4.39 | +0.27 |
| DJ Stoxx 600 | 205.13 | -16.65 | -7.51 |
| FTSE 100 | 3932.06 | -381.74 | -8.85 |
| DAX | 4544.31 | -342.69 | -7.01 |
| CAC 40 | 3176.49 | -266.21 | -7.73 |
| Euro | $1.3520 | -0.0126 | -0.92 |
| Nymex crude | $77.70 | -8.89 | -10.27 |

*Money & Investing* > Page 19

### *World-Wide*

**Germany, France and Italy** prepared to unveil Monday government funds totaling tens of billions of euros to prop up their respective banking systems, as euro-zone leaders agreed on measures to cope with the global financial crisis. They said that, when necessary, they would partly nationalize banks. Page 1

■ **The IMF said** member nations agreed to do what is necessary to prevent another key financial institution from failing. Page 2

■ **North Korea said** it will resume tearing apart its nuclear complex, after the U.S. said it was removing Pyongyang from a list of terrorism sponsors. Page 10

■ **The U.S. and Iraq are close** to agreeing on a final draft of a security accord. Suicide car bombers struck in Mosul, killing at least six people, and a car bomb killed seven in Baghdad. Page 10

■ **Suspected U.S. missiles killed** five people in Pakistan, officials said. Pakistani forces killed over 50 insurgents, other officials said.

■ **U.S. Gen. McKiernan**, NATO's top general in Afghanistan, said he rejects that NATO is losing to the Taliban insurgency but he needs more military forces.

■ **Finland's ex-President** Martti Ahtisaari won the Nobel Peace Prize for efforts to resolve conflicts from Namibia to Aceh, Indonesia, Kosovo and Iraq. Page 10

■ **Zimbabwe opposition leader** Tsvangirai threatened to pull out of a national unity government if President Mugabe refuses to cede control of key ministries.

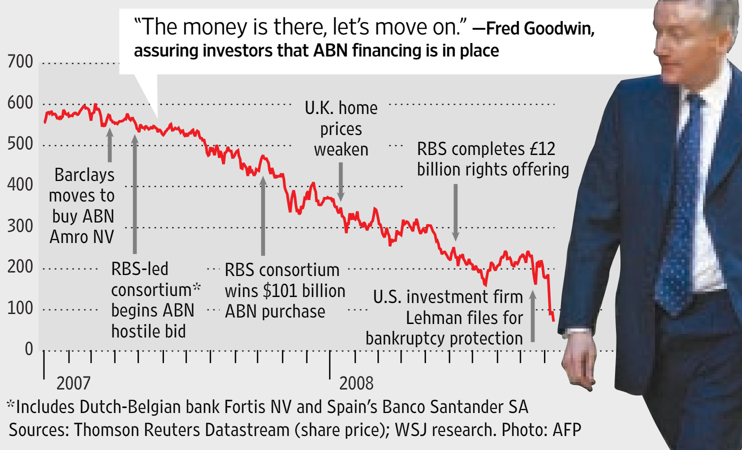
■ **Austrian far-right politician** Joerg Haider was speeding at over twice the posted limit before the car crash that killed him Saturday, investigators said.

### Editorial & Opinion

**Finally, a crisis plan**
Europe pulls together to avoid a rerun of 1929.
Review & Outlook. Page 13

## Line in the sand

The U.K. Treasury is finalizing plans for a rescue package that will mean the government will acquire stakes in U.K. banks including Royal Bank of Scotland. CEO Fred Goodwin, right, will depart and is expected to be replaced by British Land CEO Stephen Hester. Below, RBS's daily share price in pence.




*Includes Dutch-Belgian bank Fortis NV and Spain's Banco Santander SA

Sources: Thomson Reuters Datastream (share price); WSJ research. Photo: AFP

# RBS CEO's exit is likely as part of U.K. purchase

*By Dana Cimilluca, Alistair MacDonald, Carrick Mollenkamp and Sara Schaefer Muñoz*

LONDON—In a dramatic turn, the U.K. government was finalizing plans Sunday night to take control of **Royal Bank of Scotland Group** PLC, by purchasing a big stake in the banking giant.

The government, which already has nationalized two other lenders, is now poised to become one of the world's biggest bankers. It also is buying a controlling stake in mortgage lender **HBOS** PLC as the government accelerates a rescue package that was unveiled just days ago to halt a dive in bank stock prices. The U.K. is set to unveil an investment in its banks of more than £35 billion ($59.70 billion) Monday.

The U.K. is expected to inject at least £15 billion into RBS. As part of the measures, RBS CEO Fred Goodwin, who built the bank in his eight years at the helm, is expected to step down, people familiar with the matter said. It is a comedown from a year ago when RBS was leading the world's biggest-ever bank acquisition.

The U.K. bailout approach, becoming the model for the U.S. and elsewhere with its emphasis on injecting capital into banks to boost their balance sheets as well as guaranteeing their loans, is moving faster than expected at home. Last week banks thought they had until the end of the year to raise capital.

Instead, after a weekend of frenzied work, the Treasury and four of the U.K.'s biggest banks RBS, **Barclays** PLC, HBOS and **Lloyds TSB Group** PLC are expected early Monday to detail how they will raise at

*Please turn to page 31*

# Veteran hand is set to guide RBS after deal

BY SARA SCHAEFER MUÑOZ AND ALISTAIR MACDONALD

LONDON—Stephen Hester has built a sterling reputation over more than two decades in senior roles at some of the world's biggest financial firms. Now he's poised to put that reputation to the test by taking over as chief executive of the embattled **Royal Bank of Scotland Group** PLC.

Mr. Hester has been tapped as the likely successor to RBS chief executive Fred Goodwin, who is expected to step down as part of a deal in which RBS will receive a capital injection of at least £15 billion ($25.6 billion) from the UK government, people familiar with the matter say. An announcement is expected to come as early as Monday morning, the people say.

The appointment would put Mr. Hester, 47 years old, currently chief executive of the **British Land Company** PLC, at the helm of a bank that has grown rapidly since 2000 into a worldwide presence, but has recently stumbled amid the credit crunch and difficulties pulling off the ambitious takeover of Dutch bank ABN Amro Holding N.V.

From day one, Mr. Hester will face an array of daunting challenges. For one, he'll have to quickly gain authority and maintain morale in a company that Mr. Goodwin—known as "Fred the Shred" for his cost-cutting zeal— has run with a strict, detailed-oriented hand for the past eight years , and that has seen its share price fall some 70% since early summer. He'll have to complete the difficult integration of ABN Amro's London investment-banking unit and its wholesale oper-

*Please turn to page 31*

## THE FINANCIAL CRISIS

# IMF says nations are ready to contain crisis

*Commitment, short on specifics, is aimed at boosting confidence*

By Bob Davis

WASHINGTON—National governments around the world have agreed to do what is necessary to prevent another major financial institution from failing, the International Monetary Fund's managing director said, although he didn't specify any measures.

During weekend meetings, the IMF's 185 member nations endorsed an earlier commitment by the leading industrial nations to "use all available tools" to prevent the failure of "systemically important" financial institutions. Essentially that meant "no one is going to let an important financial institution fail," said the IMF chief, Dominique Strauss-Kahn.

"It can be done in different ways, depending on different countries...But the fact that all the governments are now committed to do that is a very, very strong commitment, and I hope that the market will understand that," Mr. Strauss-Kahn said.

Despite committing more than $1 trillion to rescuing financial institutions, national governments have been unable to restore confidence that they can contain deepening economic problems. The IMF meeting was another effort to build confidence and lift markets. Although the meeting didn't produce a specific action plan, Mr. Strauss-Kahn hinted that such plans would be forthcoming. The IMF meeting came ahead of a meeting of European nations in Paris on Sunday.

European officials privately put the onus of the problems on the U.S. They argue that markets know that Europe won't let institutions fail systemically now—Europe is reluctant ever to let any institution fail. The U.S. decision to let Lehman Brothers Holdings Inc. go broke, Europeans say, raised markets' doubts about U.S. resolve.

Since the Lehman failure, on Sept. 15, the U.S. has been trying to regain market confidence, and Treasury is now clearing the way for the government to take stakes in significant financial institutions, rather than simply buy those institutions' illiquid assets. The Treasury had largely sold its $700 billion rescue plan as a way to purchase toxic assets.

Part of the problem in restoring market confidence is that national governments have often appeared to act in an ad hoc and uncoordinated fashion. While central banks from Europe and the U.S. agreed on a coordinated rate cut of 0.50% recently, the finance ministries haven't been able to agree on similar, coordinated action.

Instead, actions by some countries to get a handle on their financial problems have sometimes worsened woes elsewhere. For instance, the Irish government's broad guarantee of deposits prompted investors in other nations to shift their money to Ireland. Recognizing the problem, the Group of 20 nations—the big industrial nations plus China, Brazil and other powerful developing countries—said at the IMF meeting that they are "committed to ensuring that actions are closely communicated so that the action of one country does not come at the expense of others or the stability of the system as a whole."

World Bank Chief Economist Justin Yifu Lin said there is a "consensus" among policy intellectuals internationally that "we are in a globalized world, financial flows are cross-border, and if we do not have a coordinated, systematic way to deal with this kind of issue, then it will be hard to restore confidence." That lesson has taken some time to be accepted in national capitals, he said, but he considered the coordinated rate cut a sign of the growing acceptance.

A big question is where the money is going to come from to help capitalize troubled banks. Late last year and early in 2008, sovereign wealth funds—government-owned investment funds, with perhaps $3 trillion in total assets—were buying large stakes in Citigroup Inc., Merrill Lynch & Co., Morgan Stanley, UBS AG and other Wall Street mainstays. The share prices of those firms have plummeted since then, making the funds more cautious about investing further.

The Abu Dhabi Investment Authority, widely regarded as the world's largest sovereign wealth fund, with perhaps $900 billion in assets, took a $7.5 billion stake in Citigroup in November. Hamad Al-Suwaidi, an ADIA director and also undersecretary of Abu Dhabi's department of finance, left open the possibility that ADIA may make additional investments along those lines. "Proposals are coming in daily," he said. "We're evaluating our options with other financial institutions."

David Murray, chairman of the Australian Future Fund, said the fund was helping to bolster financial stability by buying "a very substantial quantity of bank bills" in Australia. "The money was too good to not back," he said.

Messrs. Al-Suwaidi and Murray were in Washington for the IMF meetings to release a voluntary code of good conduct aimed at reducing concern that the funds might be acting for political motives. The 24 principles that the funds agreed on covered governance, operations and disclosure. Essentially, they were aimed at making clear that the funds were operating for commercial purposes.

While concern about the motives of the funds has dissipated as the search for global capital has intensified, they want to head off any nationalist backlash in the future. One principle, for instance, says that "relevant financial information" regarding a fund "should be publicly disclosed to demonstrate its economic and financial orientation."

But the code is bound to be criticized as insufficient, because it doesn't ask firms to disclose their purchases, and there is no enforcement mechanism.

Also at the meeting, the International Finance Corp., the private-sector lending arm of the World Bank, said it is planning a $3 billion fund to capitalize small banks in poor countries affected by the financial crisis. While that is small change in the context of the U.S. and Europe, the fund is aimed at limiting the effects of the crisis in poor nations.

The IMF also said it is ready to lend to nations that get battered by the crisis, particularly those countries that may see a big decline in export earnings and aren't able to pay their international bills. Many of the countries the IMF considers most vulnerable, apart from crisis-racked Iceland, are in Eastern and Central Europe, including the Baltic nations, Poland, Romania, Ukraine and Turkey.

## CORRECTIONS & AMPLIFICATIONS

**The "Cold War Modern:** Design 1945-1970" exhibition at the Victoria and Albert Museum in London includes radios by Dieter Rams. The Top Picks column in the Weekend Journal section of the Friday-Sunday edition incorrectly spelled the last name of the designer as Ram.

**Bonhams Auctioneers says** it had sales of $600 million in 2007. A Corporate News page article Tuesday on the sale of a majority stake in **Phillips de Pury** & Co. incorrectly said Phillips was the third-largest auction house, with 2007 sales of $308 million.

THE/FUTURE LEADERSHIP INSTITUTE/
THE WALL STREET JOURNAL. EUROPE
Bringing Universities and Businesses Together

US Election Night 2008

Up to the minute national election coverage, entertainment and panel discussions

4 and 5 November
9 pm - 9 am

Hilton Amsterdam

Tickets & Info
www.aabc.nl

Contact:
gert.vanmol@dowjones.com

The Wall Street Journal Europe is read every day by 27,000 students at 180 top business schools and university campuses across Europe, a program supported by:

AABC

## 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.

Aegis Group ....6
Allianz SE ....22
American International Group ....22,32
Apax Partners ....24
Apple ....29
ArcelorMittal ....6
Assicurazioni Generali ....22
AXA ....22,23
Bain Capital Partners ....24
Barclays ....23
BASF ....25
Baugur Group ....20
British Energy Group ....9
Brunswick Corp. ....29
Carlyle Group ....24
Cerberus Capital Management ....8,20
Chrysler ....8
Cisco Systems ....29
Citigroup ....7
Cobham ....9
Credit Suisse ....24
Daimler ....8
Dassault Aviation ....9
Deutsche Bank ....25
Deutsche Börse ....9
DTZ ....23
E.On ....25
eBay ....29
Électricité de France ....9
European Aeronautic Defence & Space ....9
Evraz Group ....6
Ford Motor ....8,20
Friends Provident ....22
General Electric ....25
General Motors ....6,8,20
GMAC ....8
Google ....29
Gottex Fund Management 23
Hardy Amies ....6
Hewlett-Packard ....29
HSH Nordbank ....9
Huawei Technologies ....24
Hypo Real Estate Holding .9
IBM ....29
INA ....9
Intel ....9,29
Interpublic Group ....6
J Sainsbury ....20
J.P. Morgan Chase ....7
Kaupthing Bank ....20
Kuehne + Nagel International ....9
Landsbanki Íslands ....16
Lehman Brothers Holdings ....20,25
Macquarie Group ....24
Magnitogorsk Iron & Steel Works ....6
Man Group ....23
MannKind ....22
Mattson Technology ....29
Mazda Motor ....8
MBK Partners ....24
Microsoft ....29
Mitchells & Butlers ....20
Mitsubishi UFJ Financial Group ....25
Mizuho Financial Group ....25
MobileOne ....9
MOL ....9
Morgan Stanley ....25
Neptune Orient Lines ....9
Nomura Holdings ....25
Nova Haus Element ....4
Novolipetsk Iron & Steel Works ....6
Nvidia ....29
OAO Norilsk Nickel ....6
Omnicom Group ....6
PCCW ....24
Phillips de Pury ....2
Providence Equity Partners ....24
Publicis Groupe ....6
Renault ....9
Royal Bank of Scotland Group ....1,25
Samsung Group ....9
Severstal ....6
Signal Iduna Pensionskasse ....9
Singapore Press Holdings .9
Sinochem ....9
Soco International ....9
Standard Life ....22
StarHub ....9
Sumitomo Trust & Banking ....20
Swiss Life Holding ....22
Telefónica ....25
The Children's Investment Fund ....9
Toll Brothers ....22
Toyota Motor ....8
TPG ....24
TUI ....9
TUI Travel ....9
UBS ....24
UniCredit ....25
United Co. Rusal ....6
VMware ....22
Wachovia ....7
Washington Mutual ....7
Wells Fargo & Co. ....7
Wieden + Kennedy ....6
WPP Group ....6
Yamato Life Insurance 20,22
Zurich Financial Services 22

**FREE daily access to WSJ.com**

If you bought today's paper from a retail outlet, simply register at:
**wsj.com/reg/coupon**
or renew at: **wsj.com**
Today's code is: **EUROPE-X-619**

**THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)**
**Boulevard Brand Whitlock 87, 1200 Brussels, Belgium**
Telephone: 32 2 741 1211 FAX: Business: 32 2 732 1102
News: 32 2 741 1600 Editorial Page: 32 2 735 7562
**SUBSCRIPTIONS, inquiries and address changes to:**
Telephone: +44 (0) 207 309 7799 Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
**Advertising Sales** worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
**Printed** in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
**Registered** as a newspaper at the Post Office.
Trademarks appearing herein are used under license from Dow Jones & Co.
© 2008 Dow Jones & Company All rights reserved.
Editeur responsable: Daniel Hertzberg M-17936-2003

## 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**

Ader, David .... 20
Ballmer, Steve .... 29
Bergsten, C. Fred .... 3
Brown, Adam .... 19,20
Bruner, Robert F. .... 3
Burt, Tye .... 6
Camacho, Pablo .... 5
Cervone, Tony .... 8
Cohen, H. Rodgin .... 3
Cook, Allan .... 9
Crittenden, Gary .... 7
Crutchfield, Dean .... 6
David-Barrett, Tamas .... 4
Dawson, Tim .... 22
Deripaska, Oleg .... 6
di Montezemolo, Luca Cordero .... 6
Edelstenne, Charles .... 9
Funke, Georg .... 9
Gallois, Louis .... 9
Ghosn, Carlos .... 9
Glazer, Lawrence .... 19,21
Goodwin, James .... 6
Granda, Juan Carlos .... 5
Halloran, Peter .... 5
Helenius, Joakim .... 4
Hoover, Amy .... 6
Howie, Robert .... 23
Hurley, Cornelius .... 3
Idzik, Paul .... 23
Immelt, Jeffrey .... 25
Irvine, Phil .... 23
Janedis, John .... 6
Jen, Stephen .... 20
Kahn, Alan .... 29
Keiser, Richard .... 29
Kelly, Edward .... 7
Kesner, Michael .... 22
King, Matt .... 23
Kovacevich, Richard .... 7
Kuehne, Klaus-Michael .... 9
Lee Kun-hee .... 9
Lentz, Jim .... 8
Levy, Maurice .... 6
Liddy, Edward .... 32
Linowsky, Karsten .... 24
Llan, Manuel .... 5
Manser, Chris .... 23
Marcus, Ann-Marie .... 6
Mason, Joseph .... 3
McClain, Cathy .... 29
Mok, Edwin .... 9
Mordashov, Alexei .... 6
Morning, Andy .... 29
Mulally, Alan .... 8
Nagano, Yoshinori .... 25
Nakazono, Takeo .... 20
Nguyen, Bill .... 29
Pandit, Vikram .... 7
Pelata, Patrick .... 9
Petrie, Mark .... 19,21
Pohle, Klaus .... 9
Potanin, Vladimir .... 6
Radford, John .... 22
Rakesh, Vijay .... 9
Ralston, Nicola .... 23
Rams, Dieter .... 2
Reid, Dustin .... 20
Richards, John .... 25
Sasaki, Tohru .... 20
Seidman, Ellen .... 3
Sherin, Keith .... 25
Steel, Robert .... 7
Steuart, John .... 29
Struckett, Mark .... 23
Tchenguiz, Robert .... 20
Thomson, David .... 22
Torres, José María .... 5
Truby, Mark .... 8
Viermetz, Kurt .... 9
Warmenhoven, Dan .... 9
Wieandt, Axel .... 9

# Nations face thorny issues over bank stakes

*Price tags to get credit flowing again could be daunting*

BY DAVID ENRICH AND STEPHEN POWER

As governments in the U.S. and Western Europe consider plans to buy stakes in struggling banks, policy makers face a potentially daunting price tag and thorny questions about how such programs will be implemented.

In the U.K., Germany, France and the U.S., government officials have either unveiled or hinted at plans to pump taxpayer funds into cash-strapped lenders. In exchange, the governments would take ownership interests in the banks in the form of preferred shares, essentially nationalizing broad swaths of the banking industries and reversing a decade-long deregulatory trend.

The hope is that the fresh capital will improve tattered bank balance sheets and provide a much-needed confidence boost for the financial system. The erosion of confidence, especially in the past month, has led fearful bankers and investors to stop lending. That is threatening to freeze economies world-wide.

"By the government stepping in with preferred-stock investments... they relieve that uncertainty and should be able to promote the restoration of confidence and lending," said Robert F. Bruner, dean of the Darden School of Business at the University of Virginia.

But it isn't clear how much money governments will need to invest in the multitrillion-dollar global banking sector. Key details, such as the role governments will play overseeing companies, are likely to ignite fierce debate among policy makers and industry officials.

This wouldn't be the first time the U.S. government effectively nationalized parts of the banking industry.

In 1932, in the midst of the Great Depression, Congress and President Herbert Hoover created the Reconstruction Finance Corp. Over its 25-year lifespan, the independent government agency bought stakes in more than 6,000 financial institutions and poured a total of $50 billion (not adjusted for inflation) into various parts of the U.S. economy, according to Alex Pollock, a resident fellow with the American Enterprise Institute.

The RFC's investments came with senior voting rights, meaning the government wielded broad control over the institutions, said Joseph Mason, a banking professor at Louisiana State University's business school. He said the RFC also barred the companies in which it invested from paying dividends to shareholders until they were financially healthy enough to buy out the government's stake.

Today, experts are calling for the government to adopt the RFC as a blueprint to stabilize the financial industry.

In a speech last month, H. Rodgin Cohen, chairman of law firm Sullivan & Cromwell and one of the nation's pre-eminent banking lawyers, called for the creation of a RFC-type agency to invest in banks.

"Not only did the program help arrest the deterioration of the banking system, but it did so without loss," said Mr. Cohen. "The vast majority of the preferred-stock investments were repaid in full."

But today's RFC would need to be far larger than its Depression-era counterpart. "Considering the state of today's markets, I would suggest $1 trillion to $2 trillion," Mr. Cohen said in his speech.

That would dwarf the U.S. government's new $700 billion Troubled Asset Relief Program. That fund was originally intended to buy illiquid mortgage-related assets from lenders, but government officials said this week that it could also be a vehicle for capital injections into banks.

"The big question is how Treasury uses the $700 billion that Congress has given them," said C. Fred Bergsten, director of the Peterson Institute for International Economics, a Washington-based think tank. "It's becoming clear a big chunk of that should be used for direct recapitalization."

So far, government officials have remained mostly mum on the details of how they will structure or administer the capital injections.

One risk facing policy makers is that if the capital injections are seen as a government seal of approval, that could destabilize banks that don't receive investments, causing their customers to jump to other institutions, said Ellen Seidman, a former economic adviser in the Clinton administration.

"It's counterintuitive, but if we've learned one thing from this crisis, it's that we have a hard time predicting the behavior of the smaller savers and investors," said Ms. Seidman, now at the New America Foundation.

Treasury Secretary Henry Paulson and other senior government officials are trying to map out a strategy for potential bank investments. Among the variables they are considering is how aggressively the U.S. government would flex its muscles in the boardrooms of banks where it is a partial owner, according to a person who has been briefed on the discussions.

Sweden provides a possible case study. In the early 1990s, the Swedish government bought stakes in many lenders that were teetering on the brink of insolvency. Instead of staying on the sidelines as a passive investor, the government pushed to overhaul the country's banking industry, ousting executives and forcing mergers in an attempt to cleanse the system of ailing institutions, said Mr. Bruner of the Darden School. Within 18 months, he said, the Swedish economy was back on its feet.

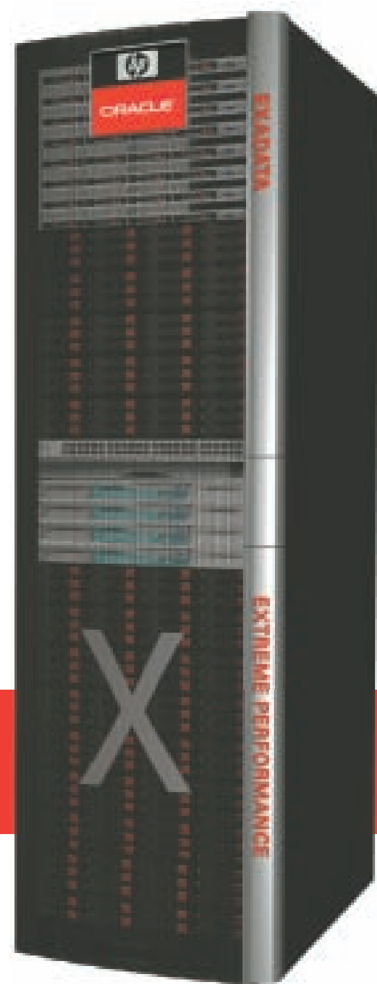
Several banking experts said they doubt the government will take an activist approach. They said Washington is likely to restrict itself to nonvoting stakes that it will probably unwind within a few years.

"I don't think we've reached the point where we want the government calling all the shots in these institutions," said Cornelius Hurley, director of Boston University's Morin Center for Banking and Financial Law. "It was only a few months ago that we were worried about sovereign wealth funds" from the Middle East and Asia taking sizable stakes in U.S. and Western European banks.

Now, Mr. Hurley added, "the sovereign wealth fund is us."

*—Marshall Eckblad and Matthias Rieker contributed to this article.*


Runs Oracle Data Warehouses 10x Faster




Announcing

The World's Fastest Database Machine

- Hardware by HP
- Software by Oracle

ORACLE®

oracle.com/exadata
or call +353 1 8031099

10x performance improvement based on customer tests comparing average performance of Oracle data warehouses on existing customer systems versus HP Oracle Database Machines. Actual results may vary.

Copyright © 2008, Oracle. All rights reserved. Oracle is a registered trademark of Oracle Corporation and/or its affiliates. Other names may be trademarks of their respective owners.

# Eastern Europe feels heat from meltdown

## *Rising risk aversion exacerbates strain; Hungary takes a hit*

BY MARCUS WALKER

After Iceland's financial meltdown, investors and lenders are pulling back from financially overstretched economies in Europe's East, threatening to burst credit bubbles in the Balkans and force harsh downturns in Hungary and the recently booming Baltic states.

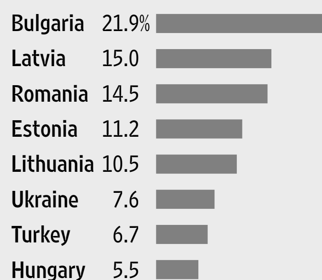
Stocks, bonds and currencies came under pressure Friday in many of Europe's post-Communist countries, driven by concerns that the crisis in West European and U.S. banking is poised to hit Central and Eastern Europe next.

Hungary's markets and currency took a particular beating, following a collapse in government bond trading Thursday and rumors of an impending state bailout of the country's largest bank, OTP Nyrt, which the bank and Hungary's government denied.

A string of countries around Europe's periphery are threatening to fall victim to investors' rising risk aversion. Many have relied heavily on borrowing from abroad to finance their business activity and consumer spending.

**Eastern imbalance**

Emerging markets' 2008 current-account balance as a percentage of gross domestic product




Source: International Monetary Fund

Now that the days of cheap credit are over, these countries face a painful economic contraction as they learn to live within their means again as investors flee countries with large external financing needs.

"Their chickens are coming home to roost, because of the current-account deficits and government deficits they've been running. These things simply aren't possible in today's world," says one London-based fund manager who has been selling Eastern European currencies and other assets short.

None of the Central and East European countries are likely to face as severe an implosion as Iceland, where the government has warned of possible "national bankruptcy" after it was forced to take over all of the country's major banks, economists say.

Most banks in Central and Eastern Europe are units of large international financial groups based in Western European countries such as Sweden, Austria and Italy. That frees small East European nations such as Estonia from having to bail out their main domestic lenders single-handedly, like Iceland. But it also leaves local subsidiaries exposed to a cutback in funds from their foreign parent-banks.

"Iceland was a special case," says Reinhard Cluse, emerging-Europe economist at UBS AG in London. "But the same rising waters that flooded Iceland first are a problem for others, too."

Many consumers and businesses have large debts in foreign currencies taken out to exploit the relatively low interest rates that were available in euros, Swiss francs or yen. Many Hungarians could now find their foreign-currency mortgages are a growing financial burden as the local currency, the forint, sinks. "Borrowers can sustain some pain for a while, but not if these levels stay," says Mr. Cluse.

Hungary's economy is the weakest in Central Europe, thanks to the government's tax increases since 2006, which were aimed at repairing the country's deteriorating public finances.

The Hungarian forint weakened to about 256 to the euro in Friday's trading, compared with around 230 in July. If the forint sags further, Hungary's central bank will probably raise rates to support the exchange rate, says Hungary economist and consultant Tamas David-Barrett. "That would of course mean people who borrowed in forint will be in trouble as well," he says.

The credit bubble has already burst in Estonia and Latvia, where roaring growth rates of around 10% in recent years have given way to recession. Much of the growth was in the retail and construction sectors, where cheap credit was the fuel.

Once-booming young businesses in these countries are starting to fail as sales dwindle and banks pull the plug. **Nova Haus Element** AS, an Estonian maker of houses, won a "developer of the year" award in 2007 from Estonia's chamber of commerce and employers' association. Last month it went bust amid heavy bank debts as the Estonian housing market sank.

"There are going to be some pretty big casualties among companies in property-related sectors and retail," says Joakim Helenius, founder of Trigon Capital, an investment firm based in Tallinn. Latvia too faces a wave of business failures in coming months, he says, since the country's economy, like Estonia's, has overrelied on the retail and construction sectors in recent years.

The third Baltic country, Lithuania, is in somewhat better shape than its neighbors thanks to less-excessive borrowing by firms and consumers, and a stronger export sector.

Central European countries such as Poland, the Czech Republic and Slovakia are also further down the list of crisis candidates, because their growth in recent years has been fueled by exports to Western Europe, rather than real-estate and consumer bubbles. But these economies face slower growth as foreign-owned banks cut back lending and consumer demand slows in their main markets, such as Germany.

The credit crisis has barely started to hit home yet in Romania and Bulgaria, where economic growth accelerated in the second quarter, in contrast to downturns elsewhere in the region. But funding for real-estate developments and mortgages is now starting to dwindle.

News of the global banking crisis is already pricking Romanians' bubble. Some wealthier locals have already taken their money out of banks.

# Russia's Deripaska faces Western investigations

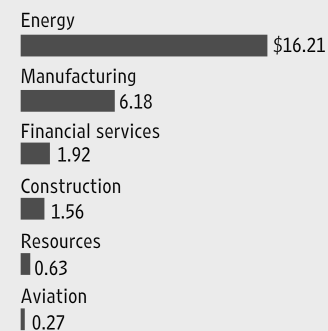
BY GLENN R. SIMPSON AND SUSAN SCHMIDT

Zuma

**Oleg Deripaska,** right, with **Dmitry Medvedev** in February, shortly before Mr. Medvedev became Russian president

**Deripaska's empire**

Breakdown of 2007 revenue at Oleg Deripaska's holding company, Basic Element, in billions




Source: the company

Russian billionaire Oleg Deripaska, whose business is facing a squeeze amid the credit crisis, also is under investigation by U.S. and U.K. authorities in connection with a $57.5 million wire transfer last year, according to people familiar with the matter.

Separately, in a second recent blow to his industrial empire, Mr. Deripaska is ceding a stake in a German construction company, Hochtief. Just a week ago, his holding company, Basic Element, gave up a 20% stake in Canadian auto-parts maker Magna International Inc.

In a third development, U.S. President George W. Bush's administration is putting Russian economic interests under greater scrutiny, partly in response to Russia's August invasion of Georgia. Among other things, the U.S. is stepping up its reviews of Russian investments and of visa applications by Russian businessmen suspected of criminal ties.

The 40-year-old Mr. Deripaska has been ranked by Forbes as among the world's 10 richest people, with assets of $28 billion. They include nearly 5% of General Motors Corp. Mr. Deripaska is allied with the Kremlin and has longtime ties to Russian Prime Minister Vladimir Putin.

In the past, authorities in the U.S. have accused Mr. Deripaska of having ties to organized crime, which he has denied. In 2006, the U.S. Federal Bureau of Investigation persuaded the State Department to revoke a U.S. visa he had obtained, according to diplomatic and law-enforcement officials.

The wire transfer being investigated in the U.S. and U.K. originated with a Russian company Mr. Deripaska controls, UC Rusal, passing through Barclays PLC offices in New York and London, according to emails, other documents and people with knowledge of the transaction. Some of the funds ended up with Deripaska consultants in Washington who, according to lawyers and government officials, are being investigated by the Justice Department and Manhattan district attorney for possible money laundering or other crimes.

The transfer is one of dozens under scrutiny. Authorities are looking into whether some of the money might have been moved in connection with potentially illicit activity in countries where Mr. Deripaska's industrial interests have operations, including Nigeria and Kazakhstan.

Mr. Deripaska didn't respond to requests for comment about the probe, including written questions, but in the past has denied any association with criminal activity.

In the money transfer, Moscow's MDM Bank wired the funds through a unit in Latvia to a Barclays branch in New York and then to a Barclays account in London, documents indicate. When a Barclays executive asked about the origin of the funds, he was given letters by a Rusal executive describing the source as a firm called QPB Investment Ltd., according to people familiar with the matter. QPB is registered in Belize, a nation with strict corporate secrecy laws, and couldn't be reached for comment.

Barclays turned over records of the transfer to British authorities and to U.S. state and federal authorities in response to subpoenas, lawyers said. A spokesman for Barclays declined to address specifics of the transactions but said: "We have robust compliance programs in place, and it is our policy to cooperate fully with any investigation or request from law enforcement." A spokesman for Rusal declined to comment.

The funds went to an account in the name of Brookrange Ltd., a firm based in Gibraltar. A lawyer for the firm said it could "neither confirm nor deny the existence of any business transactions."

Mr. Deripaska has been working with a small group of advisers in Washington and London who have helped him deal with inquiries and lawsuits over his alleged ties to organized crime, according to business records and interviews with people involved in the work. The advisers include Alexander Mirtchev and Thomas Ondeck, who operate a Washington consulting firm called GlobalOptions Management. They are among the consultants who lawyers and government officials say are being investigated by the Justice Department and Manhattan D.A. for possible money laundering. A lawyer for their firm said they haven't been contacted by either Justice or the Manhattan D.A.

Records show that $9.75 million from the wire transfer went to Messrs. Mirtchev and Ondeck's firm. The lawyer for the firm confirmed that it had provided $9.75 million of client services and said that, "consistent with past practices, such services were for lawful purposes." Mr. Mirtchev said he was contractually barred from discussing the transaction but said that he and his partners "rigorously abide by all of the laws and regulations of the countries in which we operate."

Meanwhile, Bush administration officials have been growing increasingly concerned about possible infiltration of Western companies and financial markets by suspected organized-crime figures with ties to the Russian government, according to administration officials, lawmakers and law-enforcement officials. In April, Attorney General Michael Mukasey, citing Russia and Central Asian nations, said that underworld figures' growing clout in energy and strategic-materials markets "may have a destabilizing effect on U.S. geopolitical interests."

The U.S. is stepping up scrutiny of visa applications by Russian businessmen suspected of criminal ties. A recent Justice Department memo said the strategy is to employ "economic, consular, and other non-law-enforcement means to target [organized crime] figures and organizations, freeze or seize their assets, and disrupt their ability to exploit U.S. banks, businesses, and strategic assets."

An interagency panel called the Committee on Foreign Investment in the United States, which looks at foreign investments for any national-security risk, has informally adopted what one official calls a "hard-look doctrine" toward any Russian attempts to invest in critical American industries. The Treasury and State departments and the National Security Council are reviewing possible economic sanctions against Russian-backed politicians and businessmen who operate in separatist enclaves of Georgia, according to administration officials.

*—Alan Cullison contributed to this article.*

# Putin unveils effort to rev up market bailout

By Alan Cullison

MOSCOW—Russia scrambled to speed up its $200 billion bailout of financial markets Friday, as investors grew increasingly doubtful of the Kremlin's commitment to reversing the rout.

Russian shares, which have fallen about 40% since the government came out with its bailout last month, took little solace from the latest announcement, delivered Friday by Prime Minister Vladimir Putin. Trading was suspended in Russia on Thursday and Friday, but major issues traded in London on Friday ended down more than 10%.

While Russia has no shortage of cash to spend on a package, stocks have been pummeled by fears that its bureaucracy is too creaky to disperse the aid, and that the Kremlin may take advantage of the crisis to buy up prime assets from cash-strapped companies and oligarchs on the cheap.

Mr. Putin said the government will begin buying Russian stocks this week, and will spend nearly $7 billion before the end of the year. The government, he said, will spend the same amount in 2009, and the purchases will be placed by the state-controlled Development Bank, known in Russian as Vneshekonombank.

"Development Bank will start placing funds in Russian shares, not foreign shares, next week," Mr. Putin said.

The Kremlin-controlled parliament, meanwhile, moved to approve elements of the market-rescue plan that will move money into the stricken banking sector. The lower house approved $50 billion in government refinancing to Russian companies and a $36 billion injection of long-term loans into the banking sector.

The upper house of parliament, the Federation Council, is holding an emergency session Monday in which it is expected to rush the measure to President Dmitry Medvedev for approval.

While tightening credit hasn't yet had as wide an effect in Russia as in Western economies, softening commodity prices are beginning to hit some industries. Steelmaker Severstal said Friday it is cutting production by 25% in Russia and by 30% in the U.S. It follows moves by other metal companies to trim production, delay projects and cut back working hours.

Peter Halloran, president of the Moscow-based Pharos Financial Group, said the market's tepid reaction to Mr. Putin's reassurances demonstrates the depth of worries over Russia's economic dilemmas, as well as the government's commitment to solving them.

"Either the market doesn't believe what the government is saying, or there are a lot of forced sellers out there that are going to keep on selling," Mr. Halloran said.

The money promised for stocks—about 10% of the free-float on the Russian market—"should have sent stocks up about 20%," he said. Instead there was a hiccup of investors covering short bets, then more selling.

The government has not said which stocks it will buy in the Russian market, but analysts expect purchases to focus on big state-controlled firms such as Sberbank and the oil company Rosneft, in which small Russian investors own shares.

# Spain's debtors feel the shame

## *Showy collectors rely on humiliation; a few choice calls*

By Thomas Catan

MADRID—Stepping out of a black-and-white car, Manuel Llan slips on a top hat, bow tie and a mournful expression. Before knocking on the door, he picks up his briefcase and pauses for effect, making sure the neighbors can read the writing.

*El Cobrador del Frac*, it says on the side of his case, in large capital letters: "The Debt Collector in Top Hat and Tails."

The neighbors need no explanation. Mr. Llan is making his latest call on Spain's legion of delinquent debtors.

"There's been a huge growth in this business," Mr. Llan, a former taxi driver, says as he demonstrates the approach he takes on house visits. "People just can't pay their debts."

As Spain's once-thriving economy slides toward recession, debt collectors say they are doing a roaring trade. The country's creaking legal system is overwhelmed with cases, so many companies say the only way to get people to pay is to shame them in front of the neighbors.

Humiliation is a powerful motivator in a country where people's honor and public image are paramount concerns. El Cobrador del Frac claims a success rate of more than 60%.

"The idea is to make the delinquency public," says Juan Carlos Granda, a director at El Cobrador del Frac, which has been in business for two decades. "We have our professional uniform like anyone else," he adds.

Other companies in the fast-growing field include The Scottish Collector, which threatens to send a bagpipe player in highland dress to debtors' homes, and the Monastery of Collection, whose employees arrive decked out as Franciscan friars. Others dress as bullfighters, Zorro or the Pink Panther.

"In times of crisis, companies like ours sprout like mushrooms after the rain," Mr. Granda says.

Not all cases call for costume. Sometimes, instead, the collector simply phones the neighbors. "I want the people around you to say: 'The debt collector came looking for you.' It hurts your public image," Mr. Granda says.

Until it soured this year, Spain's economy was on a 14-year tear—the single largest generator of jobs among the 15 countries that use the euro as currency. House prices tripled in a decade as Spaniards binged on the wave of easy borrowing that followed the country's adoption of the euro in 2002.

Spaniards now find themselves squeezed by rising inflation and mortgage rates. Bank-loan defaults jumped by a third in the month of July, hitting a 10-year high. Unemployment is at 11.3%, the highest in the European Union.

El Cobrador del Frac says its business has risen by a third this year and that it is hiring 150 new collectors in its 10 offices in Spain and Portugal.

Hidden away in a rundown corner of Madrid's financial district, its head office is a hive of activity. Banks of telephone operators take calls from clients. The decor includes hunting trophies hanging on the walls—stuffed heads of antelopes, lions and grimacing hyenas. "Bad debtors," Mr. Granda jokes.

He recounts one of his proudest successes. El Frac, as the company is known, was pursuing a wealthy Madrid couple who hadn't paid the bill for a lavish wedding reception attended by hundreds. So one of Mr. Granda's men obtained the guest list. "We called two or three people on the list and said: 'We're charging you €500 for the chicken you ate, for your part of the wedding cake,' " Mr. Granda recalls. The debtors paid up, he says.

Spanish debt collectors insist they provide a vital service for small businesses, given that it can take years for a claim to wind its way through the courts.

Not everyone is convinced. One group of former El Frac employees has set up a firm, The Debtor's Defender, in opposition to collectors. Collectors are bullies, says Pablo Camacho, its manager. "They overstep the line, and that's where we come in."

He says his group has been able to win several court judgments against collection agencies, including €6,000 several years ago against El Cobrador del Frac after it was deemed to have harassed a restaurateur who owed money, shadowing him in costume as far as his son's school. (Privacy laws protect the identity of the restaurateur.) "They invaded the son's right to privacy and humiliated him in front of his professors and colleagues," Mr. Camacho says.

Mr. Granda of El Frac says he doesn't recall the case. He is, however, familiar with Mr. Camacho. "We fired him," Mr. Granda says.

Mr. Camacho says he wasn't fired, but quit.

Spain's Association of Collection Agencies doesn't admit the shaming debt collectors into its ranks, according to José María Torres, the association's general secretary. "They are not viewed positively," he says.

U.S. law prohibits harassing alleged debtors with tactics such as telling friends or neighbors about their bad debts. Similarly, in the U.K., humiliating debtors until they pay up would be considered unfair.

There are worse tactics out there, says a spokesman for Citizens Advice Bureau, a U.K. consumer-advocacy group. "We've also heard of debt collectors using live bears in Russia," she says.

Mr. Llan says his method amounts to reminding people politely it's time to cough up the cash. Their response isn't always equally polite. "Yes, I have been threatened," he says. "You know, 'Get out of here or I'll break your face,' that kind of thing." He takes off his top hat, wipes his brow with a handkerchief and prepares for the next house call.

*—Dionne Searcey contributed to this article.*

# We get the global perils without global benefits

By Gerald F. Seib

Associated Press

President Bush met with **G7 finance ministers**, from left, Eurogroup's Jean-Claude Juncker, Japan's Shoichi Nakagawa and U.S. Treasury Secretary Henry Paulson.

As President George W. Bush sat down Saturday with foreign finance ministers to talk about the crisis in global markets, the nagging question was: If we now live in a truly global economy, why isn't there a better system for responding to a global economic shock?

CAPITAL JOURNAL

A coordinated response is coming together, spurred on in particular by growing cooperation between the U.S and Britain. "We're in this together, and we'll come through this together," President Bush said Friday at the White House.

But there was little cooperation in constructing regulatory systems and monitoring risks before crisis struck—and a slow, joint reaction, marred by trans-Atlantic bickering, after it hit.

Rep. Rahm Emanuel, a Democratic leader in the House and a former investment banker who warned early of impending doom in the markets, says the president should have done more on the international front. "The one time you needed a coalition of the willing and shock and awe, George Bush was AWOL," he says.

That's a partisan response, of course, and the problem runs deeper than that. The crisis is showing that none of the existing political or economic institutions—the Group of Seven industrialized countries, the Group of 20 industrialized and developing nations or the International Monetary Fund—is well suited to coordinate a response to a global crisis. With some adjustments, perhaps, they might be.

At one level, there has been good international coordination, but that has been informal: Central bankers of the world have worked well together at crucial points, but on a personal level. "They get together better with each other than they do with their own governments in many cases," joked C. Fred Bergsten, director of the Peterson Institute for International Economics.

Among political leaders, the picture has been quite different. The last few days have been marked more by sniping over the cause of the market collapse than by any joint response.

Ireland stunned and angered other European leaders by moving out on its own to guarantee a wide swath of bad debts at home. But when the European Union got together to try to come up with a unified response, the effort didn't get off the ground.

More broadly, it's become obvious the international institutions that exist aren't set up to coordinate responses to a markets crisis. The leading trans-Atlantic organization, the North Atlantic Treaty Organization, is a military institution, not an economic one.

The International Monetary Fund brings together Western financial experts, and it was formed in the wake of the Great Depression precisely to coordinate reactions by the developed countries to economic problems. But these days, it is more adept at telling the developing world what it should do than persuading developed nations what they should do together. The U.S., in particular, has grown more accustomed to preaching to the IMF than listening to the IMF.

The IMF and World Bank, in fact, happened to be holding regularly scheduled meetings in Washington over the weekend. But the gatherings have shown in the past how these institutions are as much observers as participants in response to economic crises.

Even Dominique Strauss-Kahn, managing director of the IMF, seemed to say last week that some new system is needed to deal with the global nature of the financial markets. "We have to draw lessons on the architecture, financial architecture, which clearly failed to adapt to globalized financial markets," he said.

The G-7, the organization of seven leading industrialized nations, was set up so leaders of the world's richest nations could contemplate economic development. But it's more a discussion group than a cockpit in which real-time decisions can be made, and it hasn't been convened in the current crisis.

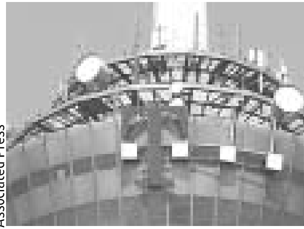
The makeup of the G-7 may be an anachronism. Today, Mr. Bergsten notes, there are six nations that belong to what he calls "the trillion-dollar club"—countries with an annual GDP topping a trillion dollars—that aren't included in the G-7: India, China, Russia, Brazil, South Korea and Mexico.

What's needed is either a reform of one of the existing institutions—or the creation of a new one to help political leaders do quick analysis and make instant decisions to contain and reassure global markets.

# CORPORATE NEWS

## TELECOMMUNICATIONS

### Deutsche Telekom vows to boost data protections


Associated Press

DEUTSCHE Telekom AG pledged to boost its data-protection efforts after admitting last week that personal information of around 17 million of its cellphone customers had been stolen in 2006.

Germany's biggest phone company said it would create a new data-privacy department and post online information on data-protection incidents under investigation. It will also restrict access by its staff and sales partners to company computer systems.

"We want to provide maximum security for the data of our customers" and be "at least one step ahead" in combating data theft, CEO René Obermann said in a written statement. *—Associated Press*

## PHARMACEUTICALS

### AstraZeneca's Seroquel cleared for new use in U.S.

AstraZeneca

ASTRAZENECA PLC has received regulatory approval to market antipsychotic Seroquel XR in the U.S. as a treatment for bipolar disorder, the Anglo-Swedish drug maker said Friday.

Seroquel XR, already marketed as a schizophrenia treatment, is the slow-release version of Seroquel, which was launched in 1997 and has become one of AstraZeneca's best-selling products, with sales of $4.03 billion last year.

With Seroquel losing patent protection in September 2011, the London-based pharmaceutical company hopes to switch patients to its extended-release once-daily version of the drug. *—Elena Berton*

## FASHION

### Unprofitable Hardy Amies appoints administrators

Associated Press

BRITISH FASHION house **Hardy Amies** PLC—best known for creating dresses worn by Queen Elizabeth II—said Friday it has appointed administrators.

The company, founded in 1946 by designer Hardy Amies, has tried for weeks to find funding, with its board negotiating with several parties. It goes into administration after years of financial losses. Hardy Amies had been propped up by Arev Brands Ltd., which owns a 49% stake in the fashion house. But in September Arev had said it would cut off the cash. Sir Hardy retired in 2002 and died a year later. *—Associated Press*

# Ad firms, already lean, cut jobs

### *Economic turmoil steps up fears clients will reduce spending*

By Suzanne Vranica

AS FEARS mount that economic turmoil will take a bite out of ad spending, advertising and marketing firms world-wide have been cutting costs and—in some cases—jobs.

ADVERTISING

Over the past week, several firms, including Starcom MediaVest, TBWA/Chiat/Day and Landor have issued pink slips to their workers.

Starcom MediaVest, a media-buying giant owned by **Publicis Groupe**, said last week that it is slashing about 150 jobs by year end, partly in a restructuring of its business with **General Motors**.

Landor, a branding firm owned by **WPP Group**, laid off about 10 employees from its London office.

TBWA/Chiat/Day, a unit of **Omnicom Group**, last week dismissed 20 employees from its New York office, about 6% of its work force. A spokesman described the move as "restructuring the agency, bringing its resources in line with current demands of our clients and our business."

The ad industry frequently reacts to downturns by paring jobs. "People are the biggest cost in the advertising business, and there are not a lot of other things to cut," says Ann-Marie Marcus, chief executive officer of Marcus St. Jean, a recruiting firm that specializes in the industry. Ad executives say salaries typically represent about 55% to 65% of an agency's expenses.

While the year started with high hopes—thanks in part to such ad-heavy events as the Beijing Olympics and U.S. presidential election—those hopes were quickly dashed as the struggling automotive and financial-services industries reined in spending. Now, the continuing upheaval in financial markets is accelerating the retreat, ad executives say. Just how big a blow the business will suffer isn't clear, though many industry watchers suggest it won't be as bad as during the 2001 recession

Unlike 2001, when marketers slashed budgets "immediately and across the board," companies this time around are pulling back in a "very measured fashion," says Publicis Chief Executive Maurice Levy.

Forecasters are divided on the outlook for 2009 ad dollars, with some predicting flat growth from this year, and others predicting a decline of 1%. Late last week, John Janedis, an analyst at Wachovia, lowered his forecast, saying he now expects ad spending to fall 0.8% next year. He cited "continued deterioration in the economy, and our belief that things may get worse before getting better." Mr. Janedis previously expected spending to rise 1.5%.

One thing seems nearly certain, however: more job cuts. Brand Union, a branding firm owned by WPP, is expected to make layoffs in coming weeks, according to people familiar with the matter. Branding firms typically are among the first to be hurt by economic woes because they usually work on a project-by-project basis, while ad agencies generally have longer-term relations with their clients, ad executives say. "It is an easy area to chop," says Dean Crutchfield, a branding expert who most recently worked for Omnicom's Wolff-Olins.

Agency executives say the soft economy will force many firms to cut jobs more quickly in response to client losses because new business is less likely to materialize in a downturn. Last week, **Interpublic Group**'s Lowe London cut its payroll by about 10 employees, and **Wieden + Kennedy**'s hometown office in Portland, Ore., laid off six staffers. Both cuts were related to client departures.

Still, some ad executives and recruiters say they expect the pace of layoffs to be more restrained than it was during the 2001 recession, when ad spending plummeted nearly 10% and the industry cut tens of thousands of jobs. One reason, recruiters say, is that many ad firms saw a shakeout coming and have kept a close eye on staffing and budgets throughout the year. In July, Interpublic's DraftFCB dismissed 42 staffers. **Aegis Group**'s Carat said last month it would cut 75 jobs. WPP Group has had a hiring freeze in place since the first of the year, according to a spokesman for the ad-holding company.

"No one is really overstaffed at the moment," says Amy Hoover, vice president and partner at Talent Zoo, an Atlanta firm that recruits advertising personnel. "Everyone has been running pretty lean," and many firms haven't returned to the "bloated staffing levels that existed during the dot-com boom," she says. Indeed, Interpublic had about 43,000 employees world-wide as of Dec. 31, down from 54,100 in 2001.

# Severstal to slash output, may trim profit outlook

By Will Bland

MOSCOW—Russia's largest steelmaker OAO **Severstal** said Friday that it is cutting October production by as much as 30% and may lower its earnings forecast for the year, as the weaker global economy darkens the prospects for Russia's commodity producers.

The steelmaker, majority owned by billionaire Alexei Mordashov, said it will cut this month's production by 25% at its main Russian plant, and by 30% at plants in the U.S. and Italy. A spokeswoman said no decision has been made on job cuts.

Steel producers in Russia—the world's fourth-largest supplier after China, Japan and the U.S.—have seen prices for their products halve in the past four months. Severstal's share price is now less than a quarter of its June level, amid slower global economic growth and a longer-term reduction in steel orders from construction companies and car makers.

Severstal, which has spent about $3 billion to boost capacity in the U.S., said it is now reconsidering its earnings forecast for the year. It had predicted 2008 earnings before interest, taxes, depreciation and amortization of $5.8 billion to $6.1 billion.

*Alexei Mordashov*

The production cuts come after a similar move by Russian rival OAO **Magnitogorsk Iron & Steel Works.** Steel executives around the world are struggling to avoid excess supply and falling prices. Oversupply concerns have also prompted **ArcelorMittal**, the world's largest steel producer by volume, to trim production in Ukraine and Kazakhstan.

Magnitogorsk on Wednesday cut output by 15%, and said it will lay off a tenth of its workforce, or about 3,000 people. Many analysts expect cuts by the Russia's other two listed producers, OAO **Novolipetsk Iron & Steel Works** and **Evraz Group** SA. Novolipetsk said it is considering cuts, while a spokeswoman for Evraz declined to comment.

"By producing less, the steelmakers are losing economies of scale and their profit margins will fall, but the alternative is to see inventory stack up," says Troika analyst Sergei Donskoi. He said sales will fall faster than costs.

Integrated steel producers in Russia benefit from easy access to the country's stock of coking coal and iron and inexpensive electricity, resulting in lower production costs than in China or Europe. However, analysts say that Russian producers have relatively few long-term contracts with customers, and are therefore more vulnerable to falls in market prices.

*—Alex MacDonald in London contributed to this article.*

# Rusal pushing to revamp board at Norilsk Nickel

By Jacob Gronholt-Pedersen And Alexander Kolyandr

Russian aluminum producer **United Co. Rusal** requested an extraordinary general meeting of shareholders in miner **OAO Norilsk Nickel** to elect a new expanded board of 13 members, the company said Friday.

Rusal, which owns a 25%-plus-two-shares stake in Norilsk, said the current board, controlled by tycoon Vladimir Potanin's investment vehicle Interros, is incapable of acting in the interests of all shareholders.

The current board "has presided over a litany of corporate governance abuses which have led to widespread departures of senior management, damaged confidence in Norilsk Nickel and destroyed value for its shareholders," the company said.

Rusal is proposing Luca Cordero di Montezemolo, who is chairman of Fiat SpA; Tye Burt, the chief executive of Canadian miner Kinross Gold Corp.; and James Goodwin, managing member of Moon Capital Management LLC, a private-investment management company, as independent directors of the new board.

Norilsk is at the center of a shareholders' conflict. Rusal, whose majority shareholder is businessman Oleg Deripaska, has repeatedly accused Mr. Potanin and the chairman of Norilsk's board of abusing the interests of other shareholders.

Following a $4.5 billion loan obtained in March from a consortium of international banks to finance the purchase of its 25% stake in Norilsk, Rusal has indicated it wants a full merger with Norilsk.

Rusal has every right to call the meeting and Interros won't prevent it, an Interros spokesman said. However, he added that the timing of the move was bad, given the global financial crisis.

Norilsk confirmed that it has received the letter from Rusal, but declined to provide further comments.

According to Russian law, Norilsk's board has five days to answer Rusal's letter. However, as an owner of more than 10% of the company, Rusal has a right to convene extraordinary general meetings even without the board's approval.

CORPORATE NEWS

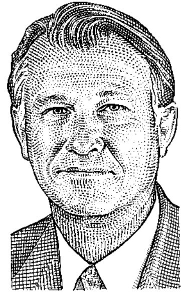
# Wells Fargo wins contest for Wachovia

## *Citigroup abandons compromise talks, cites asset doubts*

By David Enrich
And Dan Fitzpatrick

**Wells Fargo** & Co. won the battle for **Wachovia** Corp. as rival suitor **Citigroup** Inc. walked away from compromise negotiations because of worries about the quality of some of Wachovia's assets.

The move clears the way for Wells Fargo to proceed with the definitive agreement it reached with Wachovia on Oct. 3. That deal, announced just four days after Citigroup thought it had won the battered bank, now is valued at about $11.38 billion.


*Richard Kovacevich*

Wells Fargo has said it expects to complete the purchase by year end. That would put one of the weakest U.S. banks under control of a much stronger player. And unlike Citigroup's original agreement, the Wells Fargo takeover doesn't involve government financial assistance.

Other consequences of last week's courtroom hostilities and dueling press releases could be messy. U.S. government officials are concerned that the way the competing deals unfolded might deter American banks from agreeing to government-assisted transactions. That would make it harder for the government to seize institutions at no cost to the deposit-insurance fund, as it did when **Washington Mutual** Inc.'s banking operations failed last month and were immediately sold to **J.P. Morgan Chase** & Co. for $1.9 billion.

Also unresolved are Citigroup's legal claims for as much as $60 billion in damages from Wachovia and Wells Fargo. Shares of the New York bank fell when its bid was torpedoed. In a statement Thursday, Citigroup said its shareholders "have been unjustly and illegally deprived of the opportunity the transaction created."

**An important sticking point was the valuation of Wachovia's assets.**

While Citigroup insisted publicly that it still was willing to buy most of Wachovia, people close to the company said that additional due diligence uncovered questions that made executives uncomfortable about proceeding with the deal. An important sticking point was the valuation of Wachovia's assets, particularly the bank's large securities portfolio.

Leading the negotiations for Citigroup were Edward Kelly, a top executive in Citigroup's investment bank, and Gary Crittenden, Citigroup's chief financial officer. Citigroup Chief Executive Vikram Pandit made the final decision to abandon the takeover talks, people close to Citigroup said Thursday.

"We will continue to apply the same discipline we employed in this and other recent transactions to future acquisition opportunities," Mr. Pandit said in a statement. Walking away from Wachovia could put Citigroup back in the market to buy another bank, even though executives have insisted they have plenty of deposits already.

A person close to Wachovia said Citigroup officials didn't express serious concerns about the bank's books until talks reached an impasse last Wednesday. "That was the drumbeat we started to hear," this person said.

Another dispute involved how Wachovia, which has 3,348 retail branches, would be divided between Citigroup and Wells Fargo, according to a person close to Wachovia. At one point, Citigroup wanted Wachovia branches on the U.S. East Coast stretching as far south as Virginia, this person said. Wells Fargo wasn't willing to give up branches in Virginia and the District of Columbia.

*Vikram Pandit*

Wells Fargo Chairman Richard Kovacevich dismissed the suggestion that the San Francisco bank will have to absorb assets that are shakier than originally thought. "Given our broad-based operating expertise and specific understanding of these individual businesses, we believe we have adequately evaluated the risks inherent in the portfolios as of the time of this merger agreement," he said in a statement.

Mr. Kovacevich added that he is "confident" the deal will be completed. A Wells Fargo spokesman declined to comment further. Wachovia CEO Robert Steel, who said in a sworn court filing that the Charlotte, N.C., bank was on the verge of failure the preceeding week, wasn't mentioned in a press release issued jointly by the two banks Thursday night.

The Federal Reserve said it would "immediately begin consideration" of acquisition filings by Wells Fargo. The Fed also noted "the considerable efforts" of Citigroup and Wells Fargo "to reach an accord."

As part of a lawsuit in a New York state court, Citigroup lawyers plan to demand internal emails and cellphone records between executives of Wachovia and Wells Fargo, their lawyers and advisers, according to people familiar with the matter. Wachovia has said its directors were bound by their fiduciary duty to shareholders to accept Wells Fargo's offer.

In Wachovia's hometown of Charlotte, relief washed over some employees who work at the bank's downtown headquarters. Wells Fargo was widely seen by Wachovia employees as a more accommodating acquirer than Citigroup. "We're ready to hold our heads up again," one Wachovia employee said.

Friday, Wachovia shares surged 43%, or $1.55, to $5.15, while Citigroup gained 9.1%, or $1.18, to $12.93, and Wells Fargo was up 3.9%, or $1.06, to $28.30.

*—Damian Paletta and Sudeep Reddy contributed to this article.*

The smart money.

Fast ▲ Accurate ▲ Actionable ▲ Unbiased ▲ Fast ▲ Accurate ▲ Actionable ▲ Unbiased ▲ Fast ▲ Accurate ▲ Ac

▲ CNBC - First in business worldwide ▲ CNBC - First in business worldwide ▲ CNBC - First in business worldwide ▲ CNBC - First in business worldwide ▲ CNBC - First in business worldwide

FOCUS ON AUTOMOBILES

# GM, U.S. rivals held talks

## *Chrysler discussions undone by market; Ford spurned overture*

BY JEFFREY MCCRACKEN, JOHN D. STOLL AND MATTHEW DOLAN

**General Motors** Corp. has been in discussions recently about acquiring **Chrysler** LLC, according to people familiar with the matter. GM also approached **Ford Motor** Co. in recent months about a possible merger, but Ford called off the talks, according to a person directly familiar with the talks.

The discussions signal the intense pressures mounting on the U.S. auto industry to restructure amid a deep slump in sales.

The upheaval in financial markets has put the talks between GM and Chrysler owner **Cerberus Capital Management** LLC on hold, the people familiar with the matter said, and it was unclear if a deal will happen. However, if markets stabilize, the talks could be renewed, these people added.

Cerberus— a private-equity firm which owns 80.1% of Chrysler and 51% of **GMAC**, an 89-year-old auto lender that has been seriously weakened by its moves into mortgage banking—was central to the plan. Cerberus proposed a swap in which GM would acquire Chrysler and give Cerberus its remaining 49% stake in GMAC, these people said.

Uniting two of the Big Three U.S. auto makers would prove a watershed for an industry knocked down by high production costs and a looming recession. GM sees as much as $10 billion in possible cost-cutting if a deal were to come together, said a person familiar with its thinking.

GM, based in Detroit, declined to comment on the Chrysler or Ford discussions specifically. "As we've often said, GM officials routinely discuss issues of mutual interest with other auto makers," GM spokesman Tony Cervone said. Representatives for Cerberus, GMAC and Chrysler declined to comment.

In the case of the Ford talks, which took place earlier than the GM-Chrysler discussions, Ford called off the talks after the Dearborn, Mich., company concluded it should continue to go it alone, according to the person familiar with the talks. GM's talks with Ford were "very loose and preliminary, more exploratory in nature than anything else," a person briefed on the matter said.

Ford spokesman Mark Truby said "It's not our practice to talk about private discussions with others." GM and Ford have a joint venture involving six-speed transmissions and have talked about expanding that partnership to include powertrains, according to people familiar with the discussions.

Ford Chief Executive Alan Mulally didn't discuss mergers or asset sales in an interview but said that a bankruptcy filing is not an option for the auto maker. Analysts and credit-rating services raised concerns about the rate at which GM and Ford are burning cash and of their liquidity positions. Bankruptcy "makes absolutely no sense to us," Mr. Mulally said.

GM also said it isn't considering filing for bankruptcy.

On Friday, a person familiar with the situation confirmed that Ford is exploring the sale of its controlling stake in **Mazda Motor** Co. as part of an effort to shore up the U.S. auto maker's finances. Other people familiar with the company's plans said it is part of a larger review of Ford's assets.

GM, burning through $1.2 billion in cash a month, had planned to raise billions in secured financing by pledging various unencumbered assets as collateral for loans. GM executives were planning on making a pitch to banks and other potential lenders after Labor Day, a person familiar with the matter said. But GM found it was locked out of getting affordable loans, forcing the company to rev up activities related to evaluating strategic alternatives, this person said.

GM's recent talks with the other auto makers represent the second time in about two years that GM has talked to Ford and Chrysler about merging. Shortly after **Daimler** AG put Chrysler up for sale in February 2007, GM discussed acquiring the auto maker, but Cerberus made a more attractive offer.

Financial conditions have gotten the better of Cerberus, which originally viewed its investments in GMAC and Chrysler as relatively low-cost paths to owning some of the country's biggest brand names.

In 2006, it agreed to buy a majority stake in GMAC for $14 billion, hoping to ride momentum at GMAC's then-profitable mortgage arm, Rescap, and expand the car-lending business's reach in a global auto industry that was projected to grow rapidly. Cerberus was also hoping that by delinking GMAC from GM, the lending company's credit rating would improve, lowering its cost of capital.

Chrysler, Auburn Hills, Mich., has been hit hard by the car industry's downturn and is losing money. Chrysler said its September sales fell 33% from a year earlier. GM sales fell 16%.

In recent quarters, the value of GMAC has fallen dramatically due to exposure to subprime home loans, car loans and leases. Its bonds trade at 36 to 53 cents on the dollar. Today the GMAC stake is valued roughly at $6 billion to $7 billion, people familiar with the matter said.

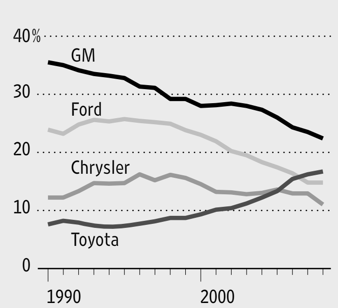
Cerberus said last month it is in talks with Daimler to buy that company's remaining 19.9% stake in Chrysler. Cerberus is expected to keep Chrysler's financing arm if a deal does materialize, a person familiar with the situation said.

Investors might worry that by acquiring Chrysler, GM—whose stock closed Friday at $4.89 a share in New York Stock Exchange trading, down from a 52-week high of $43.20—would be getting more troubled operations while it is trying to fix its own problems. It would pick up the Chrysler, Jeep and Dodge brands and their dealers while it is trying to shed nameplates and dealers of its own. It would also be even more reliant on North America, where sales have tumbled by double digits this year.

Over the past 14 months, Chrysler has backed away from many capital-intensive projects—including building new component plants and developing several new cars and trucks. As a result, Chrysler has been able to hoard cash despite falling sales and production in its core U.S. market.

GM is expected to announce more production capacity cuts in coming weeks, likely focusing on closing plants that stamp auto parts or build engines and transmissions. The GM-Cerberus talks were put on the back burner in the last couple days amid GM's share-price drop and the overall market instability, two people familiar with the matter said.

An individual involved in the talks described them as "recent, frequent and serious." This person added those talks could resume soon, since GM is focused on shedding its 49% stake in GMAC given the negative impact the once-profitable finance arm is having on GM's balance sheet.




Note: Excludes foreign affiliates; 2008 figure is through September
Source: Autodata

# Ford weighs sale of Mazda stake

BY JOHN MURPHY AND MATTHEW DOLAN

TOKYO—**Ford Motor** Co. is exploring the sale of its controlling stake in Japan's **Mazda Motor** Co. as part of an effort to shore up its finances amid a downturn in global auto sales and questions about the company's cash reserves, according to a person familiar with the matter.

It was unclear how much of Ford's 33.4% interest in Mazda would be up for grabs. But the person said Ford is looking at a broad range of asset sales in advance of substantial losses expected when the U.S. auto maker releases its third-quarter results later this month.

A spokesperson for Ford Asia Pacific declined to comment, saying that the company doesn't talk publicly about possible asset sales.

Mazda said it wasn't aware of plans by Ford to sell its stake. "We have not announced anything, and nothing has been decided," a Mazda spokesman said. "We have nothing to disclose."

The tie-up between the two auto makers dates to 1979. Mazda and Ford operate a number of joint ventures around the globe, including the Auto Alliance International plant in Flat Rock, Mich., where Mazda produces its Mazda6 sedan and Ford makes the Mustang.

THE WALL STREET JOURNAL. EUROPE
Executive Travel Program
Guests and clients of 320 leading hotels and car rental agencies receive The Wall Street Journal Europe daily, courtesy of
addictlab.com
global creative think tank

Toyota

Rather then send idle workers home, Toyota is sending them to sharpen their skills at **training classes**, such as this one at the auto maker's Princeton, Ind., plant.

# Toyota shares labor ills, other woes with Detroit

BY KATE LINEBAUGH

PRINCETON, Ind.—For years, Detroit's Big Three car makers have paid their workers even when they aren't needed on the assembly line. This year, as the industry's downturn intensifies, **Toyota Motor** Corp. finds itself doing the same thing.

Instead of sending the workers home, as the Detroit makers often do, Toyota is keeping them at the plants. The employees spend their days in training sessions designed to sharpen their job skills and find better ways to assemble vehicles.

The Toyota plant here in southwestern Indiana and another in San Antonio, Texas, stopped making pickup trucks at the beginning of August. About half of the 4,000 workers are expected to resume making vehicles in November, and now Toyota says the rest won't likely be back on the assembly line until at least April.

Toyota is "facing a significant lack of production work for a significant number of workers," said Sean McAlinden, an economist at the Center for Automotive Research. He estimates the wage cost of idling the assembly lines at the two plants at $35 million a month.

For most of this decade, Toyota was on a roll in the U.S., gobbling up market share from the Big Three, racking up huge profits and expanding into Detroit's traditional turf: big trucks and sport-utility vehicles. But with the industry in a slump and high gas prices sending consumers to smaller vehicles, Toyota is suffering some of the same ills as **General Motors** Corp., **Ford Motor** Co. and Chrysler LLC, which is owned by **Cerberus Capital Management** LP.

Toyota is stuck with excess manufacturing capacity, unsold pickups and SUVs, and a dimmer financial outlook. Its U.S. sales fell by a third in September from a year ago, as sales of its Tundra pickup plunged 61%. In the quarter ended June 30, global profit at the Japanese company fell 28%.

At GM, Ford and Chrysler, workers effectively are paid for not working when their assembly lines are idle, under terms of union contracts. If a plant is shut temporarily, as some were this summer, workers receive most of their pay but don't have to show up. A few attend company-paid classes to learn new assembly skills.

At its Princeton plant, by contrast, Toyota is using the down time to hone its workers' quality-control and productivity skills. The company has pledged never to lay off any of its full-time employees, who are nonunion.

Jim Lentz, president of Toyota Motor Sales, the company's U.S. sales unit, said the company believes keeping employees on the payroll and using the time to improve their capabilities is the best move in the long run. "It would have been crazy for us to lose people for 90 days and [then] to rehire and retrain people and hope that we have a smooth ramp-up coming back in," Mr. Lentz said.

In Princeton, senior plant manager Norm Bafunno said he can already see the benefits of the training. Mr. Bafunno cites a Teflon ring designed by an assembly worker during the down time that helps prevent paint damage when employees install an electrical switch on the edge of a vehicle's door.

In the past, the drill used to install the switch could slip and damage the paint, affecting two or three vehicles each shift. These vehicles would fail quality inspection and have to go through another process to buff the scratches, hurting the plant's overall efficiency numbers.

Coming up with tweaks like this is known at Japanese companies as *kaizen*, meaning continuous improvement. This is what management hopes to extract from the months of down-time training: better quality and productivity when production resumes.

Throughout the factory, workers sit in classrooms, repaint hazard areas bright yellow, lift weights, complete dexterity drills and get steeped in Toyota's corporate philosophy.

Near one idle line, assembly worker Bob Mason sat with four others employees around a table looking at a flip chart with Power Point printouts on it. The employees went through a problem-solving module based on a technique in Toyota's production system.

"This was a really good idea," Mr. Mason said of the training sessions. "Once you get out on the line, I don't want to say we veer off, but we veer off. This has really brought everyone back to square one."

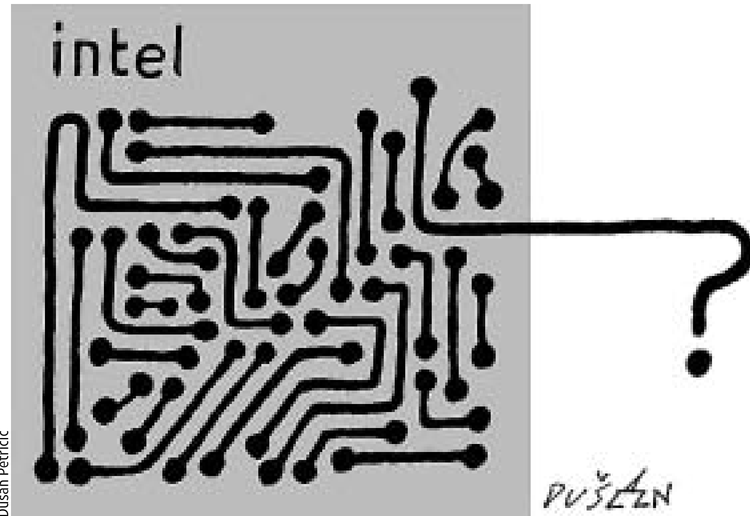
Mr. Mason, a 40-year-old former firefighter, added: "One of the major things that everyone is grateful for is that they thought enough of us to keep us here."

## CORPORATE NEWS

# Intel's outlook is awaited

### *Third-quarter results won't reveal impact of financial crisis*

BY DON CLARK



Dusan Petricic

**Intel** Corp. kicks off a slew of earnings reports from technology companies on Tuesday, at a time when the microchip maker's execution has seldom looked stronger—and fears about what could happen to technology demand have seldom loomed larger.

The Silicon Valley giant, after righting itself from a series of stumbles several years ago, is riding one of its strongest product lineups in years. Intel microprocessors serve as the calculating engines for most personal computers; the Santa Clara, Calif., company has done particularly well in portables, which recently began to outsell desktop models on a global basis. Now Intel is trying to expand by promoting low-end laptops called netbooks and new pocket-sized devices for surfing the Web, all powered by Intel chips.

But the Wall Street meltdown—which has lopped off a third of Intel's market capitalization since the beginning of September, a $43 billion downward swing—has put a question mark over the entire tech sector. While Intel's numbers for the quarter ended Sept. 30 might not be hurt badly, there is intense interest in what Intel and other tech companies will say about the fourth period—traditionally the busiest for electronics makers.

"The real question is what kind of guidance they give, what do they say about the future," says Dan Warmenhoven, chairman and chief executive of NetApp Inc., a Sunnyvale, Calif., maker of data-storage systems.

An Intel spokesman declined to comment. But analysts see several bearish scenarios.

Some companies are likely to put off upgrading server systems to take advantage of faster Intel chips. Meanwhile, consumers reading the negative headlines may decide to put off upgrading laptop or desktop systems. Consumer confidence is widely believed to be weakest in the U.S. and Europe, but "it appears that even the emerging markets are starting to slow down," says Edwin Mok, an analyst at Needham & Co.

Finally, people who do purchase computers may gravitate in 2009 toward netbooks, which use a chip called Atom that costs about $30, compared with chips that cost $100 to $150 for conventional laptops and carry larger profit margins, argues Vijay Rakesh, an analyst at ThinkPanmure who put a "sell" rating on Intel's stock Friday. "We believe Intel is heading into a perfect storm in 2009," Mr. Rakesh wrote in a research note.

# TUI to sell stake in Hapag-Lloyd

BY MIKE ESTERL

FRANKFURT—German conglomerate **TUI** AG agreed to sell a majority stake in its maritime shipping unit Hapag-Lloyd to a Hamburg-based consortium for about €2.45 billion ($3.29 billion).

TUI also said it might buy shares in U.K.-listed **TUI Travel** PLC it doesn't already own to focus on tourism.

The sale, in which the consortium also will assume roughly €2 billion in debt, keeps the world's fifth-largest container shipping company by capacity in German hands. TUI AG rejected a competing bid by Singapore's **Neptune Orient Lines** Ltd. Hapag-Lloyd had €6 billion in sales last year.

The deal highlights how the credit crunch has made financing difficult. To seal the pact, Hannover-based TUI agreed to pay the consortium €700 million and will retain a 33.33% stake. TUI had tried to sell all of Hapag-Lloyd after putting it on the auction block earlier this year.

The German company made a push into tourism last year when it agreed to take over U.K.-based First Choice Holiday PLC, merging it into TUI Travel to forge Europe's largest travel group with nearly €20 billion in annual revenue. TUI, which currently has a 51% stake in TUI Travel, said Sunday it will explore using the Hapag-Lloyd sale proceeds to buy the remainder of the tourism unit.

TUI acquired Canada's CP Ships Ltd. in 2005 to become a leading maritime shipping company. But the company's sagging stock price triggered divestment demands from increasingly restive shareholders. Management agreed in March to explore a Hapag-Lloyd sale.

TUI didn't name the members of Albert Ballin KG, the Hamburg-based buyer of Hapag-Lloyd. But banking group **HSH Nordbank** AG, insurer **Signal Iduna Pensionskasse** AG, the Hamburg city government and Klaus-Michael Kuehne, who owns a majority stake in Swiss logistics group **Kuehne + Nagel International** AG, earlier confirmed belonging to the consortium.

The sale comes amid a slowdown in the global economy that is being felt in the shipping industry, cooling investor interest in Hapag-Lloyd.

NOL said Friday it made an offer for Hapag-Lloyd that "addressed the challenging market conditions facing the container-shipping industry" and that it would now focus on navigating through a "downcycle." A tie-up with Hapag-Lloyd would have created the world's third-largest maritime shipping company, according to industry estimates.

The sale to the Hamburg-based consortium will hearten German politicians who had expressed concern about Hapag-Lloyd falling into foreign hands. Exports are an important driver of the German economy and Hamburg authorities were nervous that their city's status as a major shipping hub would suffer if NOL won the auction. NOL uses Rotterdam, the Netherlands, as a major hub.

# Aerospace sector to feel credit squeeze

BY DAVID PEARSON

Aerospace companies won't escape the effects of the continuing credit crisis, even though the industry entered the crisis in robust condition, European executives said Friday.

The crisis and global economic slowdown "will have a serious, serious impact on our industry," said Allan Cook, chief executive of U.K.-based **Cobham** PLC.

The credit squeeze and the slower economic activity will rub off on all sectors of the aerospace industry, Charles Edelstenne, chairman of French military- and business-jet builder **Dassault Aviation** SA, said after the annual congress of the Aerospace and Defense Industries Association of Europe.

Suppliers of military equipment will suffer as countries divert defense spending to support other parts of their economies, he said. Demand from end users such as airlines and aircraft leasers could dwindle if they can't obtain credit, he said.

On Thursday, the chief executive of **European Aeronautic Defence & Space** Co., Louis Gallois, said he wasn't particularly worried about the crisis, adding that it will have only a limited impact on his company. EADS, parent of European plane maker Airbus, is benefiting from the stronger dollar. EADS sells its planes in dollars but incurs most of its costs in euros.

*—Ruth Bender contributed to this article.*

## GLOBAL BUSINESS BRIEFS

### Hypo Real Estate Holding AG

#### Pohle is interim chairman after Viermetz's resignation

German commercial-property lender **Hypo Real Estate Holding** AG said Friday that the chairman of its supervisory board resigned, following the departure earlier in the week of its chief executive. The company said Kurt Viermetz's deputy, Klaus Pohle, will take over the chairman's job on an interim basis. Mr. Viermetz is also supervisory-board chairman of **Deutsche Börse** AG, where a shareholder, **The Children's Investment Fund**, has been calling for his ouster. Earlier this month, the German government helped put together a €50 billion ($67 billion) rescue package for Hypo Real Estate. The company announced the resignation of Chief Executive Georg Funke on Tuesday. It has tapped Axel Wieandt to succeed Mr. Funke.

### MOL Nyrt.

Hungarian oil company **MOL** Nyrt. is close to gaining majority ownership in Croatian oil monopoly **INA** after snatching up shares sold by Croats spooked by the global financial crisis. MOL now holds 47.15% of INA and is in talks to buy more from the Croatian government, which owns 45%. The rest is owned by small shareholders. INA is one of Croatia's most profitable companies. Two years ago thousands of Croats bought shares when the government sold 17% of the company. MOL had bought 25% in 2003, and in September offered to buy more at 2,800 kunas ($550) a share. At the time, many said the price was too low. But as the shares' value began dropping last week, people stood in long lines to sell their shares.

### British Energy Group PLC

**British Energy Group** PLC, the U.K.'s largest power producer, said work is behind schedule on two of the four nuclear reactors at its Hartlepool and Heysham Stage 1 power stations. However, the delays are expected to have limited impact on the Scotland-based company, since it has accepted a takeover bid from **Électricité de France**, which has already secured funding for the £12.5 billion ($21.32 billion) deal. The four reactors were scheduled to return to operation in the fiscal third quarter, which ends Dec. 31, but now two of them won't restart until early next year. They had been shut down last fall to repair corrosion on wires related to the steel and concrete structures that wrap around nuclear reactors.

### Renault SA

**Renault** SA appointed Patrick Pelata to the newly created post of chief operating officer, effectively making him the second in command at a crucial time for the car manufacturer. Mr. Pelata will report directly to Renault's president and chief executive, Carlos Ghosn, and will be responsible for the day-to-day running of the company, a spokeswoman said. Mr. Pelata, 53 years old, has spent his entire working life at Renault, most recently as the head of the company's Europe Management Committee. The move will lighten the Mr. Ghosn's workload at a time when the auto industry is facing a sharp slowdown in North America and Europe, industry analysts said. Mr. Ghosn will continue to oversee Renault's strategy, finance and public-affairs functions.

### X5 Retail Group NV

**X5 Retail Group** NV reported a surge in third-quarter revenue but cut its capital-expenditure and store-openings forecasts amid the continuing economic crisis. The Russian retailer said revenue at X5-managed stores climbed 48% to $2.18 billion as the company opened 36 new stores. The retailer said like-for-like sales forecasts remain largely unchanged, but trimmed its 2008 capital-expenditure plans to $1 billion from $1.4 billion and said it would add 120,000 square meters of net selling space rather than the 140,000 square meters to 160,000 square meters it forecast earlier. Russia is struggling through a financial crisis that has seen stock prices tumble and the banking system grind to a halt. Tighter credit conditions have prompted many companies to reduce expansion plans and will affect demand as banks scale back consumer loans.

### Soco International PLC

Oil explorer **Soco International** PLC confirmed it had received an approach from a potential buyer of the majority of its asset portfolio—widely believed to be its Vietnam operations. Market speculation pointed to Chinese state-owned oil trader **Sinochem** Corp. as the possible buyer. After a report in the Daily Telegraph Thursday, London-listed Soco confirmed it had been in talks with various parties that had resulted in a preliminary approach. Soco was approached by Sinochem about a deal at £24 ($40.93) a share, the report said. Midcap oil explorers are seen as vulnerable to takeover approaches from large oil companies following a fall in the price of oil and a drop in their share price. Soco, which operates in Vietnam, Thailand and Africa, said there was no certainty a deal would take place.

### Singapore Press Holdings

**Singapore Press Holdings** Ltd. said full-year net profit fell 12% because of lower net income from investments and an impairment charge. Net for the year ended Aug. 31 was 437.4 million Singapore dollars (US$295.2 million), compared with S$499.1 million a year earlier. Revenue rose 12% to S$1.3 billion. The company recorded total investment income of S$47.7 million for the fiscal year, down 67% from S$146.2 million a year earlier. SPH attributed the decline to the sale of investments and gains from capital-reduction exercises by Singapore telecommunications operators **MobileOne** Ltd. and **StarHub** Ltd. SPH took a S$26.7 million impairment charge to write down the carrying amount of its investments in associates to its estimated recoverable amount.

### Samsung Group

A South Korean appellate court Friday upheld a lower court's decision to fine and hand a suspended prison term to former **Samsung Group** Chairman Lee Kun-hee for tax evasion. The Seoul High Court gave Mr. Lee a three-year jail term suspended for five years and a 110 billion won ($84.1 million) fine—the same sentence handed out by the Seoul Central District Court in July. A special prosecutor last month repeated his call for a seven-year jail term and a fine of 350 billion won. In July, the lower court dismissed the more serious charge of breach of trust with regard to Mr. Lee's role in a transaction of bonds between Samsung affiliates and his son Jae-yong.

*—Compiled from staff and wire service reports.*

# ECONOMY & POLITICS

## AFGHANISTAN

### NATO authorizes strikes against drug industry

Associated Press

NORTH Atlantic Treaty Organization leaders authorized direct military strikes against Afghanistan's flourishing drug industry, a significant escalation of the alliance's operations there.

Meeting in Hungary, NATO defense ministers gave cautious approval to a U.S. request that foreign forces be allowed to strike drug-production facilities that have ties to Taliban fighters and other militants.

The move comes in response to growing evidence that Afghanistan's heroin trade is helping to fund the Taliban insurgency that is destabilizing both Afghanistan and Pakistan. *—Yochi Dreazen*

## NOBEL PRIZE

### Former Finland president is honored for peace efforts

Associated Press

FINLAND'S former president Martti Ahtisaari won the Nobel Peace Prize for his efforts to build a lasting peace from Africa and Asia to Europe and the Middle East.

The Norwegian Nobel Committee said it honored Mr. Ahtisaari for important efforts over more than three decades. "For the past 20 years, he has figured prominently in endeavors to resolve several serious and long-lasting conflicts," the citation said, mentioning his work in conflicts from Namibia to Aceh, Indonesia, Kosovo and Iraq. Mr. Ahtisaari had been mentioned as a possible prize candidate since 2005, just after he negotiated an end to a conflict in Aceh. *—Associated Press*

## CYPRUS

### Rival leaders to hold talks weekly to accelerate peace

Associated Press

CYPRUS'S RIVAL community leaders agreed Friday to accelerate the peace process by holding weekly negotiations on a deal to reunify the divided island.

President Dimitris Christofias, a Greek Cypriot, and Turkish Cypriot leader Mehmet Ali Talat met for the fourth time since relaunching talks last month to end a four-year stalemate. Both say they are committed to ending the island's decades-old division. United Nations envoy Alexander Downer, who moderated the talks, said Messrs. Christofias and Talat agreed to meet once a week "to keep the momentum of the process going." The next meeting was set for Monday. *—Associated Press*

# U.S., Iraq near final draft of security pact

### *Compromise unlocks talks on presence of American troops*

By Gina Chon
*Baghdad*

THE U.S. AND IRAQ are close to agreeing on a final draft of a security agreement that includes a compromise on legal jurisdiction over American soldiers, people familiar with the talks said Sunday.

The issue of whether American soldiers would have immunity from criminal prosecution while in the country has been one of the biggest obstacles to sealing the deal, designed to set out the terms of a future U.S. military presence in Iraq.

Negotiations have sped up recently as both sides moved toward compromise on the immunity issue. Talks also moved forward because of a new sense of urgency from Iraqi officials, worried about any uncertainty about U.S. troops in the country after a United Nations mandate expires at the end of the year.

The current draft agreement still contains a goal for withdrawal of U.S. combat troops from Iraq at the end of 2011, although that could be amended depending on conditions on the ground. As a precursor to that possible drawdown, American soldiers would pull out of cities by the end of June 2009 and move to bases outside those areas, a move that has already begun in many parts of Iraq.

For months, the U.S. has resisted an Iraqi request that American soldiers be subject to criminal prosecution under Iraqi law in any circumstance. The current compromise being discussed would strip immunity from American soldiers who commit extremely serious crimes while off duty, such as rape or murder, said Iraqi Deputy Foreign Minister Mohammed al-Haj Humood and other people familiar with the talks.

The U.S. side decided to compromise on jurisdiction based on assurances that the provision would provide adequate legal protections for the U.S. military, according to people familiar with the matter. For example, jurisdiction would be limited to extreme cases. Tough, due-process standards are a pre-condition to Iraqi prosecution, these people said.

Associated Press

**The U.S.-Iraq security deal** will set terms of a future U.S. military presence in Iraq, after a United Nations mandate expires at the end of the year.

In other countries that have a U.S. troop presence, like South Korea, American soldiers are subject to local prosecution for crimes committed off duty. But those measures are in place in peaceful nations that enjoy robust rule of law. Iraq is essentially still a war zone with an inadequate legal system.

In a sign of his growing commitment to sealing a deal, Prime Minister Nouri al-Maliki met Friday with revered Shiite cleric Grand Ayatollah Ali al-Sistani. After the meeting, Mr. Maliki told reporters that Mr. Sistani won't oppose the agreement if the country's democratic bodies, such as parliament, approved it. Mr. Sistani's implied support is key to moving the approval process forward.

Agreement between both governments on a final draft could come as early as this week. But the deal still faces several hurdles before it can ultimately be approved. After being vetted by several layers of the Iraqi government, the deal must be approved by the Iraqi parliament, which could take up the pact later this month.

Iranian officials, meanwhile, have increased pressure on counterparts in Baghdad to reject the deal. And upcoming provincial elections and other issues have increased tensions between the main political factions in Iraq, complicating the approval process.

"It's too early to say whether we can pass this agreement in parliament," said Jalal al-Din al-Saghir, a senior Shiite lawmaker.

*—Zaineb Naji contributed to this article.*

# Off U.S.'s terror list, North Korea advances arms talks

By Jay Solomon

North Korea on Sunday said it would resume tearing apart its Yongbyon nuclear complex, a day after the U.S. announced it was removing North Korea from its list of state sponsors of terrorism.

The carefully-staged set of diplomatic steps restored momentum to the so-called six-party process in which five nations—China, Japan, Russia, South Korea and the U.S.—are trying to persuade North Korea to accept economic aid and give up its pursuit of nuclear weapons.

In a short statement issued by its state media, North Korea said it would allow inspections from U.S. and the International Atomic Energy Agency to verify the disablement of its nuclear power plant, which has provided fuel for atomic weapons.

On Saturday, senior U.S. officials said Pyongyang also approved outside inspections of all declared nuclear sites inside North Korea, as well as the scientific sampling of air, soil and other elements that could gauge the extent of the North's production of fissile materials.

Pyongyang also agreed to allow the U.S. and international community to interview key North Korean nuclear scientists and to verify the country's alleged efforts to produce fissile materials using highly enriched uranium and to assist third countries in the development of their nuclear programs.

"Every element of verification that we sought is in this package," State Department spokesman Sean McCormack said Saturday. "This demonstrates that the six-party principle of 'action for action' is working."

Delisting North Korea from the State Department's tally of state sponsors of terrorism will lift some economic sanctions enacted against Pyongyang. But U.S. officials stressed that other sanctions tied to North Korea's proliferation activities and alleged human rights abuses remain in place.

Lifting the sanctions "doesn't remove at all the leverage we maintain over North Korea," said Patricia McNerney, principal deputy assistant secretary for international security and non-proliferation.

U.S. officials acknowledged that that the obstacles to verifying and dismantling North Korea's nuclear program remain formidable and could take years to complete. They said that discrepancies could emerge between Washington and Pyongyang over outside access to military or testing sites that North Korea might not designate as among its declared nuclear sites. These officials also acknowledged that it remains unclear the extent that they'll be able to test and remove samples from the reclusive communist country.

"It will be a bumpy road," said Assistant Secretary of State for Verification, Compliance and Implementation Paula DeSutter. "However, we're building a road."

The announcement is already stoking the ire of some U.S. conservatives, who argue that the guidelines for verification might not be stringent enough. Republican presidential candidate John McCain said in a statement released ahead of the State Department's formal announcement Saturday that the U.S. must "avoid reaching for agreement for its own sake, particularly if it leaves critical verification issues unaddressed."

Japanese officials also expressed skepticism about the U.S. move while it is trying to pressure North Korea via the six-party process to provide information about kidnapped Japanese citizens. Sung Kim, the U.S. envoy to the six-party process, met with Japanese leaders in Tokyo to describe the U.S. plan. "We strongly urge the North Koreans to implement" steps agreed to with Japan on the abduction issue, Mr. Kim said.

*—Evan Ramstad contributed to this article.*