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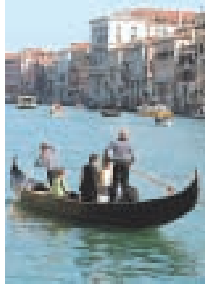

A traghetto tour reveals Venice's other side

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Crisis gives Persian Gulf petro-states a breather

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What's News—

Business & Finance

UBS became the latest bank to accept assistance as the Swiss government and central bank assumed billions of dollars of risky securities. Credit Suisse Group will raise $9 billion on its own, the bulk from the Qatar Investment Authority. Page 1

■ **U.S. consumer inflation** is receding, a development that gives the Fed incentive to cut interest rates further. Page 2

■ **European stocks slid** as fears of a world-wide recession trumped a fresh set of moves to shore up the financial system. The FTSE lost 5.3%. Page 17

■ **Oil prices fell below $70** a barrel for the first time in 14 months as demand from the U.S. has slumped. Nymex crude settled at $69.85 a barrel. Page 1

■ **Hungary was offered** an emergency loan by the ECB, highlighting the bank's wider role as a financial firefighter. Page 3

■ **Microsoft's Ballmer** signaled openness to a deal with Yahoo, sending Yahoo shares surging even as Microsoft played down the CEO's comments. Page 20

■ **Citigroup posted** a $2.82 billion loss, while other banks reported weak results, underscoring the sector's problems. Page 17

■ **Merrill Lynch posted** a net loss of $5.15 billion in what is likely to be its last results as an independent company. Page 17

■ **U.S. stocks gyrated** amid another strong dose of recession fears. Airline shares soared on a drop in oil prices. Page 18

■ **Nokia posted a 30% drop** in profit but said it's well positioned to regain market share. Page 5

■ **Actavis could be up for sale.** The generic-drug maker is 80% owned by an Icelandic private-equity firm. Page 6

■ **Malaysia and Singapore** followed Hong Kong in guaranteeing all bank deposits. Page 21

■ **Mexico's Grupo Modelo** will seek arbitration on whether the sale of Anheuser-Busch violates its partnership. Page 6

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8979.26	+4.68	
Nasdaq	1717.71	+89.38	+5.49
DJ Stoxx 600	206.40	-10.77	-4.96
FTSE 100	3861.39	-218.20	-5.35
DAX	4622.81	-238.82	-4.91
CAC 40	3181.00	-200.07	-5.92
Euro	$1.3396	-0.0198	-1.46
Nymex crude	$69.85	-4.69	-6.29

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World-Wide

EU leaders agreed to discuss proposals on changing global financial rules at a weekend meeting with Bush, but they struggled to agree on how to ward off recession even as Germany cut its growth outlook. They reaffirmed the EU's plan to implement a package on climate change. Pages 4, 9

■ **McCain and Obama clashed** sharply over economics, health care, abortion and the U.S. election campaign's harsh tone in their final debate. Pages 11, 14

■ **A judge will question** three mechanics on suspicion of manslaughter in the August crash of a Spanair plane on takeoff from Madrid in which 154 died. Page 7

■ **Spanish police arrested** 13 men accused of harboring Islamic extremists, including Madrid terror-bombing suspects, and helping them flee Spain. Page 8

■ **Ukraine's prime minister said** the IMF is ready to lend up to $14 billion to shore up the nation's finances provided its president abandons plans for early parliamentary elections. Page 8

■ **Azerbaijan President Aliyev** won re-election by a landslide in a vote boycotted by opposition parties, and OSCE monitors said the ballot had failed to meet international standards.

■ **Foreign militants** have invigorated the Taliban insurgency but Western pessimism is unwarranted, the top U.S. general in Afghanistan said. An Afghan policeman threw a grenade into a U.S. patrol, killing one soldier.

■ **A suspected U.S. missile** strike killed a purported foreign militant in Pakistan's tribal region, while a suicide bombing left four security personnel dead.

■ **Turkey's military said** four soldiers and five Kurdish rebels were killed in battles near Iraq. Another soldier was killed in the crash of a helicopter that rebels claimed was shot down.

■ **Banned milk** from two Chinese dairies was still being sold to students in Guangzhou despite Beijing's orders to recall milk produced before Sept. 14. Page 10

■ **A South Korean ship's crew** was released after being hijacked off Somalia Sept. 10. India is sending warships on an antipiracy patrol in the Gulf of Aden.

EDITORIAL & OPINION

Fortune favors reformers

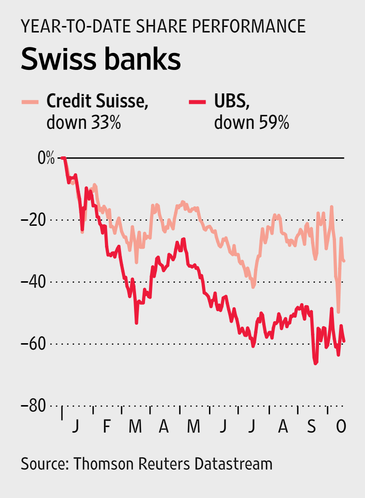
The financial crisis makes tax cuts even more important. Review & Outlook. Page 12

Two Swiss bank giants get help on soured assets

State aid to UBS is $65 billion, Qatar funds Credit Suisse

By Dana Cimilluca

Associated Press



Source: Thomson Reuters Datastream

LONDON—Switzerland launched a massive rescue plan for banking giant **UBS** AG, in an effort to protect the country's status as a safe haven for global wealth and match the bold moves other Western countries have taken to protect their financial systems.

Hatched by government and bank officials in Switzerland in the weeks since the demise of **Lehman Brothers Holdings** Inc., the plan will see the Swiss central bank take as much as $60 billion of toxic assets off of UBS's balance sheet. The Swiss government will invest $5.3 billion in UBS in return for a 9% stake, while rival **Credit Suisse Group** will raise roughly $9 billion privately. The Swiss government has also left open the option of guaranteeing new debt issued by the banks.

Once implemented, the plan will make the two banks among the world's strongest financially, a crucial move for a country seeking to repair a tarnished reputation as the banker to the world's wealthy. Switzerland's decision to step in and support UBS came as the bank, which has suffered some $48 billion in write-downs on soured investments over the past year, was experiencing an increasing outflow of money from its prized wealth-management unit amid investigations into possible tax evasion by its clients.

The moves to boost the capital cushions the banks hold against

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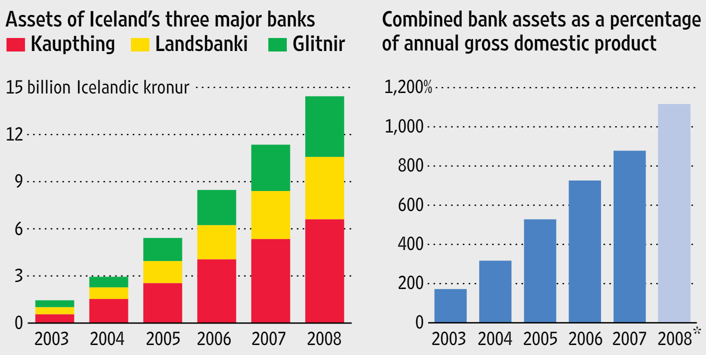
Beyond borders

Swollen by borrowing and lending abroad, Iceland's banks grew far bigger than the small country's economy. That meant that when trouble struck, Iceland didn't have the means to bail them out.



*Bank assets as of June 30, compared with 2007 annual GDP

Note: Bank assets as of the year end, except 2008, which is as of June 30.

Sources: the banks (assets); National Statistical Institute of Iceland (GDP)

Iceland officials missed signs of liquidity freeze

By Charles Forelle

When Iceland's banking system collapsed last week, stunned bankers and government officials pointed blame at the freeze in short-term funding markets that has inflicted pain the world over.

But Iceland's leaders had long been warned of the potential damage of a liquidity squeeze. And when it struck, authorities who had expressed optimism about the system didn't have the tools to keep it afloat.

The country's central bank chief, David Oddsson, a former prime minister and Reykjavík mayor, is emerging as the primary target of Icelandic ire. The central bank held low foreign-exchange reserves, leaving it with scant ammunition in a crisis.

Amid the chaos, it tried pegging the local currency, the krona, to a basket of currencies but abandoned that tack after barely a day. It announced a €4 billion ($5.40 billion) loan from Russia, then hours later said the Russians hadn't actually agreed to it.

Last week, with two of Iceland's three big banks nationalized and a third teetering, Mr. Oddsson went on television to decry his country's "reckless" bankers and say Iceland wouldn't pay the banks' foreign debts. Within two days, the third bank collapsed: the U.K. authorities—worried about British depositors—seized the bank's assets in Britain and triggered a default.

The U.K.'s Treasury chief told the BBC he was informed that the Icelan-

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Oil demand joins economy in faltering

By Neil King Jr.

Signs that an enfeebled U.S. economy is using less and less oil sent world crude prices below $70 a barrel for the first time in 14 months, a dramatic turnaround for a market that not long ago had some analysts predicting $200-a-barrel oil as early as next year.

The sharp drop in U.S. oil demand—down in recent weeks by about 9% from a year ago—shows how deep the economic malaise is now across much of the industrialized world. As U.S. unemployment rises and retail sales and manufacturing orders slump, the world's largest consumer of oil needs less crude to move goods, fly passenger jets, and transport workers to the office.

Increasing gloom over the health of the world economy has helped to shove down oil prices at a dizzying rate since the summer. U.S. benchmark crude on Thursday fell to less than half of its record high, set just three months ago, of $147 a barrel. On the New York Mercantile Exchange on Thursday, crude for November delivery fell $4.69, or 6.3%, to $69.85.

Rattled by the swift price drop and evidence of plunging demand, members of the Organization of Petroleum Exporting Countries hastily agreed Thursday to meet next week in Vienna to weigh a production cut, in a bid to firm up prices. The cartel, supplier of nearly 40% of the world's oil, had planned to hold

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Slowing U.S. inflation opens door to rate cut

Core price index advances just 0.1% amid broad weakness

BY JON HILSENRATH

U.S. consumer-price inflation is receding, a development that gives the Federal Reserve additional leeway to cut interest rates further in the weeks ahead, though Fed officials don't currently see more rate cuts as a clear-cut choice.

The U.S. consumer-price index was unchanged in September, the Labor Department said Thursday, after falling in August for the first time in almost two years. Excluding food and energy, core consumer prices advanced just 0.1% last month, underscoring a growing belief inside the Fed that inflation pressures are easing, as many senior officials expected earlier this year.

Consumer prices were still up 4.9% from a year earlier—an elevated level, in the Fed's view—but that was off the 17-year high of 5.6% reached in July. And oil prices, a key driver of headline consumer-price inflation, have continued to fall since September. Crude futures settled Thursday below $70 a barrel for the first time since August 2007.

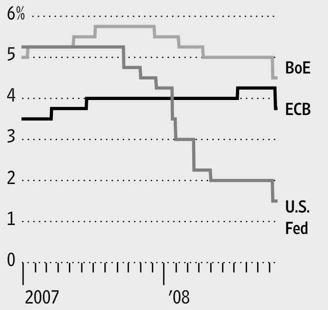
Financial shocks like the one the U.S. is experiencing could eventually lead to the opposite of inflation—deflation, or a broad decline in prices—though that doesn't look like a serious risk, given the amount of stimulus going into the U.S. economy.

The Fed next meets on Oct. 28 and 29. Between now and then, officials will consider whether additional cuts are likely to have their desired effect of stimulating economic growth.

As long as investors remain fearful of holding risky assets such as junk bonds or mortgage-backed securities, a reduction in the Fed's target federal-funds rate is likely to have a muted impact on other borrowing rates that are important to businesses and consumers.

Further to fall

As the financial-crisis saps global growth, investors increasingly expect further interest-rate cuts from the world's big central banks.



Sources: European Central Bank; Bank of England; U.S. Federal Reserve

In speeches Wednesday, the Fed's two most senior officials—Chairman Ben Bernanke and Vice Chairman Donald Kohn—highlighted the risk aversion plaguing financial markets as the key drag on economic growth.

"The path of the economy will depend critically on how quickly the current stresses in financial markets abate," Mr. Kohn said in a speech in New York. "But these events have few, if any, precedents, and thus we can have even less confidence than usual in our economic forecasts."

Mr. Kohn noted that the low level of the fed-funds rate—now 1.5%—will eventually help to stimulate growth. And officials believe their rate cuts have provided an important cushion to markets—without them, interest rates on consumer and business loans would be even higher.

Fed officials also must weigh the impact of further rate cuts on market confidence. When the Fed engineered coordinated rate cuts earlier this month with the European Central Bank, the Bank of England and several other central banks, officials expected the move to help boost market confidence.

Instead, the Dow Jones Industrial Average fell 2% that day, and investors continued to flee from risky assets, driving U.S. officials to the broader banking rescue program announced this week.

The September slowdown in consumer prices reflected broader economic weakness beyond declining energy costs. Transportation prices fell 0.6% as airline fares and new-car prices dropped.

Housing, which accounts for 40% of the consumer-price index, fell 0.1% for a second straight month, the first back-to-back declines since 2001. Food and beverage prices rose 0.6% and medical-care prices rose 0.3%; clothing prices fell 0.1% compared with August.

Meanwhile, the Fed reported that industrial production decreased 2.8% in the most stark fall in almost 34 years. While the drop was bigger than expected, the Fed estimated that the effect on production of hurricanes Gustav and Ike contributed 2.25 percentage points to the decline, while the Boeing Co. machinists' strike contributed an estimated 0.5 percentage point. Over the 12 months ending in September, industrial production was 4.5% lower.

Economists said that even after taking hurricane and strike distortions into account, industrial-production data signaled that manufacturers were bracing for tougher conditions.

The industrial-production numbers "definitely point to a manufacturing sector in recession," said Abiel Reinhart, an economist at J.P. Morgan Chase & Co.

—Brian Blackstone and Jeff Bater contributed to this article.

U.S. extends short disclosures

BY KARA SCANNELL

The U.S. Securities and Exchange Commission said hedge funds and other investment managers will need to report their short positions to the agency until August 2009.

In an order issued late Wednesday, the SEC said it was extending disclosure requirements issued under emergency authority until next August and would accept comments from the public before making the rule permanent.

The agency used emergency powers last month to require money managers with more than $100 million in assets to report their daily short positions on a weekly basis to the SEC and the public. Positions that represented less than one-quarter of 1% of a company's outstanding shares wouldn't be disclosed.

Earlier this month, the SEC extended the emergency order, while saying that the information wouldn't be released to the public. That order was set to expire Friday.

The new order scales back some of the information the investment managers have to turn over.

The disclosure requirements are aimed at giving the SEC more information about bearish bets, or short sales, as they look into whether investment managers are manipulating the market by pairing short sales with false rumors.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

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Hungary is offered aid package from ECB

Bank looks to put out non-euro-zone fires; forint rallies on news

BY JOELLEN PERRY

The European Central Bank extended an emergency loan to Hungary's central bank Thursday, underscoring the severity of the threat to the Central European economy and highlighting the ECB's widening role as a financial firefighter across the Continent.

The ECB said it will lend the National Bank of Hungary up to €5 billion ($6.75 billion), enabling Hungarian authorities to funnel euros to their cash-strapped commercial banks. The move marks the first time the ECB, which makes monetary policy for the 15 nations that share the euro currency, has stepped in publicly to lend to a country outside the euro-currency zone.

The ECB's extraordinary action highlights growing concern among economists and investors that the euro zone would also suffer should

Forint falls

The value of 100 Hungarian forints in euros

*Through Wednesday, Oct. 15
Source: WSJ Market Data Group

Hungary's economy founder. Some 80% of the assets in Hungary's banking sector are foreign-owned, according to research firm Capital Economics. Austria—a euro-zone nation—is a major presence across Central Europe.

Hungary has been hit hard by market turmoil in recent days, as its heavy reliance on foreign borrowing made it a prime target for investors pulling out of risky bets. Its currency, the forint, fell to a two-year low against the euro this past Friday, and the government has struggled in recent days to find buyers for its bonds and shorter-term Treasury bills. Earlier this week, government officials put in a request for potential help from the International Monetary Fund, though they maintain an IMF loan is a last resort.

The ECB's emergency loan, in combination with a package of government promises that included trimming the budget deficit to 2.9% of gross domestic product next year, cheered investors. The forint strengthened against the euro in reaction to the announcement.

In recent years, Hungarian banks have done a booming business lending to domestic consumers and businesses in foreign currencies, where interest rates are below Hungary's 8.5%. That helped fuel consumer spending but makes the country's banking system especially vulnerable to the kind of funding crunch now gripping global markets, where default fears have made banks reluctant to lend to one another. In August, 49% of Hungarian companies' loans were in euros, Swiss francs or U.S. dollars, according to Hungary's central bank, while 62% of second-quarter lending to Hungarian consumers was in foreign currencies.

Now, Hungary's banks are finding it hard to get the euros they need to finance their loan portfolios. Amid the funding squeeze and the forint's fall, which raised risks that Hungarian borrowers wouldn't be able to repay their foreign-currency loans, three Hungarian banks this week said they will cut back their foreign-currency lending. On Thursday, the Hungarian unit of Belgium's **KBC** Group confirmed it had suspended two types of household loans that required a down payment of just 5%.

With the ECB's emergency loan, Hungary's central bank will hold daily auctions of overnight euro funding for which Hungarian banks can swap forints. Hungary's central bank also said Thursday it will begin buying securities from primary dealers in an effort to pump funds into the frozen domestic debt market.

The ECB's move Thursday resembles steps taken by the U.S. Federal Reserve to funnel dollars to foreign central banks world-wide. In December, the Fed launched a currency-swap line in which the ECB gives the Fed euros in exchange for dollars it can lend to euro-zone banks that need dollars to fund dollar-denominated investments. The ECB Wednesday also said it will begin lending to euro-zone banks in Swiss francs.

Analysts cautioned that the ECB's balance sheet may not be big enough to handle large amounts of foreign-currency lending to other countries outside the euro area. But the fact that the ECB intervened to help Hungary may shore up support for euro-zone membership across the European Union, where 15 of 27 states currently use the common currency.

"When you have such a big crisis, if you're out there on your own with your little currency, you can get crushed," said Thomas Mayer, European economist with Deutsche Bank in London.

—Margit Feher contributed to this article.

FINANCIAL CRISIS & REPAIR

EU pursues global summit

U.S. backing sought for oversight plan; German forecast cut

BY JOHN W. MILLER

BRUSSELS—European Union leaders agreed to use a meeting this weekend with U.S. President George Bush to discuss proposals on shaping international financial rules, but they struggled to agree on how to ward off recession even as Germany slashed its growth forecasts.

At the end of a two-day summit in Brussels Thursday, the EU's 27 leaders signed off on the bloc's recently unveiled joint $2.7 trillion bank bailout plan, and on new proposals to change the institutions and rules that govern international finance.

French President Nicolas Sarkozy said he and top EU officials will use a previously arranged meeting with President Bush and other U.S. leaders Saturday at Camp David to discuss a proposed international summit later this year that would aim to change global financial rules. The EU's wants to gauge support for ideas that include new international supervisory boards for at least 30 of the world's biggest banks.

It isn't clear that the U.S. will support the European initiative. "This weekend's meeting is not to determine the agenda or scope of a future summit, although the financial crisis will certainly be discussed," said White House spokesman Tony Fratto.

But as markets continued to slide on fears of recession, EU leaders switched their focus Thursday to look for ways of shoring up the real economy. "We've had a financial crisis, and now an economic crisis is coming," said Mr. Sarkozy, who headed up the two-day gathering.

More bad economic news emerged Thursday, as the German government cut its 2009 growth forecast by a full percentage point to 0.2%, with a worst-case scenario of negative 0.8% growth. Germany has long been the engine of the EU economy.

Mr. Sarkozy, however, had little success persuading other EU leaders of a blocwide stimulus package to inject cash into the economy. The French president is eager to respond to a demand from European car companies to set up a €40 billion ($54 billion) fund to help them meet tighter emission standards.

The time is "not yet ripe" for an EU-wide stimulus package, said Frank-Walter Steinmeier, Germany's foreign minister. U.K. Prime Minister Gordon Brown also opposed the French proposals.

Also contentious was a decision to reaffirm the EU's commitment to implement a package to battle climate change in December.

EU countries have already signed a preliminary deal to, by 2020, make 20% of all energy renewable; cut carbon emissions by 20% of 1990 levels; and make total energy use 20% more efficient. Companies are also meant to start paying for their carbon allowances starting in 2013. The plan was the cornerstone of the EU's claim to lead the world toward cleaner energy.

Several countries, including Italy and Poland, argued Thursday that those targets should be reconsidered in light of the economic slowdown, for fear of overburdening European industries with costs. If as scheduled, Poland's coal-fired power plants are forced to start paying for carbon credits in 2013, they would owe would owe €4.8 billion, according to Polish officials.

The December deadline for the new EU's climate-change package survived in Thursday's summit conclusions, but with new language requiring that the measures should be "cost effective" and should consider "each state's specific situation."

The climate-change goals "look vulnerable right now," Belgian finance minister Didier Reynders said. "Let's face it, industry is scared, and governments need to give them the flexibility they need to make a profit."

Mr. Sarkozy also agitated for action to weaken the EU's rules aimed at ensuring a level playing field for cross-border competition, to allow France and other states to rescue failing firms. EU leaders agreed to call on the Commission, the EU's executive body, to be "flexible" in judging if state aid unfairly distorts competition.

Also on Thursday, the EU summit adopted a set of principles on immigration policy, long a fiercely guarded national interest. They signed a promise to consult with each other before granting visas.

—John D. McKinnon in Washington contributed to this article.

French President Nicolas Sarkozy, center, looks on as European Commission President Jose Manuel Barroso speaks at Thursday's EU summit

Associated Press

To the rescue?

European Union leaders agreed Thursday to measures to prop up the global financial system:

- A $2.7 trillion bailout plan for European banks*
- Monthly meetings of national EU financial regulators
- A debate on whether to keep the EU's ambitious, and expensive, carbon emission goals
- A call for a more 'flexible' approach to EU rules on aid in the member states
- A change to international accounting rules to let banks keep devalued assets in separate books
- A call for an international financial summit to rewrite global financial rules with other major economies, such as the U.S., Japan and China.

*The combined amount from announcements made this week by individual governments and the ECB.

U.S. official calls for focus on homeowners

BY DAMIAN PALETTA

WASHINGTON—Federal Deposit Insurance Corp. Chairman Sheila Bair criticized the U.S. government for failing to take more aggressive steps to prevent Americans from losing their homes, highlighting a rift between her and other senior U.S. officials over terms of the $700 billion rescue package.

The government plan will help stabilize financial markets but it doesn't do enough to address home foreclosures, the root of the crisis, she said in an interview with The Wall Street Journal.

"Why there's been such a political focus on making sure we're not unduly helping borrowers but then we're providing all this massive assistance at the institutional level, I don't understand it," she said. "It's been a frustration for me."

Ms. Bair didn't single out government officials or leaders, but her criticisms brushed on decisions made by both the Bush administration and Congress. For example, she described painstaking efforts made by lawmakers in crafting the federal Hope for Homeowners program to make sure it limited resale profits for borrowers who received affordable home loans.

Ms. Bair, who was nominated by the White House and confirmed by the Senate in 2006, has frequently said government and industry efforts to prevent foreclosures aren't effective enough. She has long defended her focus on consumer protection as an important role for the FDIC, which is charged with protecting bank deposits.

Her comments Wednesday came amid growing tensions with key figures in resolving the financial crisis, notably Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke, according to people familiar with the matter.

Defenders of the Bush administration's rescue plan say tackling problems at the heart of the banking industry, in particular the loss of public confidence in financial institutions, is the government's primary responsibility. Officials say the freezing up of many financial markets threatens consumers and businesses by choking off the credit that is the lifeblood of the economy.

"We just did a massive bill that does a lot for homeowners," said White House spokesman Tony Fratto. "You are always going to have different views on some specifics on policy. But I think we're all trying to pull in the same direction."

The FDIC has gained new power as it has become a central player in the rescue.

Ms. Bair's comments are expected to provide new fodder for critics of the government's response to the financial crisis, especially among those who say it has done too little to help families falling behind in their mortgage payments.

"I support all the measures; I've been a part of all the measures that have been taken," she said. "But we're attacking it at the institution level as opposed to the borrower level, and it's the borrowers defaulting. That is what's causing the distress at the institution level. So why not tackle the borrower problem?"

The FDIC has accumulated increasing power as it has become a central player in the government's rescue plan. Recently, it has handled some of the largest bank failures in U.S. history, and now is charged with guaranteeing not only consumer bank deposits but also new debt issued by companies. That move, announced Tuesday, was part of a broader series of efforts to get credit flowing again.

Ms. Bair has argued the plan should have a bigger focus on homeowners, whose travails are at the heart of the current crisis. Until home prices stop falling, financial markets and the economy are unlikely to stabilize. "This agency, probably as much as anybody, given our genesis in the Depression, has a sense of purpose now perhaps more than any other agency," Ms. Bair said.

Ms. Bair and the FDIC are central to the government's plan to stabilize the banking sector. The agency is temporarily offering unlimited deposit insurance for non-interest-bearing accounts and guaranteeing roughly $1.4 trillion in new unsecured bank debt.

Negotiations over details of the deal proved tense, with U.S. officials rushing to catch up with their foreign counterparts and the U.S. stock markets reeling. Last week, Ms. Bair met Messrs. Paulson and Bernanke, and the two men tried to convince her to offer the debt guarantees to a broad range of institutions and a wide range of debt, according to people familiar with the matter.

The agency's growing role has given her views a more prominent platform after spending much of this year arguing her point from the sidelines.

Ms. Bair, a one-time Republican congressional candidate and children's book author, had suggested direct action to modify mortgages en masse before many other regulators in Washington. In April, she pitched a plan that would authorize the Treasury Department to make loans to as many as one million homeowners to minimize foreclosures. In July, after failed thrift IndyMac Bancorp Inc. reopened its doors under FDIC control, the agency said it would halt foreclosures on the mortgages it owned and would try to modify loans for struggling homeowners.

Her stance has led to tangles with government officials, including a disagreement with White House Chief of Staff Joshua Bolten, a longtime colleague. She wrote a newspaper article about using government money to help homeowners avoid foreclosure, without running it by the White House. Ms. Bair declined to comment on the exchange. "We are an independent agency, and we've been talking about this a long time," she said. Speaking on behalf of Mr. Bolten, the White House spokesman, Mr. Fratto, said: "Josh thinks very highly of Sheila, and thinks she's doing a terrific job at FDIC."

The public role of the FDIC, which was created during the Great Depression, comes and goes in waves. It had a huge presence during the savings-and-loan crisis of the 1980s and 1990s, and has reemerged as a crucial player. Ms. Bair was one of the regulators who sat across the table from top bank executives Monday at the Treasury Department when the final details were unveiled.

"The decisions we're making are historic," she said. "How many times can you be in public service when you know that the decisions you make will go into history books? How will future generations judge what we're doing? I think about that a lot."

Ford says loans are still available for customers

BY MATTHEW DOLAN

Ford Motor Co. sent a letter to dealers that sought to reassure their customers that the auto maker still has a credit arm willing to lend. The move had become necessary as the company worried car buyers were staying away from showrooms because they were convinced they wouldn't qualify for a loan.

The letter sent Wednesday comes as **GMAC** LLC, the big home-loan and auto-financing company, this week began restricting new loans to only the most credit-worthy buyers after an attempt to raise new funds failed. Limiting the pool of people eligible for loans threatens to crimp **General Motors** Corp.'s U.S. sales, forcing the auto maker to push its potential buyers to other lenders.

Some Ford dealers, seeing a marketing opportunity, have relayed the corporate letter to potential customers in emails, according to a person familiar with the matter.

"As valued Ford Motor Company dealers, we wanted to reassure you that Ford Credit will continue as your strong and supportive finance source during these difficult economic times," the letter said. It also said that "Ford Credit has not tightened its financing standards."

A person briefed on the company's plans at a meeting this month said Ford also is considering putting employee pricing on every model sold in the U.S., with financing through Ford Credit. The campaign would also have a dealer cash payment of $500 to $1,500 included as part of the program.

—Neal E. Boudette contributed to this article.

CORPORATE NEWS

INTERNET

German 'Psykoman' case might stop image search

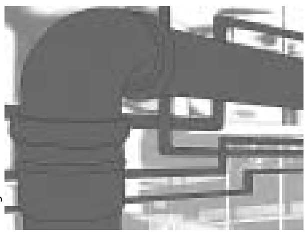
Associated Press

Google Inc. has appealed two court decisions that could ban it and other search engines from operating image searches in Germany, a spokesman for the Internet giant said Thursday.

Last month, a district court in Hamburg ruled in favor of two men who claim search engines that pull images from their Web sites infringe on their copyrights. The complaints lodged by photographer Michael Bernhard and Thomas Horn, who owns the rights to several frames of a comic called "Psykoman," resulted in a ruling that could force Google and other search engines to stop displaying such images, or to gain permission before doing so. *—Associated Press*

UTILITIES

Enel enters talks to sell stake in natural-gas grid


Imagine

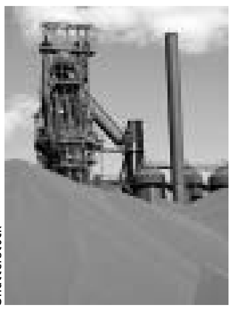
ITALIAN utility Enel SpA is in talks to sell a majority stake in its local natural-gas distribution grid to Italian investment fund F2i SGR for as much as €1 billion ($1.35 billion), according to a person familiar with the matter.

Talks involve the sale of an at least 51% stake, while Enel would keep a minority stake, said the person. A F2i spokesman said the gas grid fits into the assets the fund is targeting, but said Enel hasn't "formally" placed the network on sale.

F2i is headed by Italian businessman Vito Gamberale and specializes in infrastructure projects. *—Liam Moloney*

STEEL

Corus to cut production in Europe by up to 20%


Shutterstock

CORUS, the European unit of **Tata Steel** Ltd., said it will cut crude steel production by as much as 20%, or about one million metric tons, over the next three months. It was predicting lower demand amid the financial crisis. Mumbai-based Tata Steel said it isn't planning output changes outside Europe.

The company, part of the Tata Group conglomerate, acquired Corus last year. Corus can produce about 20 million tons of steel a year. Its main facilities are in Britain and the Netherlands. "We are taking appropriate steps to optimize our operations and protect our sound financial position," said Corus Chief Executive Philippe Varin. *—Santanu Choudhury*

H-P pushes touch screens

New laptop machine is latest to feature touch technology

By Justin Scheck

Defending the lead

World-wide PC vendor market share for the third quarter

	Market share	Sales, chg. from year ago
Hewlett-Packard	18.4%	15%
Dell	13.6	12
Acer	12.5	47
Lenovo	7.3	8.1
Toshiba	4.6	26
Others	43.7	9.4
Total shipments	80.6 million	

Note: Data are preliminary. Market share figures don't add to 100% because of rounding

Source: Gartner


Getty Images

Hewlett-Packard Co., aiming to boost its personal computer sales amid a deteriorating economy and soft holiday season, is increasingly turning to touch-screen technology.

The computer giant is now developing a consumer notebook machine with a touch screen that will debut before year end, said people familiar with the matter. It will include special H-P software that supports the touch screen, but other details, such as pricing, remained unclear.

The new laptop is the latest in a series of touch-oriented devices, including a coming line of cellphones, that will become a priority of H-P's consumer strategy as it tries to differentiate itself from rivals such as **Dell** Inc., these people said.

H-P began promoting touch screens last year with a big-screen desktop computer called the TouchSmart. The Palo Alto, Calif., company introduced a revamped TouchSmart this year, with new software and a new external design and has recently ramped up its effort to market the computer.

The touch-sensitive screens allow PC users to move items around, surf the Web or open files with their fingertips, replacing functions normally performed by a mouse and keyboard.

Roger Kay, a PC-industry analyst with Endpoint Technologies, said H-P is trying to create a new market with its focus on touch, since there's no established market for such products other than **Apple** Inc.'s iPhone. Tablet PCs, or touch-screen laptops, "haven't done that well" in the past, he added.

H-P's touch-screen effort is being led by executives such as Phil McKinney, the PC division's chief technical officer. Mr. McKinney has been working on PC software that masks **Microsoft** Corp.'s Windows operating system, and has hired the design company Frog Design to help develop new touch software and hardware. The TouchSmart desktop was the first result of that project.

An H-P spokeswoman declined to detail forthcoming products, though she acknowledged H-P is "building a whole family of touch" devices that will be released in the future.

Apple's new notebook PCs, which were announced Tuesday, feature a touchpad that can be manipulated by complex touch gestures. Earlier this year, **Synaptics** Inc., a San Jose, Calif. touchpad maker, announced software allowing more complex touch gestures on its touchpads, which are used by PC makers like H-P and Dell.

The new touch-screen notebook comes in time for a holiday sales season that's expected to drag heavily on PC makers. While the end-of-year season is usually the strongest for consumer PC sales, "we're looking at a pretty gloomy outlook" this year, said Mika Kitagawa, an analyst at research firm Gartner.

On Tuesday, Gartner said worldwide PC shipments grew 15% in the third quarter, up slightly from 14.4% growth a year earlier. While Gartner had previously predicted a 14% fourth-quarter jump in consumer PC shipments, the research firm will likely lower that forecast to reflect the weakening economy, said Ms. Kitagawa.

Much of the growth that Gartner does anticipate will come from low-end mini-notebooks, or "netbooks," said Ms. Kitagawa. Netbooks can access the Internet and perform basic PC functions, but usually sell for $500 or less, half as much as many full-size laptops.

To capitalize on netbook growth, H-P is planning to introduce a new netbook with a 10-inch screen this year, said people familiar with the matter. The netbook won't feature a touch screen. H-P has been selling a smaller netbook geared toward schools since earlier this year.

While H-P started selling a touch-screen laptop last year, Mr. Kay said the company put relatively little effort into marketing it. People familiar with H-P's current plans said the company will be more aggressive with its new products.

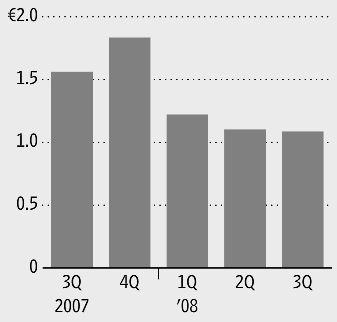
These people said H-P is also working on a line of consumer cellphones that feature touch screens and the first such phone will be introduced in Europe this year. H-P plans to start selling the phones through a U.S. cellular carrier within the next year or so, they added.

Nokia profit drops 30% as handset sales decline

By Adam Ewing

Nokia

Net profit, in billions of euros



Source: the company

Nokia Corp. said third-quarter profit fell 30%, hurt by intense competition and the global economic slowdown.

For the quarter ended Sept. 30, net profit fell to €1.09 billion ($1.47 billion) from €1.56 billion a year earlier. Sales fell 5% to €12.24 billion from €12.9 billion from a year earlier, hurt by the strong euro and the broad economic downturn.

Partly because its phones cost more than its rivals', Nokia said its world-wide market share by units for the three-month period slipped to 38% from 40% in the previous quarter. Still, the Espoo, Finland-based company added it expects market share to hold steady or even rise slightly in the fourth quarter.

The company said last month that it wouldn't chase "unsustainable" price cuts by handset rivals to maintain market share, instead focusing on profitability and cash flow. However, it hopes to win back lost ground with new products, including its answer to **Apple** Inc.'s popular iPhone, the 5800 XpressMusic touch-screen smart phone.

Nokia shares were down 4.2% in Helsinki trading at €11.30, but rebounded from deeper losses prior to release of the earnings report. The financial crisis is "a reality that has added uncertainty and definitely can be seen in the third-quarter numbers as well," said Nokia Chief Executive Olli-Pekka Kallasvuo, speaking after the results.

However, Mr. Kallasvuo said Nokia—the world's largest mobile-phone maker by unit sales—is resilient thanks to its scale and low cost structure, which allowed it to post "solid margins" and operating cash flow of €1.3 billion for the quarter.

Nokia saw increased sales in emerging markets, but weakening consumer demand hit sales in Europe and North America. The company said it sold 117.8 million handsets in the third quarter, down 3.4% from 122 million in the second quarter, but up 5.5% from the year-ago level.

Its average selling price fell slightly to €72 from €74, as the company sold more lower-end phones in emerging markets. In the third quarter of last year, the average selling price was €82. About half of the decline in average selling price was due to the weakness in the U.S. dollar and the remainder due to greater sales of low-priced handsets compared with a year-ago.

The overall results were a bit below expectations, especially in the devices unit, said Gilissen analyst Wing-Yen Choi, adding that the 18.6% operating margin in the device business shows that price cuts have crimped profitability.

Gartner analyst Carolina Milanesi said she lowered her 2008 volume-growth expectations for the mobile-phone industry to 8% from 10.6% because of the deteriorating economy, especially in Western Europe.

Nokia Siemens Networks, its joint venture with **Siemens** AG, posted third-quarter sales of €3.5 billion and a flat operating margin, compared with a negative margin a year earlier. Nokia said that Nokia Siemens would achieve most of the €2 billion of targeted annual costs synergies by the end of 2008, and said it still expects mobile and fixed infrastructure market growth to be flat in 2008 compared with last year.

In July, the company reached a new 15-year licensing agreement with chip maker Qualcomm Inc. that includes a cash payment of €1.7 billion during the fourth quarter.

Hoteliers bullish on China

As travel declines amid global crisis, bright spot remains

By Jason Leow

BEIJING—As signs emerge that travelers are feeling squeezed by the global credit crisis, China appears to be a bright spot.

At least two global hotel chains have said they intend to expand in China, even as hoteliers feel the strain elsewhere. **Actis**, a private-equity investor in emerging markets, Thursday pumped $65 million into the **7 Days Inn Group**, a Guangzhou-based budget-hotel operator. **Warburg Pincus**, another private-equity firm, is co-investing in this deal but didn't disclose details.

"We think the economic fundamentals are still very strong" in China, said Lim Meng Ann, head of Actis for China. "We are bullish about [China's] budget [hotel] industry whether in good times or bad. We don't time the market," he said.

French hotel operator **Accor Group** remains on track to triple its hotels in China, Hong Kong and Macao to 180 by 2010, a plan it announced last year, an Accor spokesman said. Also Thursday, **InterContinental Hotels Group** PLC said it signed an agreement to manage six hotels in China, which will be built by Shimao Property Holdings Ltd. over the next five years. The hotelier also said it plans to launch its first boutique hotel in Asia in the next 18 months.

"We are confident in the long-term future of China...China's GDP continues to grow and is benefitting from the significant investment in new infrastructure being undertaken, including construction of highways and airports," Peter Gowers, chief executive of IHG Asia Pacific, said in an email.

The robust outlook for China's travel business stands in sharp contrast to several other countries, where the industry forecasts tighter consumer purse strings, room-rate cuts and lower revenue. Atlanta-based PKF Hospitality Research, in a study released September, said demand for U.S. hotel rooms will contract for the next two years, extending last year's decline in occupancy rates.

Audit and consulting firm Deloitte, in a study on regional tourism released Wednesday, said the coming months might prove challenging for hoteliers across the Asia-Pacific region. A measure called revenue per available room was increasing by double digits across the Asia-Pacific region each month until May, Deloitte said. But in June and July, revenue growth dropped to the single digits, it said. "Hoteliers will need to consider how they will respond if occupancy levels fall further," said Alex Kyriakidis, Deloitte's global managing partner for tourism, hospitality and leisure.

While China's tourism outlook this year has been uncertain and officials have forecast slower growth for the country, analysts expect the Chinese market's appetite for travel to remain strong as Chinese consumers feel less pressure from the global financial crisis. Analysts say China's gross domestic product, a broad measure of economic growth, is expected to hit about 10% this year and 9% in 2009—a drop from the 11.9% the country achieved last year but still high by global standards.

Passenger traffic on Chinese airlines has declined every month since May, but some of that could be related to the earthquake in southwestern Sichuan province in May and travel restrictions imposed for the Olympics in August that affected the number of tourists who could visit China. Analysts expect those restrictions to be rolled back soon, and the easing could help revive inbound travel and boost hotel stays. Analysts say midtier Chinese hotels are least likely to benefit from China's sustained travel demand because they can't compete with such foreign brands as **Marriott International** Inc. on service levels or with the local budget chains on price.

"The high-end [hotels] will hold up the best," said Shaun Rein, managing director for China Market Research Group. "The international hotels are still getting the wealthy Chinese and the international travelers. [These hotels] have a clearly defined brand image," he said.

Budget hotels, like 7 Days Inn, that can offer value for good service may appeal especially to younger, more cost-conscious travelers, analysts say. Mr. Rein said he expects strong travel demand from Chinese consumers between the ages of 26 and 32 years old, who in research his company has done say they plan to travel domestically at least once in the next six months and make one international trip in the next year. Thailand, South Korea and Hong Kong are their top destinations.

"We still see every day Chinese taking vacations and spending their money," he says. "They don't see any fear from the global slowdown."

Destination hotel

Year-to-August percentage change in revenue per available room* in the Asia-Pacific region

Top 3 cities	
Beijing	**42%**
Bali	34
Singapore	26
Bottom 3 cities	
Taipei	0.5%
Seoul	−0.2
Shanghai	**−1.2**

*Occupancy multiplied by the room rate

Sources: Deloitte; STR Global

Airline hedging backfires in U.S. amid volatility

By Ann Keeton

Southwest Airlines Co. posted a third-quarter net loss for the first time in 17 years as a sharp drop in jet-fuel prices forced the carrier to take accounting charges for its vaunted fuel-hedging program.

Continental Airlines Inc. Thursday also reported a third-quarter loss, reflecting charges for capacity cuts and the price of fuel, which remained historically high despite its descent during the quarter.

On an operating basis, Dallas-based Southwest kept its profit streak alive as its revenue continued to climb.

Speaking to reporters on a conference call, Southwest Chief Executive Gary Kelly said ticket bookings look strong through the holiday season, and passenger revenue remains robust in October, up 14% so far. But he said it is too early to say what effect a weakening U.S. economy will have on the airline in 2009.

As a low-cost carrier, Southwest tends to weather economic storms better than other big airlines, and has found ways to pick up market share when others falter. At the moment, though, expansion plans aren't in the picture.

"It's just not an environment where it makes sense to be growing," Mr. Kelly said.

Across the industry, U.S. airlines are cutting flights that don't make money. "In our markets, capacity is coming down an average of 15%", Mr. Kelly said.

For the third quarter, the carrier reported a net loss of $120 million, or 16 cents a share, compared with year-earlier net income of $162 million, or 22 cents a share. Southwest reported revenue of $2.89 billion, up 12%. Excluding fuel hedging, profit fell to $69 million, or nine cents a share.

Volatility is the problem with fuel prices now, Mr. Kelly said. While Southwest took a $247 million charge in the third quarter for marking to market a future fuel hedge, current hedges are "in the money," resulting in third-quarter cash gains of $448 million, up from $189 million last year. So far in 2008, fuel hedging has added more than $1 billion to Southwest's balance sheet.

Against the backdrop of a weakening global economy, the price of crude oil could well drop to $50 a barrel, Mr. Kelly said, down from an all-time high of $147 a barrel in July. But, with prices so uncertain, he said Southwest plans to pull back on hedging for the near term. He said the company has cash on hand to cope with difficult market conditions. It recently accessed $400 million in additional cash from a revolving credit facility.

Houston-based Continental reported a quarterly net loss of $236 million, or $2.14 a share, compared with net income of $241 million, or $2.15 a share, a year earlier. The latest quarter included 82 cents a share in charges related to capacity cuts.

Like Southwest, Continental had fuel-hedging losses, to the tune of $63 million, as prices began falling in July.

Revenue rose 8.8% to $4.16 billion from $3.82 billion.

Despite recent declines, per-gallon fuel costs averaged $3.86, up 75%.

The airline also announced it has pushed back delivery of two Boeing 777s that was set for next year.

—Kerry E. Grace contributed to this article.

Grupo Modelo raises challenge to Anheuser sale

By David Kesmodel

Mexican brewer **Grupo Modelo** SA on Thursday said it filed a notice to begin arbitration proceedings against part-owner **Anheuser-Busch** Cos., claiming the U.S. giant's planned sale to a Belgium brewer breaches terms of their partnership.

The move could give Modelo, the maker of Corona Extra and Pacifico, more leverage in talks with Anheuser-Bush and **InBev** N.V., which has agreed to acquire the St. Louis brewer for $52 billion. Anheuser owns a 50% non-controlling stake in Modelo.

InBev and Anheuser dispute Modelo's interpretation of the pact. Modelo claims the agreement, under Mexican law, bars the U.S. company from taking actions that would result in the transfer of the stake to an industry competitor. Modelo, based in Mexico City, also says Anheuser can't transfer the stake without first giving Grupo Modelo's controlling families a chance to buy it back.

InBev and Anheuser issued statements saying they continue to believe Modelo's claims "are entirely without merit" and don't think the arbitration will have an impact on the deal's closing.

Generics firm Actavis may be sold

By Jeanne Whalen

LONDON—One of the world's biggest generic-drug makers, closely held Actavis Group hf, of Iceland, could be up for sale with a potential value of €6 billion ($8 billion) or more.

Actavis is 80%-owned by private-equity firm **Novator**, the investment vehicle of Icelandic billionaire Thor Bjorgolfsson. A big chunk of Mr. Bjorgolfsson's wealth was wiped out this month when one of his large investments, the bank Landsbanki Islands hf, collapsed and was taken over by the Icelandic government.

Novator spokesman Asgeir Fridgeirsson confirmed Thursday that Actavis hired Merrill Lynch several months ago to advise it on several options: a sale, a takeover, a merger or a stock-market listing.

One person familiar with the matter said Actavis is focusing on a sale and that Mr. Bjorgolfsson's troubles with Landsbanki may be accelerating his desire to do a deal. Mr. Bjorgolfsson was a big investor in a firm that owned 41% of Landsbanki before it was nationalized.

Mr. Fridgeirsson denied that Actavis's shareholders were looking to sell in a hurry, saying they aren't motivated by Iceland's financial crisis. He said any possible deal won't happen before 2009 and that Mr. Bjorgolfsson didn't have any comment.

Earlier this week, Novator sold 10.4% of the Finnish telecommunications company Elisa Oyj for €194 million to Finland's Varma Mutual Pension Insurance Company.

Mr. Fridgeirsson wouldn't comment on Actavis's potential worth or on its current financial performance. But one person familiar with the matter said Actavis is expecting to have earnings before interest, taxes, depreciation and amortization of €500 million next year, which could give it a value of €6 billion or more, given the multiples at which generic-drug companies have been selling in recent years.

Actavis's current shareholders took it private in 2007, ending its listing on the OMX Nordic Exchange in Iceland. In 2006, the last available year of public accounts, Actavis had revenue of €1.4 billion and net profit of €102.7 million. That ranked the company among the world's biggest sellers of generic drugs.

Actavis went on an acquisition spree in recent years, snapping up generic-drug companies all over the world. A person familiar with the matter said Actavis has a high level of debt as a result, which could make any sale more difficult. Mr. Fridgeirsson declined to comment.

The vast majority of Actavis's sales come from outside Iceland, so the company isn't expecting any drop in revenue from the crisis there. Actavis has built a strong business in fast-growing emerging markets such as Eastern Europe, which could be of interest to large drug companies. But the current climate for mergers and acquisitions is depressed because of the lack of funding.

J&J recalls pain-drug device in Europe

By Jonathan D. Rockoff

Johnson & Johnson issued a recall for its Ionsys pain-treatment device from hospitals in Europe, adding to concerns about the health-care conglomerate's ability to develop lucrative new products.

The New Brunswick, N.J., company recently recalled all 13,000 devices it had sold in the U.K., Germany and several other European countries since the start of the year after a routine safety check discovered a defect in one lot, a company spokeswoman said Wednesday.

A spokeswoman said the recall was voluntary and precautionary, while J&J tries to determine the cause. She said the company wasn't aware of any injuries.

A small device attached to a hospital patient's upper arm or chest, Ionsys uses a low-intensity electrical field to deliver the drug fentanyl to relieve pain after surgery.

It was a novel approach to relieving pain, and the device was viewed as a prize in J&J's acquisition of specialty-drug maker Alza Corp. in 2001. Ionsys was touted as a replacement for the blockbuster Duragesic pain patch, another fentanyl-based product that lost patent protection in 2005.

But Ionsys has had trouble living up to its promise. Although it approved the device in 2006, the Food and Drug Administration has yet to give final clearance for U.S. sales. Ms. Vanderham said J&J was working to answer the FDA's questions.

Duragesic has also proved troublesome for J&J. In February, the company recalled a version of the patch because manufacturing issues could lead to patients getting too much or too little medicine.

CORPORATE NEWS

TUI has no plans to buy the rest of tourism unit

Subsidiary's shares tumble; TUI may consider later bid

By Allison Connolly
And Jonathan Buck

FRANKFURT—**TUI** AG said it has no plans for now to make an offer to buy the remaining shares of U.K. tourism subsidiary **TUI Travel** PLC, though it could make a bid later.

The announcement sent shares in TUI Travel down 22% on the London Stock Exchange Thursday. Investors had driven up TUI Travel's stock 30% between Monday and Wednesday in anticipation of a bid, after the parent company said it would consider increasing its stake in TUI Travel.

TUI Travel, which has a market value of about £2.17 billion ($3.75 billion), was formed last year by the combination of TUI's travel operations with U.K. tourism company **First Choice** PLC. TUI owns a 51% stake in TUI Travel, while former First Choice shareholders received a 49% stake as part of the deal.

Investors had been hoping for a bid after TUI said earlier this week that it would consider investment opportunities, including a possible offer for the rest of TUI Travel, having boosted its coffers with the sale of a majority stake in shipping unit Hapag-Lloyd.

52-WEEK SHARE PERFORMANCE

TUI Travel

On the London Stock Exchange
Thursday's close: **194.40 pence, down 22%**

Source: Thomson Reuters Datastream

TUI said it is not interested in making such a purchase now but would keep its options open., adding it reserves the right to make an offer under certain conditions if circumstances change.

Analyst Christian Cohrs of Sal. Oppenheim said investors had been overly optimistic about a bid from TUI for the rest of the tourism unit coming so quickly after the sale of Hapag-Lloyd, though he said he doesn't rule out a bid in the midterm. "I expected them to wait until early spring so they could get a better idea of what the booking season will be like," Mr. Cohrs said.

TUI Travel shares fell 22% to close at 194.40 pence on the London Stock Exchange Thursday.

Spanair mechanics to face questioning on August crash

Associated Press

MADRID—A Spanish judge will question three mechanics on suspicion of manslaughter in the Spanair plane crash that killed 154 people at Madrid's airport in August, a court spokesman said.

Judge Juan Javier Pérez of Madrid's Superior Court subpoenaed two mechanics who checked the plane before it crashed on takeoff, as well as the Spanair maintenance chief at the Madrid-Barajas airport, the spokesman said.None of the people has been charged.

Judge Pérez's investigation is to determine whether any crime may have been committed that contributed to the Aug. 20 crash. The first official report—drawn up by a commission looking into the cause of the crash—said investigators were focusing on a problem with the plane's wing flaps and the failure of a cockpit alarm to sound, but that no conclusions had been reached about the cause of the crash.

The MD-82 plane abandoned a first attempt at takeoff because of a faulty air-temperature gauge outside the cockpit. Spanair described the gauge problem as a minor glitch that was resolved by turning off the gauge because it wasn't essential equipment.

The plane crashed about an hour later during its second takeoff attempt. Spanair, a unit of Scandinavian airline company **SAS** AB, had no immediate comment on the judge's decision to subpoena the mechanics.

The crash was Spain's worst air disaster in 25 years. Only 18 people survived.

Judge Pérez said that, based on the official report, it appeared the mechanics failed to notice that the cockpit alarm—which would have warned pilots that the flaps weren't in their correct position—wasn't functioning, the court spokesman said.

The judge added that the air-temperature-gauge problem may have been a consequence, or a symptom, of a multifunctional breakdown or fault. He also ordered the creation of a parallel investigative commission comprising two engineers, two pilots and two mechanics to look into the crash. The judge said the reason for this second commission was that the government-ordered commission may take a long time in reaching conclusions.

The crash was Spain's worst air disaster in 25 years. Only 18 people survived.

Earlier this month, Judge Pérez said the crew of the MD-82 reported a problem with the wing slats two days before the accident, and that they were repaired at the time. Flaps and slats are movable panels on the trailing and leading edges of a plane's wings, respectively, that help with takeoff.

GLOBAL BUSINESS BRIEFS

Bankinter SA

Net profit jumps 9.3% on higher lending income

Spain's **Bankinter** SA said third-quarter net profit rose 9.3% as it booked higher lending and trading income. Net profit was €69.4 million ($93.6 million), compared with €63.5 million a year earlier, while net interest income was up 15% to €177.1 million. Trading income more than doubled to €21.4 million from €9.7 million. Bankinter said it lowered personnel costs 5.9% to €66.2 million, but administrative costs rose 15% to €56.1 million. In recent quarters, the bank had been investing aggressively, targeting the small and midsize business segment. That expansion is largely completed, allowing the bank to rein in costs at a time when Spain's economy is slowing sharply.

Thomson SA

French media-technology company **Thomson** SA posted a 15% decline in third-quarter revenue and promised to restructure or shed underperforming operations. Revenue fell to €1.17 billion ($1.58 billion) from €1.38 billion a year earlier, which Thomson blamed on currency movements, weakening demand for retail telephony products, and falling sales of satellite set-top boxes. The company, which supplies set-top boxes, video-production services and DVDs, said it still expects to meet the financial covenants on its privately placed debt at the end of the year. "Thomson is today in a much stronger position than certain people believe," said Chief Executive Frederic Rose.

TNT NV

Postal company **TNT** NV on Thursday said people are sending fewer express packages by air in Europe and choosing cheaper options, such as transportation by road. The Amsterdam-based company blamed the economic downturn for a 10% drop in volume in its express business—its most expensive and profitable service. TNT said it expects the pressure to continue in the fourth quarter. Regular mail business, focused on the Netherlands and Germany, was unchanged, said TNT. In the express arm, which has operations throughout Europe, ground traffic was also growing less quickly than a year ago. TNT derives roughly half of its earnings from regular mail and half from express. In emerging markets, growth and margins were steady, the company said. TNT will report third-quarter earnings on Oct. 27.

United Company Rusal

Russian aluminum miner **United Company Rusal** said revenue for the first nine months of the year rose 14% to $12.3 billion but warned the economic slowdown would bring cutbacks and defer industry projects world-wide. Revenue from sales outside Russia was up 15% to $9.3 billion. Between January and September, Rusal, which is 57%-owned by billionaire Oleg Deripaska, produced 3.3 million metric tons of aluminum, up 6.5% from a year earlier. But Chief Executive Alexander Bulygin warned that with the price of aluminum at less than $2,300 a ton, 75% of aluminum producers in Europe, the U.S. and China aren't breaking even. Rusal doesn't break out net-profit figures.

Alliance Boots PLC

U.K.-based **Alliance Boots** PLC, owner of the Boots health and beauty retail chain, said it acquired a 90% stake in **Megapharm** GmbH, a specialized German distributor of oncology products. The company said the acquisition will help it enhance its position in the specialty drugs sector. Based in Sankt Augustin, near Bonn, Megapharm is the only wholesaler in Germany to supply a full range of oncology drugs. Alliance Boots said Megapharm generated revenue of around £235 million ($404.6 million) in its fiscal year ended March 31. The remaining 10% stake in Megapharm will be held by Matthias Ackermann, its current chief executive, who will continue to lead the business.

Volkswagen AG

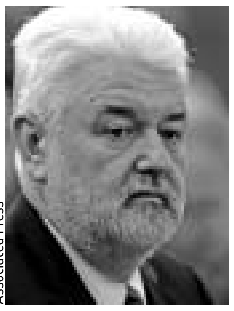
Volkswagen AG, Europe's largest car maker by sales, Thursday said it would slightly raise the price of some of its models beginning Nov. 6. Volkswagen was one of the few German car companies that didn't announce plans to curb production in light of the current economic situation. The Wolfsburg-based company said it would raise the price of its Polo model by 0.6% and would increase the prices of its Golf Plus, Passat Limousine and Passat Variant by about 1%. The company said that it would also adjust the prices of some steel wheels it offers but that it didn't expect to raise the prices of other features.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

SERBIA

Premier to push stalled EU bid with lower tariffs



Associated Press

SERBIA said it will implement a deal with the EU even though its bid to join the 27-nation bloc has stalled. The government said it will gradually lower taxes for the import of goods from the EU, as agreed in a pre-entry aid-and-trade deal last year.

Prime Minister Mirko Cvetkovic, above, says this will speed up Serbia's membership bid. The EU put the pre-entry agreement on hold until Belgrade arrests Bosnian Serb commander Ratko Mladic and former Croatian Serb leader Goran Hadzic. Serbia said it will start implementing the deal Jan. 1. The nationalist opposition criticized the move and said it would damage Serbia's economy. *—Associated Press*

SPAIN

Police arrest 13 accused of harboring terrorists

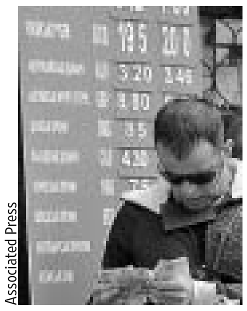
Associated Press

SPANISH police arrested 13 men accused of harboring Islamic extremists, including several suspects in the Madrid terror bombings of 2004, and helping them flee the country, the Interior Ministry said.

At least eight of the detainees are Moroccan. The arrests stemmed from a 2005 police operation that broke up a terror cell that allegedly sought recruits for suicide attacks against U.S.-led forces in Iraq and other targets set by al Qaida, the ministry said. Those arrested Thursday are suspected of giving shelter to at least five suspects for the 2004 train bombings in Madrid, and helping them to flee the country. *—Associated Press*

UKRAINE

Prime minister says IMF is planning big loan offer



Associated Press

UKRAINE'S Prime Minister Yulia Tymoshenko said the International Monetary Fund is ready to lend the former Soviet republic as much as $14 billion to shore up its financial system, but asserted it would only happen if the president abandons plans for early parliamentary elections.

An IMF delegation arrived Wednesday to provide advice to Ukrainian authorities and consider extending a loan to stabilize the country's battered banking sector and ailing currency.

A spokeswoman at the IMF's Kiev office declined to comment. The delegation is expected to be in talks over the loan well into next week. *—Associated Press*

Oil's fall cheers the Gulf

Jump in crude price almost overheated regional economies

BY CHIP CUMMINS
Dubai

THE DOUBLE WHAMMY of tumbling oil prices and tight credit isn't all bad news for the petro-states of the Persian Gulf.

For the time being, it's providing a much-needed breather from breakneck growth that just a few months ago threatened to overheat the region's small but booming economies.

Oil prices would have to fall much further—and stay low for a sustained period, perhaps several years—before crimping government budgets. Meanwhile, a sudden slowdown in local and international financing could do what the region's central bankers have so far failed to: rein in the region's runaway inflation.

Five of the six countries that make up the Gulf Cooperation Council, a political and economic alliance, peg their currencies to the U.S. dollar, forcing regional central bankers to follow the U.S. Federal Reserve's moves on interest rates.

That has robbed them of the ability to use rate cuts to cool their own exploding, petrodollar-fueled economies. A weakened dollar has also stoked prices in the import-dependent region.

Inflation in much of the GCC—which includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates—is at or approaching double digits. In Qatar, inflation is forecast to hit 15% this year, according to the International Monetary Fund.

Gulf banks, meanwhile, had been lending heavily to finance infrastructure and real-estate projects. This summer, the lending bonanza here started to wind down. Banks had tapped out their available cash and were scrambling for new funds to lend out. Last month, seized-up international credit markets cut off access to fresh overseas funding.

Central banks "were almost powerless to do anything" about the region's high inflation, said Farouk Soussa, a credit analyst at Standard & Poor's in London. "Now, the liquidity problems are putting a break on it."

Of course, if oil prices crash, all bets are off. Unlike the oil booms of the 1970s and 1980s, however, government spending has been relatively restrained this time around. Budgets and government-financed projects across the Gulf appear protected, even at much lower prices.

Gulf economies would continue to enjoy budget surpluses, on average, as long as oil prices stay above $50 a barrel, according to Merrill Lynch. In Saudi Arabia, that number is as low as $30 a barrel.

In fact, members of the Organization of Petroleum Exporting Countries have long worried about super-high oil prices. As crude falls back down to earth, Middle East oil starts to look attractive again compared with some of the more expensive alternatives, such as Canadian oil sands.

At $100-a-barrel oil, "the Gulf states risked ending up, down the line, with empty cities sitting atop giant, unused oil fields," said James Crawford, a petroleum economist and director of a project-development company in Sharjah, U.A.E.

Lower commodities prices are already easing some inflationary pressures that have bedeviled the U.A.E.'s construction and real-estate sectors. "Steel has come down ... and we expect all associated construction costs to also come down," said Simon Philip, general manager of Gulf General Investment Co., a large conglomerate in the U.A.E.

Property prices haven't fallen yet. But a number of analysts are now projecting a softening next year, especially in Dubai where new supply is expected to flood the market. Meanwhile, international investors—who make up a big chunk of U.A.E. property buyers and speculators—may start holding back after taking big hits in their home markets.

So far, big companies still appear to have ready access to cash. This summer, GGIC scrapped plans to raise debt overseas amid sharply rising borrowing costs. Instead, the company turned to local banks. It's moving ahead with construction of a 106-story tower in Dubai.

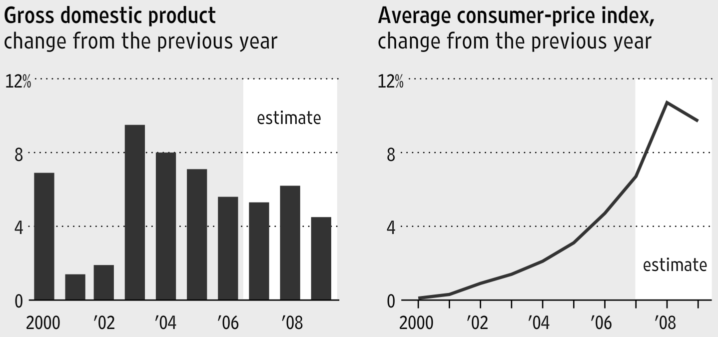
Meanwhile, cash-rich governments across the region have promised huge cash infusions for their own relatively small banking systems. The U.A.E. has so far said it will make $32.7 billion available to banks to increase local liquidity. .

In Dubai, corporate entities owned or controlled by the city-state have racked up some $47 billion in publicly disclosed debt, according to a recent report by Moody's Investors Service. But so far, credit analysts are standing by the high ratings they've handed out to Dubai borrowers. That's largely because of the federal government's strong fiscal position.

The U.A.E.'s foreign-exchange reserves have more than doubled since 2006, to more than $60 billion, according to a recent estimate by Morgan Stanley.

A welcome break

GCC* economies, after growing quickly thanks to high oil prices, are now seen easing, taking some of the steam out of recent, runaway inflation.



*Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates

Source: Merrill Lynch

Mideast and China return to Western bank investing

*By **Chip Cummins** in Dubai and **Peter Lattman** in New York*

Mideast and Chinese money is back.

After largely staying on the sidelines during the last few tumultuous weeks of the global financial crisis, the cash-rich governments of the Persian Gulf and China appear to be getting back in the game.

The **Qatar Investment Authority**, with an estimated $65 billion war chest, on Thursday led a capital injection of 10 billion Swiss francs ($8.83 billion) into **Credit Suisse Group**. The investment will boost Qatar's stake in the Swiss banking giant to just less than 10%, from just under 2%, according to a person familiar with the situation.

Also Thursday, three Libyan government institutions took a 4.23% stake in Italian bank **UniCredit** SpA and said they will back the bank's recently announced capital increase.

Meanwhile, the Chinese government intends to raise its ownership stake in **Blackstone Group** LP, according to people familiar with the situation. In a securities filing Thursday, Blackstone said it reached an agreement with **China Investment** Corp. that will allow the country's year-old $200 billion investment fund to increase its holding in the New York-based private-equity firm to 12.5% from 9.9%. CIC is expected to purchase those shares on the open market, according to those people.

The new investments come despite local criticism in China and parts of the Middle East over previous investments in Western financial firms that have fared poorly. Persian Gulf governments, meanwhile, have recently appeared preoccupied with their own economic headwinds.

Last month, Kuwait said its investment fund, which had bought big Wall Street stakes earlier in the year, would be channeling funds into the local stock market, which has fallen sharply.

And as recently as earlier this week, Qatar appeared more focused on the domestic front. Monday, it said the QIA would buy stakes in its publicly listed banks of as much as 20%.

Qatar has been bullish on Western banking stocks for most of the year. In January, Sheikh Hamad bin Jassim Al Thani—the QIA's chief executive and the country's prime minister—said he was looking to pump some $15 billion in investments into Western banks.

Qatar officials suggested they were more interested in relatively small stakes in a basket of a dozen or so different banks. They didn't join Middle East, Asian and other investors in big, headline-grabbing capital injections in **Citigroup** Inc., **Merrill Lynch** & Co. and others.

As Wall Street's woes continued through the rest of the year, those and other big investments in U.S. and European firms looked increasingly poorly timed. Asian and Mideast funds took heat for squandering government cash.

In Kuwait, lawmakers attacked the **Kuwait Investment Authority**'s decision to invest in Citigroup and Merrill Lynch.

China's CIC paid $3 billion for a 10% stake in Blackstone just ahead of its initial public offering in June 2007. That position has lost about 70% of its value.

China's expected additional investment in Blackstone isn't a bail-out but appears to be a bet on Blackstone at its depressed valuation. Unlike other financial institutions that need to raise outside capital, Blackstone operates with very little leverage at the corporate level.

Credit Suisse approached the QIA looking for capital to strengthen its balance sheet, and the fund felt comfortable enough with its previous investment in the bank and its strong franchise to agree to invest more, according to a person familiar with the situation.

Credit Suisse didn't disclose details of its fund raising. But based on Thursday's closing share price, Qatar's new stake in the company could be valued at as much as 5.1 billion Swiss francs, or $4.5 billion.

The **Olayan Group**, a private Saudi Arabian conglomerate and investment group, also participated in the capital-raising, according to the Swiss bank. Olayan has also been a big, long-time investor in the Swiss bank.

In India, U.S. colleges work to build programs

BY GEETA ANAND AND BRITTANY HITE

Duke University plans to expand its programs in India, hoping the country's legislature will eventually relax restrictions that prevent foreign institutions from running full-fledged graduate-degree programs in the country.

Duke's efforts could open the gate to a broader scope of educational offerings by foreign colleges and universities in India, which is trying to educate more people to feed its economic boom.

Officials from the Durham, N.C., university said they are looking for classroom space and accommodations for about 400 students to study in two master's in business administration programs in New Delhi next year. These programs would rotate students through Duke's home campus and five foreign cities—Dubai, Shanghai, St. Petersburg, London and New Delhi. The 16-month program will cost $115,500 and the 18-month program $135,500, not including travel.

In addition, Duke plans to employ an India-based faculty, open two research centers, and bring some of the university's environmental studies, global health and public policy programs there, the university's leaders said.

Because the new programs are extensions of U.S. offerings and not stand-alone undergraduate or graduate-degree programs in India, they fall within the confines of current Indian regulations.

If the Indian legislature relaxes restrictions as proposed last year, Duke officials said they hope to eventually establish full-time master's degree programs there.

"This is not just a matter of opening a little program in India," Richard Brodhead, president of Duke University, said during a visit to New Delhi this week.

Duke is the latest example of U.S. universities, including Carnegie Mellon University, Columbia Business School and California State University, Long Beach, expanding into India. Now, in addition to running exchange programs in India, Duke University works with an Indian institute and the government to run training programs for corporations and Indian government officials.

"We need to build universities where we have the influence of both [nations] working together, whether that be in India or in California," said F. King Alexander, president of Cal State Long Beach.

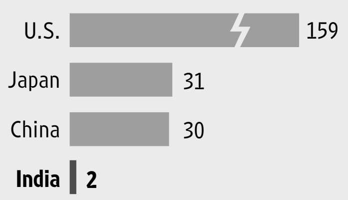
Last year, a group of American university leaders came to India to push for legislation to allow foreign universities more freedom to operate. The legislation wasn't adopted, but advisers to Duke believe it is likely to come up for a vote again after the national election next year, and will eventually win support.

"American higher-education institutions are seeing China and India as places to grow, but China is getting to be old news, and India is the new news," said Madeleine Green, vice president of international initiatives at the American Council on Education, a Washington-based group of U.S. colleges and universities.

Duke is making a delicate foray into one of the most promising markets for education. India is experiencing an acute shortage of educated workers, despite its billion-plus population, and appears poised to invite foreign universities to help fill the skills gaps. But onerous regulatory requirements remain.

Higher learning

Number of higher-education institutions placing in the top 500 in the world, in Shanghai University's annual ranking, in 2008



Source: Shanghai Jiao Tong University

Indian law typically requires foreign universities to have Indian counterparts as partners. Other stringent guidelines include quotas limiting enrollment and state-set tuition rates. Such laws have been driven in part by concerns that private universities and colleges might take advantage of India's rising middle class with high fees. However, the rules can leave universities starved of cash to pay qualified professors.

India's universities haven't been able to satisfy a surge in demand. Only 9% of college-age students in India have college educations, far lower than in China and many other Asian countries, according a 2006 study by the Indian Council for Research on International Economic Relations, a New Delhi think tank. About 160,000 students a year leave India to study abroad, according to the National Knowledge Commission, an advisory group to the prime minister. And only two Indian universities ranked in the top 500 in the world, compared with 159 U.S. institutions, in recent rankings from Shanghai Jiao Tong University.

More than 100 foreign education institutions, including Duke, offer programs in India. Most are vocational or technical programs that are a few weeks or months in duration, allowing the universities to operate without much regulatory scrutiny.

Harpal Singh, a corporate executive who serves on two education subcommittees of the Indian government's Planning Commission, an advisory group, says he has urged Duke and other foreign universities not to sit on the sidelines awaiting the legislative go-ahead. "Don't wait for policy change to make an entry into India. India has a huge need for educational institutions," said Mr. Singh, who is chairman of Ranbaxy Laboratories Ltd.

In planning its expansion in India, Duke has enlisted the help of influential alumni, including Malvinder Singh, chief executive of Ranbaxy, and his brother, Shivinder Singh, chief executive of Fortis Healthcare Ltd., one of the country's largest hospital groups.

Blair Sheppard, dean of Duke's Fuqua School of Business, said he envisioned setting up a master's-level program for Indian college graduates to help make them more employable. "We can't announce a master's degree program now because we're not legally allowed to do it yet," he said. "What the programs eventually look like depends on our interaction with the legislature."

—Vibhuti Agarwal contributed to this article.

Climate efforts feel chill

Financial crisis threatens the push to reduce emissions

The global financial crisis is threatening efforts in the U.S. and Europe to fight climate change.

In Europe, industries and some national governments are pushing back against the European Union's goal of cutting greenhouse-gas emissions 20% by 2020, arguing that the midst of an economic crisis isn't the time for new environmental regulations that impose new costs on businesses and consumers.

*By **Stephen Power** in Washington and **Leila Abboud** in Paris*

"Does it make sense to ask companies for such a large sacrifice, and risk hitting citizens' pockets at such a delicate moment, all for environmental policy whose efficacy is questionable?" Italian Environment Minister Stefania Prestigiacomo said through a spokesperson.

In the U.S., both major-party presidential candidates and Democratic congressional leaders have promised to pursue climate-change legislation next year. But within the Democratic Party, splits are emerging between lawmakers from coastal states and those from Rust Belt and coal-friendly regions. They differ over how much time companies should be given to slash emissions and what authority states should have to set limits on greenhouse gases, so named because they trap the sun's heat.

A bill to establish an economywide cap-and-trade system for the U.S. aimed at cutting greenhouse-gas emissions roughly 66% by 2050 failed in the Senate this year. Though oil prices have fallen 40% since the Senate debate, energy costs continue to rank high among voters' concerns.

The financial crisis could also upset international negotiations on a successor to the Kyoto Protocol, the treaty that requires many industrialized nations to reduce their greenhouse-gas emissions.

"If industry is in a difficult pass, most sensible governments will be reluctant to impose new costs on them in the form of carbon-emissions caps," said Yvo de Boer, director of the United Nations Framework Convention on Climate Change. The final shot at getting a deal will come in 2009.

Business groups on both continents are pouncing on the economic turmoil as they lobby against planned new regulations.

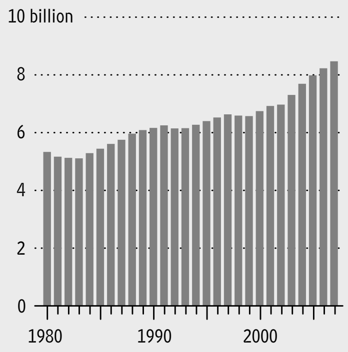
"The pushback is stronger than before," said John Ashton, the U.K.'s special representative for climate change,of the debate over Europe's climate-change package. Europe will still be able to hammer out an agreement, Mr. Ashton said. "We'll have to fight harder to keep it together."

The conflict came to the fore during a two-day meeting in Brussels this week of the European Council, which is made up of the leaders of the 27 member states. Poland, which relies heavily on high-emission, coal-fired power plants and exports lots of coal, said it would veto the package if it didn't include measures to protect consumers and industry from higher electricity prices. Poland, and its allies like Italy, seeks changes to the "auctioning" provisions of Europe's plan, which would require power companies to buy permits to pollute instead of being allotted them for free, as they have been traditionally. The EU proposal currently calls for power companies to buy all their carbon permits at auction starting in 2013.

The fight wasn't resolved this week in Brussels, but the Council reaffirmed its commitment to pass Europe's climate-change package by the end of the year.

Hot topic

Global emissions of CO_2, a leading greenhouse gas, in metric tons



Source: Oak Ridge National Laboratory

China milk ban is hard to enforce

Untested products were still being sold to university students

By Loretta Chao

BEIJING—Despite orders from China's central authorities to recall all milk produced before Sept. 14, banned milk from two of China's biggest dairies was still being sold this week at a discount to students in the southern city of Guangzhou through stores and milk dealers.

The incidents call into question whether China's government can deliver on its promise to clean up the country's dairy industry after contaminated infant formula sickened tens of thousands of children.

On Oct. 11, last Saturday, six government agencies issued an order that all dairy products dated from before Sept. 14—regardless of brand—be pulled from stores for testing, according to China's state-run Xinhua News Agency. That recall was made public on Tuesday, and has been widely publicized on state television and via news agencies.

Guangzhou University students say that since the recall was ordered on Oct. 11, liquid milk from **Mengniu Dairy** Co. and **Inner Mongolia Yili Industrial Group** dated from before Sept. 14 has been sold at a deep discount around the campus of this school of 17,000.

Earlier this week, "I saw some dealers come to our campus to sell the milk. You can buy one, get one free. The [school] administration didn't pay attention to them," said Chen Xuzhao, a student at the university, in a phone interview.

Another student, Cai Xiaowei, said in a phone interview that she bought Mengniu "Student" milk, a line of liquid milk marketed specifically to students, from a dealer in the street for 28 yuan ($4.09) on Tuesday, 32% off the original price. The milk was marked as being produced in July.

The sales to college students were reported Thursday by Xinhua, citing the Guangzhou Daily, a newspaper.

Despite the bans, Mengniu's milk has made its way to Guangzhou University's campus. A clerk at Huijia Supermarket on campus confirmed that it was selling milk from before Sept. 14, and that after a sales promotion, all the products had sold out by Monday—after the ban was issued, but before it was made public. It isn't clear whether the milk is still being sold, contrary to government regulations, on other campuses.

A spokeswoman from Mengniu said she was looking into the matter, and that the company has "required the products [be pulled] off shelves and not sold anymore." Yili couldn't be reached for comment.

Students who bought the milk say they did so voluntarily, and weren't alarmed about the possibility that the discounted products contained melamine. Xu Ming, a technology student at Guangzhou University, said "We are not worried about the melamine. We didn't have problems when we drank the milk before, so it should be OK now as well."

—Gao Sen and Sue Feng in Bejing and Bai Lin in Shanghai contributed to this article.

Taiwan proposes to reduce rate of inheritance tax

By Ting-I Tsai

TAIPEI, Taiwan—The government here moved to slash inheritance taxes Thursday, hoping to push economic growth and win back capital that has been fleeing abroad and parked in the mainland.

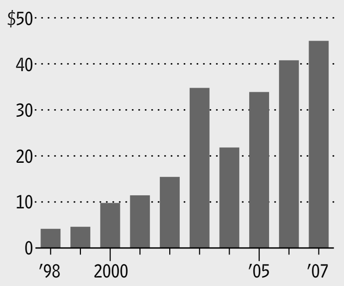
The new policy is part of a broader campaign by Taiwan's new president, Ma Ying-jeou, to spur Taiwan's lackluster economy by improving the island's relationship with China. Earlier this year, the government lifted capital restrictions on companies investing in China, allowing them to invest more there.

The policies aim to recoup some of the capital the island has been losing. Taiwan's central bank reports that local investors poured $45 billion in overseas investments last year, up from $4 billion a decade ago. Under the new policy, taxes will be lowered to 10% from as high as 50%, and thresholds will be raised before any tax is levied.

"It will be helpful to lure Taiwanese businessmen's overseas capital back," said Weng Ji-neng, Shanghai chief representative of Taiwan's MasterLink Securities Cooperation.

Taiwan's capital outflow

Overseas portfolio investment assets, in billions of U.S. dollars



Source: Central Bank of Taiwan

Currently, many of the up to one million Taiwanese working in China have been reluctant to repatriate profits. Statistics on the amount of capital parked in China don't exist, but the figure is widely believed to be well over $50 billion.

The lower rate "would, at least, halt more capital outflows," said Christina Liu, chief economic adviser at Daiwa Institute of Research.

Vice Prime Minister Paul Chiu suggested in a position paper that if the tax were cut to 10%, revenue would increase by $270 million.

The current inheritance levy ranges between 2% and 50%, and contributed on average NT$23.5 billion (US$724,000) of total annual tax revenue over the past five years.

The policy is part of Taiwan's bigger tax-reform effort. The government established a committee to review Taiwan's taxation mechanism in late June. Some committee members, who declined to endorse the government's decision on the inheritance tax, criticized the government for adopting a wealthy-friendly policy.

"The policy would not enable us to redistribute wealth and shorten the income gaps," said Chien Hsi-chien, a member of the government's tax reform committee.

The proposal must be approved by the legislature, where the ruling Kuomintang enjoys a majority, and would take effect next year.