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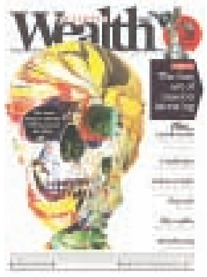

Mind over matter: The fine art of passion investing

WEALTH BULLETIN

Business insight: Time to lay off performance reviews?

JOURNAL REPORT | PAGES R1-R7

Global summit in U.S. to target economic crisis

Momentum favors Europe, but America may opt for caution

U.S. President George W. Bush announced plans to host a summit to discuss the global response to the financial crisis, saying the world's leaders must work together.

The announcement represents another concession to European leaders, who have already forced the U.S. hand on key design elements of the financial rescue effort that is under way around the world.

By John D. McKinnon in Washington, Alistair MacDonald in London and Alessandra Galloni in Paris

European leaders have sought to place blame for the financial crisis on the U.S., despite the weaknesses in European banks that have been exposed. French President Nicolas Sarkozy in particular has pressed for the economic summit to be held in New York, where, he said, "everything started."

Mr. Bush said he will be the host for the summit "to discuss the global response to the financial crisis and ideas to prevent such a crisis from recurring in the future and to preserve our free-market system." He made the announcement as he welcomed Mr. Sarkozy to Camp David for dinner and talks on Saturday evening.

Also on Saturday, United Nations Secretary-General Ban Ki-moon offered the U.N. headquarters in Manhattan as the location for the summit, which is expected to be held before the end of the year.

The summit is likely to include Group of Eight members—Canada, France, Germany, Italy, Japan, Russia, the U.K. and the U.S.—as well

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Reuters

French President **Nicolas Sarkozy**, left, greeting U.S. President George W. Bush over the weekend, has said the economic summit should be held in New York.

What's News—

Business & Finance

The Netherlands will inject $13.4 billion into ING Groep NV to halt a decline in confidence that has erased 73% of the value of the banking and insurance giant's shares this year, and to prevent customers from pulling out their deposits. **Page 2**

■ **A GM-Chrysler deal** could mean more than half Chrysler's 66,000 employees would lose their jobs, analysts said. **Page 6**

■ **The stock market's collapse** and unprecedented daily price swings are forcing investors to rethink their strategies. **Page 19**

■ **Libor may fall** sharply on Monday as the market responds to U.S. banks' moves on Friday to make unsecured loans to European lenders. **Page 20**

■ **Hungary is fighting** critics who say the country could become the next Iceland. **Page 3**

■ **Caisse d'Epargne's board** met to consider forcing top managers to resign after a "trading mistake" cost the bank $804 million. **Page 4**

■ **British Airways is holding** talks on a potential commercial partnership with the airline being created from insolvent Alitalia but won't take a stake. **Page 7**

■ **Former Norilsk CEO** Denis Morozov is a potential candidate to head troubled Russian oil venture TNK-BP. **Page 8**

■ **Sony Ericsson swung** to a $33.5 million loss, hit by lower sales as demand slowed in mature markets. **Page 8**

■ **China's Smart Union said** it filed for bankruptcy and moved to liquidate the toy and recreational products company. **Page 12**

■ **U.S. housing starts slid** 6.3% in September to their lowest level in 17 years. Consumer sentiment fell sharply. **Page 12**

■ **Europe is loosening** "mark-to-market" accounting rules, which could make it easier for banks to avoid write-downs. **Page 19**

■ **The EU's markets chief** called for a clearinghouse for credit-default swaps. **Page 22**

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8852.22	-127.04	-1.41
Nasdaq	1711.29	-6.42	-0.37
DJ Stoxx 600	214.27	+7.87	+3.81
FTSE 100	4063.01	201.62	+5.22
DAX	4781.33	+158.52	+3.43
CAC 40	3329.92	+148.92	+4.68
Euro	$1.3467	+0.0071	+0.53
Nymex crude	$71.85	+2.00	+2.86

Money & Investing > **Page 19**

World-Wide

Bush said he will host a summit to discuss the global response to the financial crisis. The development appeared to be adding to the political momentum for European leaders, who have scored points at home by criticizing the U.S. over the crisis. But it is unclear how much of substance the meeting can produce. **Page 1**

■ **Obama's campaign raised** over $150 million last month, giving him a big advantage over McCain in the U.S. presidential campaign. Ex-Secretary of State Powell endorsed Obama. **Page 1**

■ **A spate of recent polls show** Obama with a big lead over McCain, but other surveys suggest a close race. **Page 12**

■ **The IMF began** an investigation into whether its chief abused his position in connection with a sexual relationship with a subordinate. **Page 11**

■ **Iran's oil minister** renewed his call for OPEC to cut production, saying this was the only way to stop crude prices from falling further, the official IRNA news agency said.

■ **Pakistan secured** China's help to build two new nuclear-power reactors in a deal touted as a counterweight to India's nuclear pact with the U.S.

■ **Pakistani forces killed** up to 30 militants near the Afghan border as the region's chief minister told a U.S. diplomat he wanted to resolve problems there through dialogue.

■ **Taliban militants killed** about 30 Afghans after stopping a bus and taking the passengers hostage, officials said.

■ **A Moscow court threw** out the majority of tax claims brought against the British Council, the cultural body said.

■ **Officials in South Ossetia** ordered police to shoot back if they come under fire, increasing the threat of new violence between Georgia and the Russian-backed separatist region.

■ **Iraq's ruling Shiite alliance** said parts of a draft security pact with the U.S. need more discussion and amendments before it can be approved.

■ **Thousands marched** in Paris to protest planned job cuts in France's public-education system.

EDITORIAL & OPINION

Friends of Putin

There aren't many, judging by the lack of support for his Georgia adventure. **Page 13**

Associated Press

U.S. Sen. Barack Obama's presidential campaign raised **$150 million in contributions** in September, surpassing his previous record, $66 million in August.

Cash haul sets up Obama for ad blitz in final weeks

By Christopher Cooper And Laura Meckler

Sen. Barack Obama set a record for U.S. presidential fund raising in September, drawing more than $150 million in campaign contributions. That one-month figure is nearly double what Sen. John McCain is receiving in public financing for the final two months of the campaign.

The Democratic presidential candidate's haul puts him in position to swamp his Republican rival in advertising in the final weeks of the campaign and to bankroll a sprawling get-out-the vote operation that has been the hallmark of his organization. Sen. Obama's big budget was made possible by his decision to opt out of the public-financing system. As a result, he enjoys the biggest advantage over an opponent since Richard Nixon swamped George McGovern in 1972.

About 632,000 new donors fired the burst of September giving, which dwarfed the $66 million the campaign raised in August—a record at the time. It brought donations to the Illinois senator's campaign to $605 million since he

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Bailout efforts help stimulate the U.S. dollar

By Joanna Slater

THE OUTLOOK

The U.S. may be facing the worst financial crisis since the Great Depression, but you wouldn't know it from watching the dollar.

Rather than sinking under the financial-sector bailout, the U.S. currency is buoyant. That is a surprise to many who expected rising government spending and a tanking U.S. economy to cripple the dollar.

Instead, the dollar has benefited from the global flight from risky assets as well as the unwinding of bets made with borrowed cash. The scope of the crisis also has helped: It is clear that economic and banking woes aren't unique to the U.S.

"The dollar's strength has surprised me," says Barry Eichengreen, an economist at the University of California, Berkeley. "There are not a lot of more-attractive alternatives at the moment."

Since the start of September, the dollar has strengthened 8% against a trade-weighted basket of 26 currencies, according to a Federal Reserve index. The index is roughly at its February 2007 level, effectively erasing the dollar's slide through the collapse of Bear Stearns Cos. and a series of inter-

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Dutch to give ING capital

Government to inject €10 billion in effort to boost confidence

BY DANA CIMILLUCA

The Netherlands agreed to inject €10 billion ($13.4 billion) into **ING Groep** NV, the banking and insurance giant, as governments around the world rush to shore up financial institutions.

The plan is designed to halt a decline in confidence that has erased 73% of the value of ING's shares this year and to prevent customers from pulling their deposits from the bank.

The investment will take the form of nonvoting securities with a coupon whose value depends on a number of variables and could reach 8.5% a year, Amsterdam-based ING said in a statement late Sunday. As part of the arrangement, the government will take two seats on ING's supervisory board, and ING's executive board members, including Chief Executive Michel Tilmant, will forgo 2008 bonuses. ING also said it wouldn't pay a dividend for the rest of 2008.

Though ING's massive retail deposits are a source of strength with wholesale funding markets freezing up, ING hasn't been immune from the financial crisis. On Friday, it said it would have a €500 million loss in the third quarter as a result of write-downs on real estate and other securities.

With governments around the world taking steps to bolster their banks, firms that don't raise capital risk being at a disadvantage to better-financed rivals. As recently as Friday, a person familiar with ING's plans said raising private money was still a possibility. That suggests it became clear in discussions with government officials over the weekend that the company needed to act more quickly and dramatically to head off a crisis of confidence.

"The expectations of the amount of capital [that] banks and insurance companies around the world need are rising rapidly," ING Chief Financial Officer John Hele said in an interview.

Still, ING appears to have made out better than other financial firms in Europe. The Netherlands nationalized Fortis NV's operations in the country this month, while the British government is taking big equity stakes in banks in the U.K. The British banks agreed to withhold dividends from other investors until the government is repaid. The Dutch government, meanwhile, will get its coupon payment only if ING's common shareholders get paid first.

The securities ING is issuing to the government have no maturity date, meaning the company can pay the money back on its own schedule. The infusion will boost the core Tier 1 ratio—a key indicator of a bank's capital cushion against losses—to 8% from 6.5% at ING's bank. The cash infusion will be drawn from a €20 billion fund the Dutch government had made available to healthy banks following the near collapse of Fortis, a Dutch-Belgian banking and insurance company that agreed to sell most of the rest of its operations to **BNP Paribas** SA.

The relatively easy terms for ING, and the fact that the government investment comes with no equity stake, may come as a pleasant surprise to ING investors who were nervous that a government stake would dilute their holdings. Those fears, and the earnings warning, pushed ING shares down 27% in Amsterdam on Friday to close at €7.34.

Sunday's agreement gives ING the right to buy back the preferred shares at 150% of the issue price. ING can also convert them into ordinary shares in three years, but that would give the Netherlands the right to ask for the €10 billion back.

U.S. moves to help banks avoid accounting glitch

BY DEBORAH SOLOMON

WASHINGTON—The Bush administration is expected to allow banks that participate in the government's $250 billion capital-injection program to avoid triggering an accounting rule that could have hurt the banks' finances.

The program, announced last week, is intended to encourage banks to lend again by having the government take equity stakes in the institutions so they can rebuild their capital levels. But in its rush to get the program under way, the administration overlooked a key detail involving the potential issuance of stock, people familiar with the matter said.

Under the initial plans, participating banks are required to issue warrants, which give the government the right to purchase a bank's common stock at a certain price. But the $700 billion rescue legislation passed by Congress requires that the warrants be treated as a liability on their balance sheets. That could force the banks to record a loss and thus impair their capital levels—the very opposite of what the government is aiming to accomplish.

The Securities and Exchange Commission and the Financial Accounting Standards Board are expected to issue guidance telling the banks participating in the program that they can consider the warrants "permanent equity" under generally accepted accounting principles, people familiar with the matter said. That would resolve the problem because the warrants wouldn't be considered a liability and wouldn't trigger "mark to market" accounting that forces them to price them at their currently diminished value, the people said.

The logistical snafu had complicated the Treasury Department's plan to inject $125 billion into nine of the U.S.'s largest financial institutions. Treasury had anticipated formally buying equity stakes in the nine banks early this week. But the accounting issue raised concern at many of the banks, prompting a round of calls during the weekend to resolve the issue.

Financial-services representatives said the resolution will enable the effort, known as the Troubled Asset Relief Program, to go forward.

CORRECTIONS & AMPLIFICATIONS

In an Oct. 9 article on steelmakers weighing cuts in production, an attribution to U.S. Steel Chief Executive John Surma was incorrect. Mr. Surma didn't say that steelmakers were prepared to match production with demand. That information was provided by another steel executive not mentioned in the article.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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Hungary battles critics

An official bristles over 'scaremongers' who say it's Iceland

BY MARCUS WALKER

BUDAPEST—Hungary is fighting to persuade international markets it isn't the next Iceland.

Hungarian authorities stepped up their efforts at the weekend to reassure nervous financial markets that the country can ride out the turmoil in the global banking system.

Prime Minister Ferenc Gyurcsany said Saturday he will talk to banks about helping out mortgage borrowers with foreign-currency loans whose monthly payments are rising as the forint, Hungary's currency, falls.

The government also presented plans to cut its budget deficit faster than planned this year and next, an attempt to show that the country has become more fiscally disciplined than a few years ago, when ballooning budget deficits scared markets.

After Iceland was forced to seize its three largest banks amid a deepening economic crisis, financial markets fear other deeply indebted economies, especially in Europe's east, could be next. Hungary's currency and other assets have taken a particular pounding in the past two weeks as investors fled for safety.

"A lot of market participants are asking themselves: 'Can what happened in Iceland be repeated in Central and Eastern Europe?' " said Lars Christensen, an economist at Danske Bank in Copenhagen who was an early critic of Iceland's shaky finances.

Now he sees some "significant similarities" in Hungary, he said: "A large current-account deficit, fast credit growth in the last few years, and heavy reliance on foreign-currency lending to households."

Central-bank Gov. Andras Simor bristles at the Iceland comparison. "There is nothing to compare, except: Who are the scaremongers?" he said in an interview.

Foreign-currency borrowing, which is the normal way for Hungarians to buy homes, cars or other big items, are set to become more expensive because of the weak forint, which has lost about 12% of its value against the euro since Oct. 1.

But the financial turmoil's impact hasn't yet fully hit the rest of the economy. Downtown Budapest's shopping malls and cafes are still full.

Viktoria Erdos, a 30-year-old professional dancer smoking a cigarette in a café near Budapest's opera house, said her monthly payments on her Swiss-franc mortgage are up about 15%, but it isn't cramping her style too badly. "I'm buying fewer clothes and am partying a bit less," she said. "I'm not really worried yet."

Hungarians have been through more economic turmoil than most since World War II and are pretty hard to rattle.

In 1946, they achieved a world record for inflation that still stands: Prices rose by more than 40 quadrillion percent a month. Discontent over Stalinist forced collectivization and a lack of consumer goods helped fuel the failed 1956 revolution.

Huge trade deficits in the 1970s led to crippling foreign debts, and the country almost ran out of foreign currency to pay for imports in 1981. After Communism fell in 1989, Hungary opened up to international competition—and its backward industry and agriculture were slammed. The economy shrank by a quarter.

"We survived major crises in 1956, in 1981 and in the early 1990s," said Mr. Simor, the central-bank governor. "All three crises were worse than the market situation we have now."

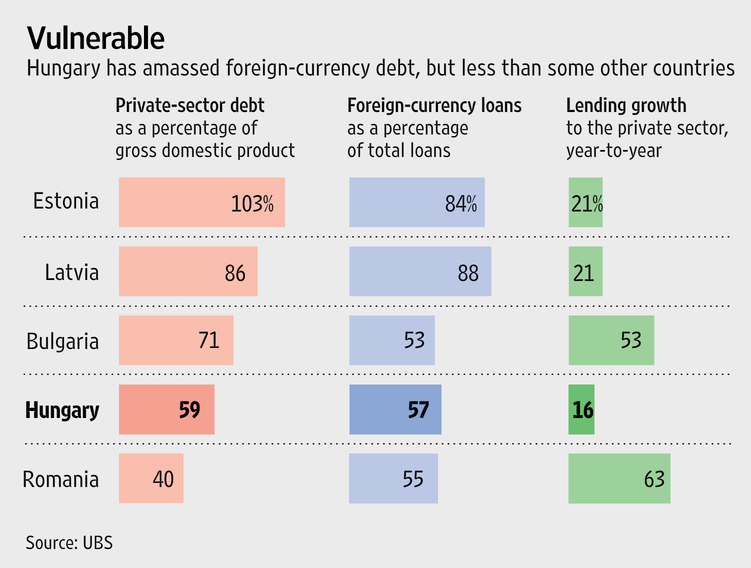
But today's crisis is serious enough. Investors' concern has forced Hungary's authorities to seek a €5 billion ($6.7 billion) loan from the European Central Bank, as well as verbal support from the International Monetary Fund—two gestures Hungary hopes will persuade investors that the country has strong allies.

Part of Hungary's problem is that the country's politicians have acquired a bad reputation. "Between 2001 and 2006, Hungary didn't follow responsible fiscal policies, and the market remembers that," said Mr. Simor.

Hungary's safety net, he said, is that most banks and companies here have a big foreign parent that can lend them money even when capital markets shut down.

All but one of Hungary's major banks are owned by big international banking groups based in Western Europe or the U.S. Around 40% of Hungary's short-term foreign debt is money that banks like **Citigroup** Inc. lent to their local subsidiaries, according to central-bank figures.

Around two-thirds of Hungary's foreign-currency debt is owed by the private sector, Mr. Simor said—and most of that is owed by the local units of multinational companies, which dominate Hungary's business scene. "You can't view that with the same eye as debt to a third party," Mr. Simor said.



Local banks would run out of funds only if major Western banks collapse despite the U.S. and Europe's massive government rescue plans, said Mr. Simor, adding that he thinks that is highly unlikely.

Lender OTP is the only Hungarian bank that isn't owned by a multinational. Earlier this month its shares plunged on a rumor that it needed a government bailout. The rumor turned out to be false, so far.

Risk of deflation looms as new U.S. concern

While falling prices remain unlikely, conditions are ripe

By Sudeep Reddy

Policy makers navigating the U.S. through the global credit crisis may have a new concern on the horizon for 2009: deflation.

The risk of deflation—generally falling prices across the economy, beyond volatile energy and food costs— remains slim. But the financial shock and a faltering economy can set the stage for a deflationary environment.

Federal Reserve officials view broad-based deflation as unlikely but possible. Federal Reserve Bank of San Francisco President Janet Yellen said in a speech last week that the plunge in oil prices along with slackening demand for labor and goods should "push inflation down to, and possibly even below, rates that I consider consistent with price stability."

Fed officials generally consider price stability to be an inflation rate between 1.5% and 2%. Their preferred measure of core inflation, which excludes food and energy, stands above 2% now, and is expected to remain above that mark as price increases from earlier this year advance through the product pipeline.

The economic slowdown and declining commodity prices have eased the nation's consumer inflation rate, which surged to 5.6% over the summer. Annual inflation in the U.S. is likely to turn negative for at least several months next year, on declining energy and food prices.

With the unemployment rate rising rapidly and capital markets in turmoil, "pretty much everything points toward deflation," said Paul Ashworth, chief U.S. economist at Capital Economics. "The only thing you can hope is that the prompt action of policy makers can maybe head this off first."

The Japanese economy in the 1990s and the U.S. during the 1930s illustrate how deflation can choke a weak economy and spiral out of control. A sagging economy exerts downward pressure on prices because of weak demand for labor and goods. Broad-based declines— particularly in a credit crisis, which can push asset prices down sharply— can also force down wages, preventing consumers and, therefore, companies from paying their debts. Falling prices also encourage businesses and consumers to save rather than spend, because money would be worth more after prices decline. The restrained spending, in turn, hurts the economy even more.

Federal Reserve Chairman Ben Bernanke, in a speech as a Fed governor in 2002, said deflation in the U.S. is "highly unlikely" but added, "I would be imprudent to rule out the possibility altogether." The reason, he said at the time, was the Fed "has sufficient policy instruments to ensure that any deflation that might occur would be both mild and brief."

The government has taken extraordinary measures in recent months to stem the credit crisis and further action is expected to keep the economy from becoming too weak to benefit from monetary and fiscal stimulus.

"You know stimulus is coming," said Vincent Reinhart, former director of the Fed's monetary-affairs division. "The appetite of a new president and new Congress for a prolonged economic slump is zero."

The risk of deflation was among the factors leading the Fed to keep interest rates at only 1% earlier this decade, when its preferred inflation measure also was around 1%. The Fed's target rate now is 1.5%, and some economists expect the central bank to lower it further in coming months.

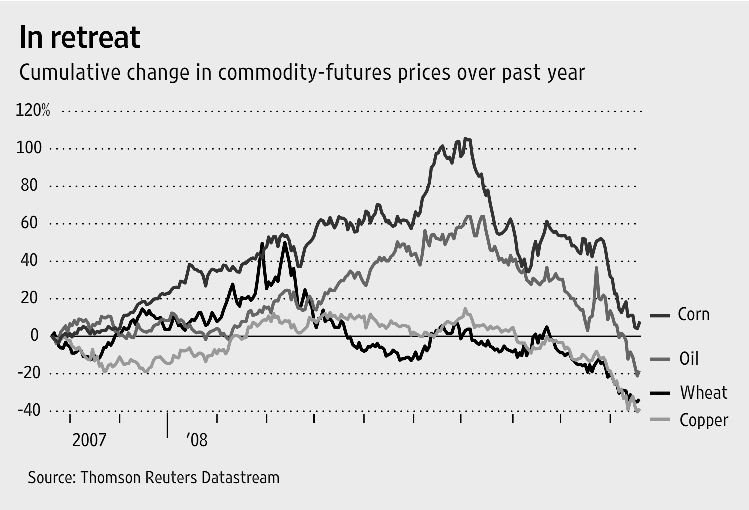
Fed policy makers can raise short-term interest rates to fight rising prices, as they did into the early 1980s. But they can only cut rates to zero to fight deflation. After that, other policy options come into play.

Deflation concerns in 2002 and 2003 led Fed officials to consider alternative measures to stimulate the economy. Their initial option came from the Fed's 1940s playbook: buying Treasurys to force down long-term yields, leading consumers and businesses to spend instead of save. In normal circumstances, effectively pumping money into the economy would support growth and spur inflation over time. Today's credit crisis has pushed Treasury yields lower already as investors seek less-risky assets.

Mr. Reinhart, among the officials leading the Fed's deflation studies earlier this decade, said the Fed now has other tools. This month, Congress gave the central bank permission to start paying interest on reserves held by commercial banks. That gives the Fed more latitude to expand its balance sheet, which it can use to pump more reserves into the banking system.

In 2003, the Fed signaled its willingness to keep interest rates down at 1% for a "considerable period." That communication helped support the economy by pushing market rates down. Today, Fed officials are facing criticism for keeping interest rates too low for too long this decade, worsening the housing boom.

However, "if the economy is under duress," Mr. Reinhart says, "too long doesn't look that long at all."



American sway may be diminished

By Jay Solomon And Siobhan Gorman

WASHINGTON—The financial crisis could further undermine the U.S.'s role as the world's only superpower and affect the reshaping of international institutions such as the United Nations Security Council that have defined the post-World War II era, officials say.

America's historic economic shock in the past month came as its ability to project influence globally was already being challenged by emerging powers such as China and India, as well as oil-producing Russia and Iran.

The limits to U.S. power have become apparent in the Bush administration's final year, as it has struggled to end Tehran's nuclear program and failed to safeguard Georgian sovereignty during the Russian incursion in August.

U.S. Secretary of State Condoleezza Rice canceled a trip to a democracy forum in Abu Dhabi last week to gauge the geopolitical impact of the financial crisis and help to fashion an American response, her aides said.

U.S. intelligence agencies are fine-tuning a governmentwide assessment looking at America's position in the world in the coming decades. The report is planned for public release after the November election, but the government's top intelligence analyst, Tom Fingar, previewed it in a recent speech. Intelligence analysts expect that "the U.S. will remain the pre-eminent power, but that American dominance will be much diminished" between now and 2025, he said.

The most immediate impact of the financial woes may be to tighten U.S. purse strings for foreign needs. The Palestinian Authority received $150 million in U.S. assistance in March, its largest single allotment, and is set to receive another $150 million. But Palestinian leaders fear Congress will hesitate to authorize more in coming years.

U.S. President George W. Bush acknowledges applause after signing an extension of an Andean trade pact this month.

"People now talk about aid potentially being affected by this. I think this would be a huge mistake," said Palestinian Prime Minister Salam Fayyad in an interview. "That's really the wrong place to look for cuts and savings."

Arab diplomats say they have already detected a falloff in American influence in their region during the past year. Israel and Syria started peace talks this year, and the Lebanese government concluded power-sharing negotiations with the militant group Hezbollah, without any direct U.S. role in either case.

The U.S.-brokered peace talks between Israel and the Palestinians, meanwhile, are unlikely to conclude this year as Washington has hoped.

One question is whether major powers such as China and Russia will take advantage of the U.S. crisis to adopt more aggressive foreign policies. Georgian President Mikheil Saakashvili said in an interview that Moscow could use a perceived power vacuum to expand its influence across Central and Eastern Europe.

However, for some of the nations on Washington's worry list, the financial crisis has also inflicted heavy damage. Oil's fall below $70 a barrel last week is likely to hit Russia, Iran and Venezuela and lessen the funds available for policies that threaten U.S. interests, such as Venezuela's aid program for left-leaning Latin American governments.

Still, many American and European officials say that the U.S. remains the best-positioned to shape global events, particularly if its measures to prop up the financial system allow it to pull out of the mess fairly quickly. The U.S. spends roughly as much on its military as all the other powers combined. And despite the shock to the U.S. economy in recent weeks, the dollar and Treasury bonds have actually strengthened.

French bank may shed leaders after trading loss

By David Gauthier-Villars

PARIS—The board of **Groupe Caisse d'Epargne** was meeting late Sunday to discuss whether to force the resignation of top managers after the bank said Friday it had lost €600 million ($804 million) on a "trading mistake."

Friday's announcement by the 190-year-old bank, regarded as one of France's safest financial havens, prompted the French finance ministry to order an audit of all the country's banks.

Christine Lagarde

French President Nicolas Sarkozy also said publicly that Caisse d'Epargne managers at all levels would be held accountable for the loss. The departure of some top managers was on the agenda at the board meeting, according to people familiar with the matter.

News of the loss, the third incidence of irregular trading disclosed by a French bank in little more than a year, risks undermining efforts by France and other governments world-wide to restore confidence in the global financial industry.

"I feel quite frustrated and discouraged," French Finance Minister Christine Lagarde said at a news conference planned so the ministry could present details of its plan to support banks hurt by the financial crisis.

Caisse d'Epargne, which is owned by its customers, said a small group in charge of managing part of the bank's cash went beyond company risk limits when they took positions in equity derivatives in the week starting Oct. 6. A trader and his supervisors bet stock markets would rise, according to Caisse d'Epargne.

But in that week, most stock markets around the world fell sharply, leaving the bank exposed. When it discovered the irregular trades, Caisse d'Epargne said it ordered the trades unwound, resulting in the €600 million loss.

Caisse d'Epargne said the loss won't affect the group's financial strength. It managed €358 billion of savings and deposits as of late 2007.

The loss is far smaller than that at **Société Générale** SA, which earlier this year said it had lost nearly €5 billion as the result of irregular activities by a low-level trader. Another bank hurt by unauthorized trades is **Crédit Agricole** SA, which in August 2007 said it took a loss of about €250 million from an unauthorized trade at its Calyon investment-bank unit.

A Caisse d'Epargne spokesman said the bank's management was shocked by the loss because it happened in a derivatives-trading unit that is being closed down.

Ms. Lagarde said the country's banking commission is investigating the trading incident and that she would await the outcome of that probe before making comments on potential sanctions.

A trader, the head of the trading floor and two senior finance officials have been suspended and could face dismissal, the Caisse d'Epargne spokesman said.

Another bank spokesman said it was too early to say if there was fraud or error involved.

Obscure tax breaks raise cost of U.S. rescue

Steps are meant to help industries, investors amid crisis

By Jesse Drucker

The $700 billion financial rescue package approved by the U.S. Congress to shore up banks also carries a parallel bailout of the financial sector and other industries through a series of obscure tax breaks.

Operating mostly under the radar screen, Congress, the Treasury Department and the Internal Revenue Service have been rolling back various provisions of the tax code to help industries and investors caught up in the turmoil.

The most costly—and most controversial—of the moves provide billions in extra tax relief to big banks such as **Wells Fargo** & Co. and **Banco Santander** SA. Another change gives aid to investors stung by the auction-rate-securities meltdown. Still another shift relaxes tax rules to help big multinationals bring back cash from overseas.

The total sums involved aren't clear, but the cost will easily amount to tens of billions of dollars, tax experts say.

The latest such move was unveiled Tuesday, when Treasury said that the cash infusions for banks wouldn't be considered "federal financial assistance." Normally, that type of funding would count as taxable income for the recipients, and could trigger other unfavorable tax consequences for banks receiving assistance that take part in mergers.

A Treasury spokesman said the agency is seeking to "provide clarity and certainty regarding tax issues that have come up during market turmoil."

Tax experts say some of the changes are justified, including a number of technical fixes to protect taxpayers from unintended consequences related to government actions, such as the takeovers of **Fannie Mae** and **Freddie Mac**, or the substantial investments in banks. Plus, the broader bailout legislation passed by Congress earlier this month shut some other tax loopholes, including one that permitted offshore hedge-fund managers to get favorable treatment for deferred compensation.

The most controversial move is an obscure IRS ruling that gives banks the unfettered ability to use the "tax losses" of banks they acquired.

Typically, companies are permitted to carry over tax benefits from years when they lose money to help offset taxes when they return to profitability. However, for decades, Congress has restricted the amount of those losses that can be used in a given year, to prevent companies from buying and selling other firms solely to benefit from the tax strategy.

In a one-sentence ruling issued Sept. 30, Treasury effectively lifted that restriction if the company being bought is a bank and the losses are attributable to a portfolio of loans.

Charles Grassley of Iowa, the ranking Republican on the Senate Finance Committee, has complained about the sudden loosening of the rules. "Congress should have been informed and consulted before Treasury took such an extraordinary action that likely will add billions of dollars to the deficit," he said.

Some experts argue that Treasury has effectively shifted from administering parts of the tax code to changing tax laws on its own. "It doesn't seem possible that they have this authority," said Robert Willens, an independent corporate tax analyst.

The biggest beneficiary is likely to be Wells Fargo. The San Francisco bank recently agreed to buy **Wachovia** Corp. of Charlotte, N.C., which has been hammered by huge losses on mortgage-related securities and loans. Wells Fargo has said it expects to take $74 billion in write-downs on the Wachovia portfolio.

Under the old rules, Wells Fargo would have been limited to annual tax deductions stemming from the Wachovia losses of roughly $930 million over the next 20 years, or a total of $18.6 billion, estimates Mr. Willens. Wells Fargo will now be able to use all $74 billion in losses. That will likely mean additional tax savings to Wells Fargo of about $19.4 billion—or more than the total purchase price for Wachovia's common stock, currently about $14.3 billion.

A Wells Fargo spokeswoman wouldn't comment on the role of the tax change in its decision to bid for Wachovia, which bested an earlier offer by **Citigroup** Inc. Wells Fargo's offer took place two days after Treasury's move.

The new tax benefit applies to completed bank deals done in the past three years, and possibly even older ones, according to Treasury.

Another winner from the new rule is Banco Santander, which recently agreed to buy the rest of **Sovereign Bancorp**. The Spanish bank will be able to take advantage of Sovereign's $2 billion in tax losses more quickly than under the old rules, which would have required it to wait nearly two decades to use up the losses.

Because of the Sovereign purchase, Banco Santander also will be one of the many beneficiaries of a separate break, aimed at hundreds of banks that lost money on preferred stock in Fannie Mae and Freddie Mac. The shift allows the banks to count those losses as ordinary losses, rather than less-useful capital losses. The change is expected to cost the U.S. government $3 billion, according to the congressional Joint Committee on Taxation.

Many investors were caught by surprise when the auctions for auction-rate securities began to fail, leaving them holding notes for which there was no market. New York Attorney General Andrew Cuomo brokered settlements with investment banks and brokerage houses, in which the banks effectively agreed to cover any losses suffered by the investors.

A recent ruling by Treasury protects the investors in those arrangements, in part by making clear that an agreement by a bank to cover the losses isn't akin to taxable income. Another ruling protects investors who loaned shares to **Lehman Brothers Holdings** Inc. from being taxed on the transactions. Ordinarily, they are required to get the shares back within a prescribed time frame to avoid owing taxes. That rule isn't normally waived, even if the borrower of the shares goes bankrupt. But the IRS made an exception that effectively applies to transactions with Lehman, which filed for bankruptcy protection last month.

CORPORATE NEWS

BANKING

Lenders and central bank to rescue Constantia

Corbis

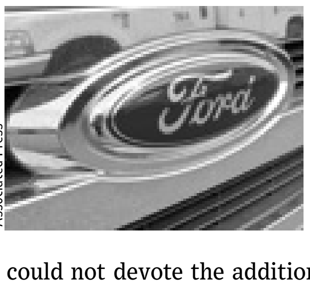
AUSTRIA'S largest banks agreed with the government and the Austrian central bank to rescue **Constantia Privatbank** AG.

The banks, including **Erste Group Bank** AG and **Raiffeisen Zentralbank Österreich** AG, will supply €400 million, or about $540 million, the country's markets regulator said Friday. The Austrian National Bank will inject €50 million.

Constantia has €1.2 billion in assets and manages around €10 billion. It is the first Austrian bank to fall victim to the credit crisis and to be aided under the €100 billion support package the government presented recently. *—Flemming E. Hansen*

AUTOS

Two Ford directors resign, citing turmoil, time issues



Associated Press

TWO BOARD members of **Ford Motor** Co. resigned. Sir John R. H. Bond and Jorma Ollila have served on the Ford board since 2000.

In a regulatory filing, Ford said the two directors "believe they could not devote the additional time and international travel that would be required of them as the company responds to the unprecedented external environment and rapidly changing auto industry."

The two directors won't be immediately replaced; the board will now have 11 members.

A Ford spokesman said the resignations weren't connected to any disagreement over the management or direction of the company. *—Matthew Dolan*

STEEL

ArcelorMittal may reduce steel output by up to 15%

IndexOpen

THE WORLD'S largest steelmaker by volume, **ArcelorMittal**, said Friday it is considering cutting as much as 15% of its output as the global economic slowdown deepens and affects steel demand. In Europe and Kazakhstan, the company has temporarily reduced production by as much as 15% and 20%, respectively. Steelmakers are cutting output in light of weakening demand in the automotive, construction and appliance sectors. Corus, a unit of India's **Tata Steel** Ltd. and Europe's second-largest steelmaker after ArcelorMittal, said last week it would cut output as much as 20% over the next three months. *—Alex MacDonald*

Michigan frets over auto jobs

A GM-Chrysler deal could cut thousands in battered state

BY MATTHEW DOLAN

Auburn Hills, Mich.

A MERGER of **General Motors** Corp. and **Chrysler** LLC would land a heavy economic blow on Michigan, a state already battered by waves of home foreclosures and the loss of tens of thousands of auto-industry jobs over the last few years.

GM is negotiating a potential deal with Chrysler's majority owner, **Cerberus Capital Management** LP, hoping it can reap billions of dollars in cost savings by shutting down overlapping operations. Analysts estimate more than half of Chrysler's 66,000 employees would lose their jobs in a merger. Thousands more would be affected at GM and at suppliers and service companies that rely on work with Chrysler.

A merger "would create immediate pain for the Michigan economy," said Dana Johnson, chief economist for Comerica Bank.

Michigan has borne the brunt of the auto industry's massive downsizing. Since 2005, GM, Chrysler and **Ford Motor** Co. have cut more than 100,000 jobs across the U.S., pushing the Detroit area into one of the highest foreclosure rates in the country. The economy has turned so dire that the U.S. State Department recently limited the placement of Iraqi refugees in Michigan, a move that only added to the general sense of economic malaise gripping the region.

Michigan's unemployment rate in August was 8.9%, the highest in the U.S., and economists suspect it could hit double-digits next year even without a GM-Chrysler deal. Michigan last month had 13,605 foreclosure filings, fourth highest in the country.

Analysts see the potential for job cuts and closures at several Chrysler facilities in Michigan that could be replaced by GM operations. Chrysler's Sterling Heights car plant makes models that sell badly and compete against some of GM's top models. GM might not need a GM truck plant in Warren if it tries to increase production in its own plants. Chrysler's Chelsea testing facility could be combined with GM's nearby proving grounds in Milford. It is unclear if GM would need Chrysler's engine plants in Trenton and Dundee.

General Motors

General Motors is currently negotiating **a potential merger deal** with Chrysler's majority owner, Cerberus Capital Management LP.

Other locations outside of Michigan could also be at risk, including a truck plant in St. Louis; a car plant in Belvedere, Ill.; and stamping and assembly plants in Ohio.

At Chrysler's headquarters here, where 10,000 people are employed, several workers said the mood is grim. "Nobody's doing much work," lamented an engineer. "We all figure we're just going to get marched out of here when the deal is done. I don't think GM thinks there's much of Chrysler worth keeping."

Any deal could run into union opposition. In several radio interviews last week, United Auto Workers President Ron Gettelfinger said he is against a merger between Detroit auto makers. Canadian Auto Workers President Ken Lewenza echoed those comments. "There are no pros, only cons" to any tie-up between GM and Chrysler, the smallest of Detroit's Big Three, he said Wednesday. Both unions have contracts with GM and Chrysler that prevent the companies from closing plants in the near term.

Sean McAlinden, chief economist and vice president for research at the nonprofit Center for Automotive Research in Ann Arbor, Mich., said the real question would be how quickly the cuts would happen for those represented by the UAW, including white-collar workers. His research center had estimated that U.S. auto industry will have lost almost 150,000 jobs between 2005 and 2011 before taking any merger into account.

"The average age of the Chrysler hourly worker is like 42, 43—about four or five years younger than those at GM. And they don't want to leave anymore," even with the enticement of a substantial buyout, Mr. McAlinden said. "That's one barrier to a merger even happening."

In the city of Auburn Hills, 25 miles north of Detroit, anxiety is running high. In early 1996, Chrysler's world headquarters moved into a blue-glass skyscraper towering above Interstate 75—a giant, "Pentastar" logo adorning its top. The well-to-do city relies heavily on its business tax base, with about 60 corporate offices in a city with less than 20,000 residents.

"We're all concerned about the future of these automotive icons," said Jeff Love, the president of Baker College of Auburn Hills who can see Chrysler's corporate campus from his office window. "All of this uncertainty is not a healthy thing."

Michelle Hornberger, chief strategy officer for Crittenton Hospital Medical Center and a board member at the Auburn Hills Chamber of Commerce said: "The people who have talked about it have said it would never happen. They just couldn't see the benefit and are shaking their heads trying to figure out the value in the merger."

Chrysler, arguably the city's most important corporate citizen, sold almost 2.7 million cars and trucks last year. It is expected to provide Auburn Hills about $4 million in tax revenue this year, according to city officials. But Chrysler's contributions extend beyond the tax rolls. Last year the auto maker's foundation doled out more than $20 million in charitable donations across the region.

At Oakland University's school of business administration, Dean Mohan Tanniru, said Chrysler provided $35,000 this year to help support a teleconferencing effort to link business students in Auburn Hills to those in China and India. "Surely we're interested in the immediate impact," Mr. Tanniru said. "But we also have to think in terms of competitiveness in the auto industry in southeast Michigan. If this adds a level of product mix that can help a joint company in the end, we have to be optimistic about it."

Stopped outside the city's municipal center over the weekend, Mike and Kathy Jansen, who have lived in Auburn Hills since 1974, said they worry about what a merger would mean if it was followed by massive job cuts. Their house is paid off, Mr. Jansen said, but the family still has concerns about what a jump in the city's unemployment rate might do for neighboring real-estate values and the local rate of home foreclosures.

Mr. Jansen, who had worked part-time for the city's fire department, remembered fondly when he visited the Chrysler complex as it was springing up on old farmland almost 15 years ago.

"I just hope that we don't have empty buildings up there soon," he said.

Toyota offers financing deals to U.S. shoppers

BY NEAL E. BOUDETTE AND KATE LINEBAUGH

Toyota Motor Corp. is launching a $250 million marketing and sales campaign that uses its substantial financial muscle to bring customers back into its showrooms.

The campaign is aimed at boosting the auto maker's market share at the expense of its struggling Detroit-based rivals. Toyota is trumpeting zero-percent financing on 11 vehicles, including its best-selling midsize Camry and compact Corolla. The ads, which began last week, emphasize the availability of loans for most customers.

Bob Carter, group vice president at Toyota Motor Sales USA, said the auto maker wants to dispel misconceptions that financing isn't available at Toyota. "There is a perception that because of upheavals in the financial markets that financing isn't available. There is a perception that leasing isn't available. Neither is true for Toyota," Mr. Carter said.

Toyota "is a company that's flush with cash and is really thinking about how to use that cash right now," said Michael Maroone, chief operating officer of **AutoNation** Inc., the country's largest chain of auto dealerships. "They are going to support the market in unprecedented ways."

Toyota's ability to push financing deals is the latest sign of the company's rising strength compared to the Detroit auto makers. Toyota recently opened a sprawling new development center outside Ann Arbor, Mich., in the backyard of the Big Three. About 600 people now work there, and the company plans to increase that to about 1,000.

Toyota reported cash and equivalents rose 17.2% to 1.9 trillion yen ($18.73 billion), at the end of September, a sharp contrast with **General Motors** Corp., **Ford Motor** Co. and **Chrysler** LLC, which have been hemorrhaging cash. All three are racking up substantial losses, using up cash and scrambling to raise new financing.

GM and Chrysler's sales have been hurt in recent weeks because their financing units have had to cut back on auto loans and leasing to conserve capital.

—Matthew Dolan contributed to this article.

CORPORATE NEWS

BA discusses Alitalia link

U.K. airline explores possible partnership with Italian group

By Daniel Michaels
And Stacy Meichtry

LONDON—**British Airways** PLC is discussing a potential commercial partnership with the airline being created from Italy's insolvent **Alitalia** SpA but won't take an equity stake, BA Chief Executive Willie Walsh said in an interview.

Europe's fragmented airline industry appears to be accelerating its consolidation efforts as carriers come under financial pressure because of high oil prices and the threat of recession.

BA, which so far has remained financially sound despite declining traffic, wants to participate in this consolidation—but not at any price.

"There's absolutely no shortage of airlines out there that we could pursue and acquire, but why would you want to do it?" Mr. Walsh said. "Most of these airlines are available because they're in a mess."

Italian investors grouped into a company called **Compagnia Aerea Italiana**, or CAI, plan to buy Alitalia's newer planes and airport slots and merge them with smaller local rival **AirOne** SpA to create a new airline. Alitalia was placed under bankruptcy protection in August.

Because CAI's managers are new to the airline industry, however, they want one of Europe's top carriers involved in the restructuring process. Germany's **Deutsche Lufthansa** AG and **Air France-KLM** SA are also looking into the possibility of partnerships with CAI.


Willie Walsh

Mr. Walsh said he met on Wednesday with Rocco Sabelli, the executive who would run the new Italian airline. "If successful, it would definitely be worthwhile...having a relationship with them, but we're not looking to invest," Mr. Walsh said.

Lufthansa and Air France have both expressed interest in buying a minority stake in CAI.

Mr. Walsh said that from BA's experience, investment isn't necessary for a successful commercial partnership. Nonetheless, CAI's investors are also hoping to raise money through the sale of equity in the relaunched airline.

A CAI spokesman said Air France and Lufthansa better understood CAI's interest in attracting an equity and commercial partner. "Talks with British Airways have so far been limited to a commercial partnership, which falls somewhat short of CAI's overall requirements," a CAI spokesman said. Mr. Walsh said not investing could be an issue in his talks.

BA and its big European rivals have been busy. BA and its longtime partner, Spain's **Iberia Lineas Aereas de Espana** SA, in July announced plans to merge.

Mr. Walsh said talks on the deal "are moving slowly, but they are moving." BA Chairman Martin Broughton recently said he expects to close the deal by next spring. "We will move at the pace that makes sense," Mr. Walsh said.

Associated Press

British Airways, which is discussing a potential merger with a new Italian airline, announced in July plans to merge with **Iberia**, its longtime partner.

Lufthansa officials recently agreed to buy a minority stake in the parent of small carrier Brussels Airlines and have said they will exercise an option to acquire closely held BMI British Midland Airways Ltd., a much smaller carrier than BA.

Lufthansa and Air France-KLM are also competing to be selected as the preferred bidder for a minority stake in troubled Austrian Airlines AG, according to people familiar with the process. The airline is being sold by the Austrian government.

Mr. Walsh said BA had explored the possibility of bidding for Austrian but decided not to. BA also bid for Brussels Airlines against Lufthansa, Mr. Walsh said, but hadn't pushed hard.

—Dana Cimilluca contributed to this article.

BP narrows choices at TNK-BP

Former Norilsk CEO is candidate to head troubled oil venture

By Alexander Kolyandr, Guy Chazan And Benoit Faucon

The former head of Russian metals giant OAO **GMK Norilsk Nickel**, Denis Morozov, is one of three candidates for the job of chief executive of **TNK-BP, BP** PLC's troubled Russian venture, according to people familiar with the situation.

The appointment of a new CEO was a key condition of the truce called between BP and its Russian partners in the 50-50 joint venture after a protracted shareholder battle that paralyzed operations at TNK-BP, which is Russia's third biggest oil producer.

The people familiar with the situation said BP will have a final shortlist of candidates for the CEO spot by the end of the month. The winning candidate will replace current CEO Bob Dudley. The Russian shareholders, who make up the Alfa-Access-Renova consortium, had long demanded Mr. Dudley's departure, accusing him of running TNK-BP as a subsidiary of BP and blocking efforts to expand it internationally. BP said the criticisms masked an attempt by AAR to grab control of the company.

Mr. Dudley left Russia in the summer, complaining of harassment by the Russian authorities. He has continued to run the company from an undisclosed location.

AAR, which is owned by four Russian billionaires, demanded any new CEO speak Russian and have management experience in Russia. Mr. Morozov fits the bill. He is also well-regarded by the Kremlin, a key advantage amid tightening state control of the country's oil and gas sector. Kremlin officials had suggested him as a possible replacement for Mr. Dudley as early as July, according to people familiar with the situation. These people say he has also been offered a senior position in government.

Mr. Morozov worked at Norilsk for more than a decade, and helped transform the company from a Soviet relic to an internationally respected, well-managed metals and mining giant.

In the 1990s, Mr. Morozov worked at Alfa Bank, the banking arm of Alfa Group which is owned by Mikhail Fridman, one of the Russian shareholders in TNK-BP.

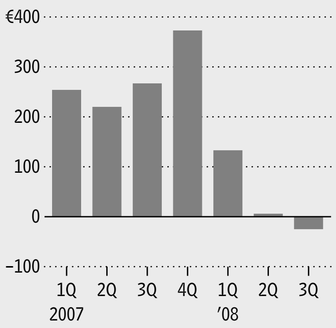
Norilsk has lately been roiled by a battle for control between two Russian billionaires, Vladimir Potanin and Oleg Deripaska. A casualty of the conflict, Mr. Morozov was forced to leave in July. Analysts say his lack of success in mediating between the two warring shareholders in Norilsk means he may have a tough time attempting the same task at TNK-BP.

Spokesmen for BP and Mr. Morozov declined to comment.

Separately, Russia's state-controlled OAO **Gazprom** on Friday warned it could pull out of a long-delayed deal with TNK-BP on the Kovykta gas field as regulators threatened to yank the field's license, but TNK-BP said it hoped the agreement would be concluded soon.

Sony Ericsson

Net profit/loss, in millions of euros



Source: the company

Sony Ericsson swings to a loss of $33.5 million

By Adam Ewing

STOCKHOLM—Sony Ericsson swung to a third-quarter loss, hit by lower sales as demand slowed in mature markets.

Unlike its bigger rival **Nokia** Corp., which dominates emerging-market sales of mobile phones, Sony Ericsson is largely dependent on sales from developed markets.

The joint venture between Japan's **Sony** Corp. and Sweden's **Telefon AB L.M. Ericsson**, on Friday posted a net loss of €25 million ($33.5 million), compared with a €267 million net profit a year earlier.

Net sales dropped 9.7% to €2.81 billion from €3.12 billion, hurt by unfavorable currency fluctuations and the company's shift toward less-expensive phones. The average selling price for its handsets declined to €109 from €116 in the second quarter and from €120 a year earlier because of tougher competition in the market for mid- to high-end phones.

Cost cuts helped keep the company's loss smaller than analysts had expected, and its unit shipments and market share held steady from the previous quarter.

Shares in Ericsson rose 5% Friday in Stockholm, while Sony shares rose 5.2% in Tokyo.

"As expected, the third quarter has continued to be challenging for Sony Ericsson," said Chief Executive Dick Komiyama. He said the company is moving ahead with cost-cutting plans, including consolidating research-and-development facilities.

After issuing two profit warnings this year, Sony Ericsson in July flagged the third quarter as particularly challenging, and said it aimed to cut operating costs by €300 million annually by the middle of next year to help the company become more agile and efficient.

Sony Ericsson said its gross margin, which fell to 22% from 31% a year earlier, was hit by intense price competition, especially in Europe, and higher costs from suppliers. New products helped cancel out some of the negative effects, the company said.

Nomura analyst Richard Windsor said that while gross margin suffered, cost controls helped minimize the impact on operating margin. He said the company's situation isn't likely to change in the fourth quarter as higher volume will likely be offset by lower prices.

CORPORATE NEWS

Pfizer settles drug claims

Company will pay $894 million to end Celebrex, Bextra suits

By Jonathan D. Rockoff And Nathan Koppel

Pfizer Inc. said it agreed to pay $894 million to settle most Celebrex and Bextra claims, a move likely to intensify investor demands that management slash costs and reinvigorate sales with new products.

Analysts said investors will be looking at the New York pharmaceutical giant's third-quarter earnings report, due Tuesday, for signs of significant cost cuts. Pfizer said in a statement that it is taking an after-tax charge of $640 million against profit in the quarter to cover the settlement sum.

"It's strategically disappointing they're writing a check for $900 million for a legal settlement [rather] than for buying up assets, which is what they need for future growth," said Catherine Arnold, an analyst at Credit Suisse.

The large size of the settlement heightens the pressure to cut costs, Ms. Arnold said, because Pfizer's blockbuster cholesterol drug, Lipitor, is losing market share and sales growth of its once-promising anti-smoking drug, Chantix, has slowed because of safety concerns.

Associated Press

Personal-injury suits claimed Pfizer's **Celebrex and Bextra** caused strokes.

"We are pleased by the favorable rulings we have achieved in this litigation and believe that now is the right time to resolve these matters," Amy W. Schulman, Pfizer's general counsel, said in a statement. Ms. Schulman also said the company was "putting these matters behind us" by resolving the bulk of the cases, a development many analysts also praised.

Pfizer shares fell six cents to $16.91 in 4 p.m. composite trading on the New York Stock Exchange Friday.

The personal-injury suits alleged that Celebrex and Bextra caused heart attacks and strokes. The so-called Cox-2 inhibitors were purported to relieve pain while going easy on the stomach, but they became mired in safety concerns.

Consumer-fraud complaints, as well as lawsuits by 33 states and the District of Columbia, alleged improper promotion of the drugs. Celebrex is still marketed, but Bextra and another Cox-2 drug, **Merck** & Co.'s Vioxx, were withdrawn from the market.

Pfizer faced about 8,000 lawsuits, according to Jayne Conroy, a plaintiffs' lawyer in the case. The company emphasized that Celebrex, which had $589 million in sales last quarter, was safe and effective.

Pfizer said $745 million of the $894 million total will resolve the known personal-injury lawsuits, $60 million will go to states and the remainder, $89 million, will resolve the consumer-fraud complaints. Pfizer has reached agreements in principle with the states and District of Columbia.

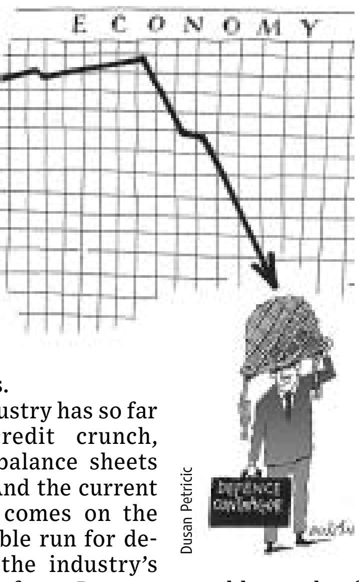
Pfizer said it had reached agreements covering about 90% of the personal injury claims and Ms. Schulman said the company is hopeful that it can resolve the rest. But, she added, "We are fully prepared to try one of these cases if we need to."

Defense contractors brace for U.S. economic fallout

By August Cole

The biggest U.S. defense contractors will report third-quarter results next week amid the possibility that the Defense Department's rising weapons spending could become a casualty of the current economic crisis.

Though higher profits and revenue are expected for the quarter, executives from top defense firms—including **Lockheed Martin** Corp., **Boeing** Co. and **Northrop Grumman** Corp.—will be scrutinized with regard to their plans for dealing with the financial crisis and the possibility of the first Democratic president in eight years.



Dusan Petricic

The defense industry has so far weathered the credit crunch, thanks to robust balance sheets and a lot of cash. And the current economic trouble comes on the heels of a remarkable run for defense stocks and the industry's bottom line. The Defense Department's budget, with a base level of $512 billion for fiscal 2009, is set through September. With $109.9 billion set aside for weapons procurement and $79.9 billion for research and development and testing, the budget is seen as generally favorable for the defense industry.

But tough decisions on major weapons programs are ahead. One involves whether the government will continue with programs such as Lockheed's F-22 Raptor fighter, the future of which was effectively passed off to the next presidential administration. Lockheed, the Pentagon's biggest contractor by sales, reports earnings on Tuesday.

Military spending plans for fiscal 2010, which begins on Oct. 1, are being worked out by the armed services and are expected to be released in coming weeks. The defense industry assumes that the 2010 budget put together under the Bush administration is effectively locked in for the incoming president, because there is little time for broad changes before the budget is submitted to Congress in February.

While investors look for hints about the future, they will also evaluate the state of some problems the firms face in the here and now. Northrop, which releases earnings on Wednesday, likely will discuss the impact of a brief hurricane-driven shutdown of its Gulf Coast shipyards, where the company is wrestling with costly wiring problems on a Navy ship.

Boeing, meanwhile, will be closely monitored for the signs of both the impact and outcome of a six-week strike by workers at its commercial-aircraft business. Boeing reports results on Wednesday.

Apple will offer clue on spending by consumers

By Yukari Iwatani Kane

SAN FRANCISCO—When **Apple** Inc. reports quarterly results Tuesday, investors will be looking for new clues about the health of consumer spending.

Apple has seemed relatively unaffected by the slowdown so far, which hit business spending on technology first. The company mainly hawks its Macintosh personal computers, iPods and iPhones to consumers, and demand is believed to have held up for most of the quarter that ended in September.

But consumer confidence has been shaken as the financial crisis has worsened, and the effects could show up in Apple's projections for the current quarter, ending in December.

"Nobody knows what's going to happen," says Charlie Wolf, an analyst with Needham & Co. "All the nonmacroeconomic trends will continue for the company, but you have the massive downward momentum coming from the economy."

Wall Street will be watching closely for any sign of deterioration in the Cupertino, Calif., company's fourth-quarter financials, as well as what the company says about the fiscal first quarter. Analysts believe Apple's new $1,299 aluminum MacBook computers, launched last week, will be popular, but some were hoping for lower pricing that could have taken Apple into a hot market segment.

Analysts on average expect Apple to post profit for the fourth quarter of $1.11 a share, up from $1.01 in the year-earlier period, with revenue rising nearly 30% to $8.05 billion.

GLOBAL BUSINESS BRIEFS

Areva SA

Finnish reactor with Siemens to face additional delay

The completion of Europe's first pressurized nuclear reactor will be further delayed by three years and isn't expected to be online until 2012, Finnish utility Teollisuuden Voima Oyj said Friday. It was the fourth delay at the site in Olkiluoto, which has been plagued by problems since construction began in 2005. The plant's supplier is a French-German consortium, with **Areva** SA of France delivering the reactor plant and **Siemens** AG of Germany responsible for the turbine plant. The 1,600-megawatt plant had been scheduled to start operation next year. The €3 billion ($4 billion) plant is Finland's largest building project to date, employing about 4,000 people.

HQ Bank AB

Swedish bank **HQ Bank** AB said it bought the Swedish arm of Icelandic bank **Glitnir** hf for 60 million kronor ($8.1 million). Proceeds from the sale will go to the Icelandic Financial Supervisory Authority, which nationalized Glitnir and two other Iceland banks recently. The authority is forcing asset sales to help shore up an economy hit by a depreciating currency amid the global financial turmoil. HQ Chief Executive Mikael Konig said the transaction would lower costs through administrative and infrastructure synergies while broadening the bank's income base. The Swedish unit, Glitnir AB, is an electronic trader and broker on the Nordic stock exchange. In September, it held a 5% market share on the Stockholm exchange, roughly the same as last year, said its CEO, Anders Holmgren.

Kazakhmys PLC

Kazakhstan's largest copper producer, **Kazakhmys** PLC, said Friday it has broken off merger talks, but didn't reveal the identity of the other party. The London-listed company was discussing a tie-up with iron and steel producer **Metalloinvest Holding**, half-owned by Russian billionaire Alisher Usmanov, a person familiar with the matter said when the talks were first announced in July. The merger could have created a company with a combined market capitalization of around $50 billion. Kazakhmys had previously rebuffed a $13.8 billion takeover offer from another Kazakh metals and energy holding company, European Natural Resources Corp. It is controlled by former Communist Party official Vladimir Kim, who owns a 45.8% stake.

Inchcape PLC

After cautioning that full-year results will be below market forecasts this year and significantly below expectations in 2009, U.K.-based car retailer **Inchcape** PLC said it is considering job cuts and site closures. "We are not immune from the current industry slowdown and we are taking appropriate actions to right-size our cost base," said Chief Executive Andre Lacroix. Unnerved by the warning, investors knocked more than 38% off of the shares in Friday London trading. The CEO declined to specify the number of jobs that could be lost, but said about 10 sites could be shut. Inchcape said it expects the restructuring and associated asset write-downs to cost about £55 million ($95 million), while annual costs should fall about £50 million as a result.

Saab AB

Swedish aerospace and defense company **Saab** AB swung to a third-quarter net loss and unveiled plans to cut 500 jobs, or nearly 4% of its work force, over the next two years, mostly through attrition. Net loss in the quarter came to 97 million kronor ($13.1 million), compared with a profit of 218 million kronor a year earlier. Sales were down 4.7% to 4.58 billion kronor from 4.81 billion kronor, while order bookings plunged 21% to 3.1 billion kronor. The Stockholm-based company blamed the weaker results mainly on steep marketing costs, delayed orders and slow business development in South Africa.

LTE

Spanish low-cost airline **LTE** said Friday it is suspending services because it can no longer cover the cost of operating. The 20-year-old company, with bases in Palma de Mallorca, the Canary Islands, and Milan, Italy, is "doing everything to minimize the impact of this suspension of services on its clients and providers." It added that "it just was not possible to avoid this situation given world events lately." The company, which operates flights from Spain to England, Italy and Saudi Arabia, has 300 employees and a fleet of seven Airbus 320s. Airlines world-wide have come under pressure because of declining demand and wildly gyrating fuel prices.

UniCredit SpA

UniCredit SpA said it swapped assets valued around €1.8 billion for government bonds owned by the Bank of Italy on Thursday as part of a new government facility aimed at boosting banks' liquidity. Chief Executive Alessandro Profumo said the assets swapped were "absolutely not toxic," but didn't provide further details. On Thursday, the Bank of Italy allotted €1.9 billion out of a possible €10 billion in government bonds in its first swap auction since the Italian government approved measures to help shore up the country's banks amid the global financial crisis on Oct. 13. Mr. Profumo earlier this month scrambled to stabilize UniCredit's falling stock price, adopting measures that included a €3 billion capital increase.

Yara International ASA

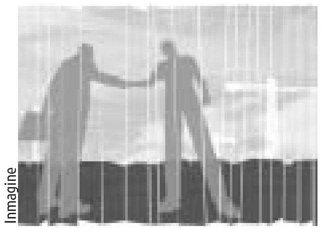
Yara International ASA said Friday that its third-quarter net profit more than doubled as higher fertilizer prices offset rising raw-material costs. The Norwegian fertilizer company said net profit rose to 3.36 billion Norwegian kroner ($511 million) from 1.49 billion kroner a year earlier. Analysts expected net to come in even higher, largely due to a larger-than-expected hedge in U.S. dollars related to Yara's purchase of Saskferco Products ULC. Revenue rose to 25.06 billion kroner from 12.78 billion kroner. Yara said fundamentals for fertilizer demand are strong, and while the financial crisis may hurt economic growth, the effect may be more limited in emerging economies.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.K.

OECD calls on Britain to prosecute bribery cases


Inmagine

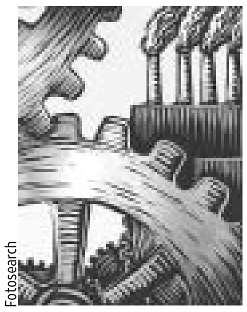
THE Organization for Economic Cooperation and Development called on the U.K. to enact laws to allow it to successfully prosecute companies that bribe foreign government officials.

In a report, the OECD's Working Group on Bribery said it was "disappointed and seriously concerned" by the U.K.'s failure to successfully prosecute cases against companies suspected of offering bribes to government officials to win contracts.

The OECD said that the attorney general—the government's top legal officer—shouldn't give instructions to the Serious Fraud Office about individual foreign-bribery cases. *—Paul Hannon*

ITALY

Industrial orders, sales dropped during August


Fotosearch

ITALIAN industrial orders and sales fell sharply in August as weak consumer spending and the global slowdown continued to hit the country's export-driven economy, national statistics office Istat said.

Industrial orders dropped by an annual 5.2% in August, with orders from abroad plunging 12.8%, the fourth consecutive decline. Domestic orders fell 0.5%, Istat said. Italy's large manufacturing sector is increasingly feeling the pain of the world economic slowdown resulting from the global financial crisis.

Industrial sales plummeted by an annual 11% in August, according to unadjusted data. *—Luca Di Leo*

EURO ZONE

Trade deficit expands with declining exports


Inmagine

THE EURO zone's trade deficit with the rest of the world rose sharply in August as exports fell more rapidly than imports, suggesting that the currency bloc is no longer receiving a boost from foreign trade.

The European Union's statistics agency said the euro zone's trade deficit widened to €9.3 billion ($12.47 billion) in August from €2 billion in July and swung from a €1.5 billion surplus in August 2007.

Exports from the euro zone fell to €117.2 billion from €141.6 billion in July, while imports fell to €126.5 billion from €143.6 billion. *—Paul Hannon*

Russian economic recovery tested

Falling oil prices, plunging stocks deal a blow to government

BY GREGORY L. WHITE
Moscow

THE PROSPECT of sharply lower prices for oil and other commodity exports—on top of plunging stock markets and a seized-up financial system—threatens the economic recovery that's been a foundation of Vladimir Putin's rule in Russia.

Falling prices for crude oil played a role in driving down Russia's benchmark RTS stock index 20% last week to the lowest level since June 2005.

Despite a $160 billion Kremlin bailout package, the market is off 73% from its record high set in May, and Finance Minister Alexei Kudrin warned legislators Friday that the declines are likely to continue. Unable to raise cash, Russia's heavily indebted billionaires have been forced to give up prime assets pledged as collateral or beg for bailouts.

Economists have cut forecasts for growth next year to around 3%-4%, down from a 7.7% rate in the first nine months of this year. Central bank reserves have fallen $66.9 billion since early August as investors and ordinary Russians have fled the ruble. Authorities have effectively nationalized four banks and bankers say dozens more are in trouble.

Sources: Thomson Reuters via WSJ Market Data Group (oil); International Monetary Fund (GDP)

Mr. Putin "was very lucky on the way up. This is the first test," says Rory MacFarquhar, economist at Goldman Sachs in Moscow. "They haven't grasped yet the magnitude of what they're up against." Mr. Putin was president until he moved over to the premiership in May.

Poll data released by the non-governmental Levada Center last week showed small declines in the sky-high approval ratings for Mr. Putin and President Dmitry Medvedev. Possibly encouraged by uniformly upbeat economic coverage on state television, 42% of those surveyed said the current financial problems are likely to be temporary. A smaller group, 31%, said the country faces "serious financial shocks." The center polled 1,600 people with a 3% margin of error.

So far, the impact on the public has been limited, with only a few midsize banks failing to honor deposits, prompting takeovers by state-affiliated banks with funds from the central bank. Unemployment remains low, but big metals and auto companies have announced production cuts and some sectors are reporting sharp slowdowns in October as banks have cut off lending.

But the first sustained declines in the ruble's exchange rate against the dollar in years—a trend many economists expect to accelerate—have raised public concerns. "Make no mistake, it's moving over to the real economy," said a senior official at a major Russian bank.

At one of the first major official briefings since the crisis began, a top government official Friday said, "There is no crisis now...economic growth will remain positive." He wouldn't venture a forecast for next year, though he indicated it would likely be below 5%.

Some sectors are reporting sharp slowdowns in October.

He said the government's widely praised policy in the last few years of saving the bulk of its oil revenues means the Kremlin, with $531 billion in reserves, has adequate "safety cushions" to protect the economy and banking system and avoid sharp cuts in government spending.

"Russia's financial system will withstand this, we'll make sure of that," he said. "But it's rather expensive."

Most of the damage to the stock market has already been done, he said. Over $30 billion of foreign capital fled since the August war in Georgia and the ruble's decline against the dollar spooked investors.

The government will begin over the next week or so to spend 175 billion rubles from one of its oil funds to buy blue-chip stocks and bonds in what the official said was a long-term investment, not an effort to reverse the market trend. Already, economists say Russia will have to shelve its plan for a large sovereign-wealth fund that will invest in foreign companies.

The senior official said average prices for the year will be well above the $70 at which the budget is in balance. Even next year, when the needed figure is projected to be $95 and prices are likely to be in the $60-$80 range, he said, the government won't have to slash spending.

He said new projects might be cut back. But that could be politically difficult, since President Medvedev and Mr. Putin have been promising in recent weeks major new military programs, as well as bailouts for struggling industries.

Prices for Russian Urals crude oil fell below $70 last week to some of the lowest levels seen in a year. With global growth slowing sharply, prices for nickel, aluminum and other commodity exports also have plunged, sharply cutting the flow of money into Russia's economy.

Economists warned that a steeper decline in the oil price—likely if the global financial turmoil continues—along with $180 billion in debt coming due by the end of next year, could do much more damage. J.P. Morgan analysts warned in a report Friday that in a pessimistic scenario of $50 Urals crude oil next year, Russia could burn through more than half of its reserves as capital flight surges in 2009. Goldman Sachs said a price that low would mean zero economic growth.

News in Depth

Cloak and dagger

Was a CIA agent's death the first shot in a new Cold War? > **Pages 16-17**


Family collection

EU and Canada seek to reach trade agreement

ASSOCIATED PRESS

Canada and the European Union are committed to creating a comprehensive trade agreement despite the uncertainty caused by the global credit crisis, Canada's prime minister said Friday after meeting with French President Nicolas Sarkozy.

Canada's drift toward stronger economic ties with Europe comes as U.S. economic growth slows and 15 years after Canada, the U.S. and Mexico signed the North American Free Trade Agreement. The U.S. receives about 80% of Canada's exports.

Tough economic times make it crucial for closer cooperation between Canada and Europe, Prime Minister Stephen Harper said after talks with Mr. Sarkozy and José Manuel Barroso, president of the European Commission.

"Canada and the EU will prepare formal mandates with a view to launching negotiations on an economic partnership as soon as possible in 2009," Mr. Harper said. "We must stand against protectionism and work to lower and eliminate barriers," he said.

Mr. Harper said Canada and the European Union are taking their economic cooperation "to an entirely new level."

Officials say a possible Canada-EU trade agreement would allow for Canadian and European workers to work in each other's regions and allow for EU and Canadian companies to bid on government procurements.

The possibility of a broad agreement follows a Canada-EU joint study launched in Berlin last year and released Thursday that recommends more comprehensive economic ties.

Messrs. Harper and Sarkozy were in Quebec City for a summit of French-speaking nations, which began Friday and ran through Sunday. The French president cut short his visit Saturday to meet with U.S. President George W. Bush at the Camp David presidential retreat to lay the groundwork for a global summit to overhaul the financial system.