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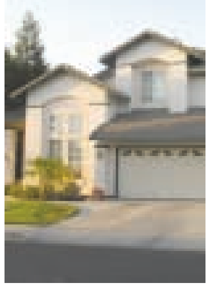


California home sales revive, with some pain

NEWS IN DEPTH | PAGES 14-15

Falling energy prices could benefit big oil companies

CORPORATE NEWS | PAGE 4

Eastern Europe feels chill as foreign credit dries up

Hungary fails to halt slide in its currency with big rate increase

By Marcus Walker

BUDAPEST—The global financial crisis is sending a deep chill across Europe's former Communist East and other countries on old Europe's periphery that rely on borrowing from abroad to fuel their emerging economies.

Even as Western Europe starts to believe the worst of its banking crisis may be over thanks to massive government rescues, the region's poorer neighbors—which can't afford to pump tens of billions of euros into their banks—are losing access to the foreign credit that has propelled growth, setting back their dream of catching up with Western living standards.

Hungary is the latest example of an economy on the brink. Its central bank raised interest rates by three percentage points Wednesday in an emergency measure to pull its currency out of a tailspin—a clear sign the global financial crisis is hitting the real economy and threatening even more pain.

Hungarian Prime Minister Ferenc

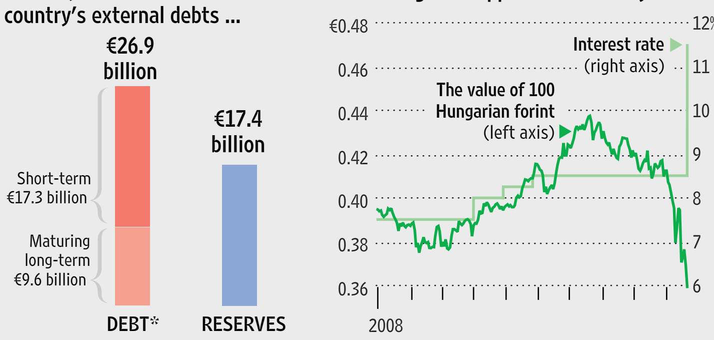
Please turn to page 31

Currency exchange in Budapest Wednesday

Funding gap

Hungary is short of foreign-currency reserves to cover the country's external debts ...

Central bank base rate has risen, but will it be enough to support the currency?



*Foreign debt due in the next 12 months

Sources: Capital Economics (rates); Barclays Capital, National Bank of Hungary (reserves and debt); WSJ Market Data Group (currency as of Oct. 21). Photo: Reuters

What's News—

Business & Finance

European currencies suffered another blow on fears of a global recession, further fund repatriation and expectations that additional interest-rate cuts are inevitable in Europe. By late afternoon in New York, sterling had dropped to $1.6317. Page 1

■ **U.S. stocks sank** on glum earnings news, with the Dow shedding 514.45 points. European shares slid for the second consecutive session. Page 17

■ **Russia said** it would cooperate with OPEC amid falling oil prices, but didn't promise production cuts. U.S. benchmark crude slid 7.5%, to $66.75. Page 1

■ **The relaunched Alitalia** faces the same problem as its predecessor: political interference. Page 3

■ **Gazprom said** its first-quarter net rose 30% but cautioned that the global credit crisis could hurt its ability to borrow. Page 5

■ **The U.K. held firm** on its ban on shorting financial stocks, but the FSA said it will review the ban in 30 days. Page 18

■ **Barclays priced the first** government-guaranteed bond issue, paving the way for other U.K. banks to join in and help free up the credit markets. Page 18

■ **Glaxo said** small drug makers squeezed by the credit crunch are turning to it as a possible buyer. The U.K. firm's earnings fell, stung by charges. Page 7

■ **Merck's profit fell 28%**, and the drug maker said it would cut 7,200 more jobs and close three research facilities. Page 7

■ **Passenger traffic** at major European airlines fell 1.1% in September from a year earlier, as the economic downturn put pressure on the carriers. Page 8

■ **DTCC will acquire** the European clearinghouse LCH.Clearnet in a $965 million deal that aims to reduce trade-processing costs for investors. Page 20

■ **Wachovia posted** a $23.9 billion quarterly loss in what was likely its last profit report before Wells Fargo takes over. Page 21

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8519.21	-514.45	-5.69
Nasdaq	1615.75	-80.93	-4.77
DJ Stoxx 600	209.57	-11.33	-5.13
FTSE 100	4040.89	-188.84	-4.46
DAX	4571.07	-213.34	-4.46
CAC 40	3298.18	-177.22	-5.10
Euro	$1.2911	-0.0282	-2.14
Nymex crude	$66.75	-5.43	-7.52

Money & Investing > Page 17

World-Wide

Hungary raised interest rates by three percentage points in an emergency measure to pull its currency out of a tailspin, but the move failed to halt the slide. Even as Western Europe starts to think the worst of its banking crisis may be over, the region's poorer neighbors are losing access to the foreign credit that has propelled growth. Page 1

■ **Donors pledged** over $4.5 billion to help Georgia recover from its war with Russia, while diplomats said final settlement of the conflict could take years. Page 2

■ **The Gates foundation** will give $100 million in small doses to groups doing novel medical-research experiments. Page 2

■ **Pakistan formally asked** the IMF for financial assistance in an embarrassing step for President Zardari just one month after taking office. Page 9

■ **The U.S. will host** leaders from the Group of 20 at a Nov. 15 summit to address the global financial crisis. Page 10

■ **A coalition airstrike hit** an Afghan army checkpoint, killing nine soldiers, Afghan officials said. Also, an operation in the south killed 35 Taliban fighters and three Afghan police, local authorities said.

■ **The U.S. imposed** financial sanctions on the Export Development Bank of Iran for allegedly providing services supporting the nation's weapons program.

■ **A car bomb killed** four civilians in the northern Iraqi city of Mosul as the local government acknowledged it has yet to persuade frightened Christians to return to their homes.

■ **EU lawmakers backed** the bloc's goal of cutting greenhouse gas emissions by 2020 despite concerns in many nations about the financial impact.

■ **A NATO flotilla will begin** antipiracy operations along the Somali coast within days, but officials are still working out the rules of engagement.

■ **The Czech government** narrowly survived a no-confidence vote in Parliament.

■ **Rival leaders in Cyprus** discussed how they would share executive power in a federation at talks to reunify the island.

Editorial & Opinion

Getting going again
Following the financial crisis, tax cuts would best stimulate Europe's economies. Page 13

Currencies fall in Europe; stocks tumble

By Martin Essex

LONDON—European currencies dropped sharply again Wednesday after Mervyn King, the governor of the Bank of England, focused the markets' attention back on the prospects of a severe downturn in Europe's economy. Stock prices took a big hit as well.

Speaking late Tuesday, Mr. King said "it now seems likely that the U.K. economy is entering a recession"—a comment seen as highly unusual, as central bankers are generally reluctant to express such pessimism in public.

By late afternoon in New York, sterling had dropped to $1.6317, compared with $1.6698 late Tuesday, after hitting an intraday low at $1.6148, its weakest level since September 2003. The euro stood at $1.2863, from $1.3064 Tuesday, after hitting a low of $1.2771, its weakest level against the dollar since November 2006.

Meanwhile, the dollar was at

Please turn to page 30

Widespread declines

Russia warms to OPEC, but doesn't promise cuts

By Gregory L. White in Moscow and Neil King Jr. in Washington

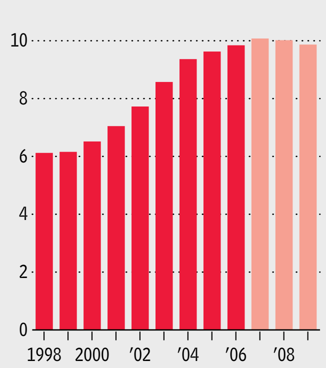
With crude prices dropping, No. 2 oil exporter Russia pledged to cooperate with the Organization of Petroleum Exporting Countries—but stopped short of any promise to join the cartel in production cuts to support the market.

After years of often prickly relations with OPEC, the Kremlin recently has been cozying up to the cartel, raising concerns in Western capitals about closer cooperation between countries that account for about half of world oil production. But Russian officials, as well as Western diplomats and analysts, say the Kremlin's warming to OPEC seems more about trying to intimidate Western governments in the wake of the conflict over the war in Georgia than any real desire to work with OPEC to manipulate prices.

OPEC Secretary-General Abdalla Salem El-Badri, who is visiting Moscow this week, said on Wednesday he wasn't planning to ask the Kremlin to cut production but just wanted to discuss the situation in the market. Some OPEC members have called on Russia and other producers outside the cartel to join in cuts likely to be announced at a meeting in Vienna on Friday.

Russian oil production

12 million barrels a day



Note: Estimated data for 2007 to 2009

Source: International Energy Agency

The Russia-OPEC talks came on a day when oil prices clocked another steep drop. On the New York Mercantile Exchange, U.S. benchmark crude for December delivery slid $5.43, or 7.5%, to $66.75. That is down 55% from its record high of $147.27 in July.

At the start of the meeting with Mr. El-Badri on Wednesday, Russian President Dmitry Medvedev said the reason for ties with OPEC "is absolutely obvious: Russia is also a large producer and exporter of oil

Please turn to page 30

THE WALL STREET JOURNAL.

LEADING THE NEWS

Georgia gets $4.5 billion

Donor pledges come as Russia warns of holes in cease-fire

By Marc Champion

BRUSSELS—Governments and private donors pledged over $4.5 billion to help Georgia recover from its August war with Russia, while diplomats predicted any final settlement of the conflict is years away.

Tension on the ground is creating concern among diplomats that Russia may not be content with the peace process and violence could erupt again, further destabilizing an important corridor for transporting oil and natural gas from the Caspian Sea region to the West.

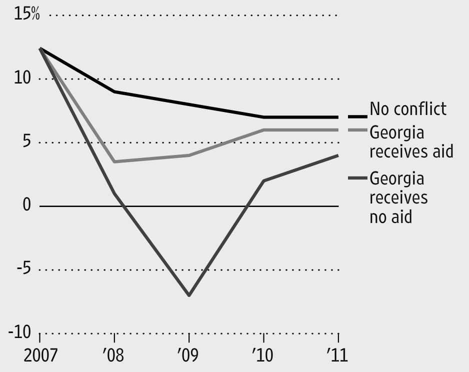
In an Oct. 18 letter to the European Union, reviewed by The Wall Street Journal, Russia accused Georgian special forces of concentrating in buffer zones monitored by the European Union around Georgia's two Russian-controlled separatist territories, South Ossetia and Abkhazia.

The letter, from Russian Foreign Minister Sergei Lavrov to EU foreign-policy chief Javier Solana, also accused the Georgian forces of conducting unspecified provocations. In the letter, Mr. Lavrov demanded direct talks with the EU on how to provide security in the zones, warning that otherwise it could become "complicated" to implement the cease-fire agreement that ended the war.

A spokeswoman for the EU's monitoring mission in Tbilisi, Georgia, said that so far the mission hasn't seen "any deployment of Georgian special forces that would go beyond the normal deployment needed to ensure law and order in those areas." Russian officials didn't respond to requests to comment.

Georgian rescue

Scenarios for growth in Georgia's gross domestic product assuming: There was no conflict with Russia; the conflict happened but Georgia gets the aid it needs; the conflict happened and Georgia doesn't get aid.



Source: World Bank Oct. 9, 2008 Joint Needs Assessment

EU officials said they are concerned the letter's demand for parallel bilateral talks between Russia and the EU aims to undermine multiparty negotiations that began Oct. 16 in Geneva and are due to resume next month.

Wednesday's aid pledges, made at a Brussels conference, include $3.7 billion from governments and $850 million in private sector donations from 38 countries and 15 international organizations.

EU and other representatives at the conference said the pledges showed continued international determination to support Georgia's Western and democratic ambitions in the wake of Russia's military intervention in August. Russia says it intervened to prevent the slaughter of civilians in South Ossetia in the face of a Georgian military assault Aug. 7.

"Given the financial crisis, this is a minor miracle," said U.S. Assistant Secretary of State Daniel Fried. The U.S. offered $1 billion in a previously announced package; EU institutions and member states collectively offered $1.12 billion, and Japan $200 million.

The World Bank, in an internal needs-assessment, said about $1 billion of the aid is needed to fill a war-related hole in the Georgian budget and enable pensioners, teachers and others to get paid. Another $1 billion is needed for social and humanitarian support and $1.25 billion for damaged infrastructure.

French Foreign Minister Bernard Kouchner urged patience, recalling that 1990s status talks for the Balkans took five years to conclude.

German Deputy Foreign Minister Gernot Erler said he thought the Russians could be enticed into serious talks only by widening the discussion to include security in the whole Black Sea and Central Asia region.

"We're now into the long-term diplomacy," said Mr. Fried. "The acute phase of the Georgian crisis is over, but with one very important caveat—it's very clear that the security situation is not good."

—Samantha Shields in Tbilisi contributed to this article.

Gates foundation to fund novel medical research

By Robert A. Guth

The Bill & Melinda Gates Foundation will give $100 million in small doses to groups doing novel medical-research experiments—part of new approach by the foundation to use the Web to reach researchers who might be missed by traditional ways of funding.

The Gates foundation, the world's largest private philanthropy, said Wednesday that it will grant 104 scientists and experimenters in 22 countries $100,000 each for research into areas that include how to prevent or cure HIV/AIDS and tuberculosis.

The grants are the first phase of a Gates experiment, which it has been planning for a year, in how to provide smaller grants to a greater number of researchers in a shorter amount of time. The program, called Grand Challenges Explorations, aims to operate more along the lines of Silicon Valley's approach, in which venture capitalists provide relatively small amounts of capital to a large number of ideas in the hope that just a few will succeed and become the next Microsoft or Google.

"This is a high-risk program," said Tachi Yamada, president of global health at the Gates foundation. "We recognize that most of these things are not going to pan out."

Traditional medical-research funding typically involves lengthy reviews and much larger amounts of money. The Gates foundation's more conventional health-related grants, for instance, usually range between $2 million and $3 million and can take nine months or more to be awarded.

The foundation culled the 104 grantees in the new program from 4,000 applicants that filled out a two-page application over the Internet. It encouraged experimenters to propose approaches to problems that were offbeat or novel. Sixty people inside and outside the Gates foundation chose the winning applications.

In a year, the selection committee will review the progress of each grantee. Those that look promising can then apply for grants of $1 million, Gates foundation officials said. Dr. Yamada said that of the 104 grantees, he expects only about six will show enough promise to be considered for the larger grant.

The first round of grants will go to students and established scientists in countries including the Netherlands, Singapore and South Africa. The majority of the grantees are in the U.S. The experiments include ideas for a "stealth weapon" for destroying HIV and for using mosquitoes as "flying syringes" to vaccinate people.

Dr. Yamada cited the quest to find a vaccine for HIV/AIDS as one area he hopes could benefit from the program. The Gates foundation is one of the largest providers of research funds into HIV/AIDS vaccines.

"Most of the approaches that have been tried to date and that are in the pipeline have been from a sort of orthodox way of looking at vaccine," Dr. Yamada said. "Some novel approaches need to be tried."

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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CORRECTIONS & AMPLIFICATIONS

The Chandrayaan-1 lunar mission was India's first attempt to propel a spacecraft beyond an Earth orbit. An article in Economy & Politics Monday incorrectly said the launch of the lunar orbiter would be India's first attempt to leave Earth's atmosphere.

HSBC Holdings PLC has raised the capital levels of its U.K. subsidiary using its own funds. An article on Wednesday's page one said HSBC Holdings planned to raise capital on its own, which incorrectly implied it would raise capital on the market.

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

New Alitalia faces old ill

Airline's success depends on avoiding political influence

By Stacy Meichtry
And Luca di Leo

ROME—Italy is building a private airline from insolvent **Alitalia** SpA. But the new carrier already faces the same problem as its predecessor: political interference.

After a decade of failed turnaround plans, management upheaval, labor unrest and cost overruns that had saddled it with €1.2 billion ($1.57 billion) in debt, Italian flag carrier Alitalia sought bankruptcy protection this summer.

Italy's government, which owns 49.9% of Alitalia, then rolled out its Plan B: It rallied a team of Italian investors who now plan to relaunch the airline under the same name.

The investors, grouped in a company called **Compagnia Aerea Italiana**, plan to spend more than €1 billion to buy Alitalia's newer planes and airport landing and take-off slots around the world, and to merge the new carrier with local rival **Air One** SpA.

CAI and unions recently reached a deal that links cabin-crew and pilots' pay more closely to performance—a move aimed at freeing the airline of the labor unrest that has plagued it for years. A CAI spokesman said the company wants Alitalia to "finally move out of the public and fully into the private sector."

Much of the new Alitalia's success, however, will depend on whether Rome gives CAI enough independence to run the business efficiently, analysts say.

"Alitalia will continue to be influenced by politics," says Carlo Scarpa, an economist at the University of Brescia. "Politics in Italy never shuts up."

So far, Prime Minister Silvio Berlusconi has issued a decree rewriting Italy's bankruptcy laws to shield CAI's investors from Alitalia's many creditors.

One of the first decisions facing the new Alitalia—the selection of an airline partner—also has fallen squarely on Mr. Berlusconi's agenda. CAI wants Alitalia to link up with another European carrier in order to compete better against rivals such as low-cost airlines **easyJet** PLC and **Ryanair Holdings** PLC.

Deutsche Lufthansa AG and Franco-Dutch carrier **Air France-KLM** are in talks with CAI about a potential tie-up and the acquisition of a minority stake in the new company. **British Airways** PLC also is discussing a partnership with CAI but hasn't offered to invest in the new airline. So far, CAI has declined to say which airline it favors—but that hasn't stopped Mr. Berlusconi from weighing in.

After talks with German Chancellor Angela Merkel in Berlin earlier this month, the Italian prime minister publicly embraced a partnership with Lufthansa. "It would please us greatly if this alliance was with a country that we have worked with a lot, namely Germany," Mr. Berlusconi said.

With CAI yet to formally detail its international plans, there seems to be little commercial reason to prefer the German airline over Air France.

Reuters

CAI, a group of Italian investors, plans to spend more than €1 billion **to relaunch Alitalia**.

Politically, however, the choice of Lufthansa would send a key message to Mr. Berlusconi's political allies in northern Italy. The Northern League Party, a key member of Mr. Berlusconi's coalition government, has said it prefers Lufthansa because the German airline is more likely to develop a network of airport connections in the business-rich north of Italy, rather than in the south.

If it were to become Alitalia's partner, Air France would likely prefer keeping the bulk of the airline's flights in Rome. Air France hasn't ruled out Milan's Malpensa airport as a possible operational hub, according to a person familiar with the matter. However, the carrier prefers the Italian capital because it generates heavy tourist traffic and lies at the center of the country, making Rome a more natural departure and transport point for the Middle East and Africa, where Air France is strong, the person added.

Mr. Fantozzi acknowledged in an interview that the Italian government has been "very active" on Alitalia's behalf. But he added that once the new airline is launched, Mr. Berlusconi will "absolutely" give CAI's managers a free hand in running the airline.

CORPORATE NEWS

BROADCASTING

U.K. to spend more time, but less money, on TV


Index Open

ALMOST ONE in five U.K. consumers plans to cut spending on television channels over the next 12 months because of the economic crisis, according to a survey.

"One of the truisms about how consumers respond to a challenging economy is that they... spend more time at home, watching television," said Tim Barber, associate director at Continental Research, the survey's publisher. Now, "many people are looking to save money yet further," he added. Shares in **British Sky Broadcasting Group** PLC closed down 11%. **News Corp.**, which owns roughly 39% of BSkyB, owns Dow Jones & Co., publisher of the Wall Street Journal. *—Erica Herrero-Martinez*

AIRLINES

Middle Eastern carriers aren't immune to crisis


Reuters

MIDDLE-EAST carriers need to improve fuel efficiency and expand commercial freedoms to meet rising challenges facing the airline industry, the International Air Transport Association, or IATA, said.

"The oil price is falling, but what we save in fuel, we lose in revenue," said IATA Director General Giovanni Bisignani, above. "Even the Middle East is not immune."

So far Middle Eastern airlines have largely been unscathed by the soaring oil prices and market turmoil that have hit European and U.S. carriers. However, the combined profit of airlines based in the Middle East will drop to $200 million this year from $300 million in 2007, IATA said last month. *—Stefania Bianchi*

APPAREL

Sean John Clothing to buy Enyce from Liz Claiborne


Getty Images

LIZ CLAIBORNE Inc. is selling its urban-lifestyle brand Enyce to Sean John Clothing Inc., the apparel company owned by hip-hop impresario Sean "P. Diddy" Combs, left, and supermarket mogul Ron Burkle. The deal marks the second time this month Claiborne has shed brands to focus on its bigger businesses amid a decline in consumer spending.

Liz Claiborne and Sean John declined to discuss the terms of the deal. But a person familiar with the deal said Enyce (pronounced "En-EE-chay")—which Claiborne bought for $114 million in 2003—was valued at about $20 million. In an interview, Mr. Combs said he plans to retool the brand. *—Rachel Dodes*

Oil firms can benefit as price falls

Political issues ease, refining margins rise and partners open up

BY RUSSELL GOLD AND GUY CHAZAN

FALLING ENERGY PRICES are good news for consumers. The trend could also provide surprisingly welcome relief to another constituency: big oil companies.

Surging crude oil and gasoline prices powered global energy companies to a string of record profits in the past year. On Wednesday, **ConocoPhillips** continued the pattern, kicking off the industry's third-quarter earnings season with a 41% jump in profit. But commodities markets have changed direction. The economic slowdown spreading around the world has lowered demand for fossil fuels and sent prices into a tailspin. Since peaking at $145 a barrel in July, the price of crude oil has halved to $70 now. Many believe it could fall even lower.

That will trim profits at the major Western oil companies. Though oil prices averaged about $118 a barrel over the last three months, the European majors will see net income per barrel based on U.S. dollars fall by 7% in the third quarter from the second, according to estimates by Sanford Bernstein

Nevertheless, the drop in oil prices could hold some benefits for Big Oil. Red-hot crude led to unprecedented cost inflation in the energy sector, stoked political pressure for windfall-profit taxes and made it harder for companies to land long-term deals with resource-rich countries to get at untapped reserves. All of these headwinds are receding as oil prices sag.

Meanwhile, the majors' finances have rarely been stronger. The long run of high energy prices has allowed them to fortify their balance sheets, reducing their debt to historically low levels and building large cash hoards. The global oil leviathans "are built to survive" the downturns in oil-price cycles, says Gary Adams, vice chairman of the oil-and-gas business at the Deloitte consulting firm.


Associated Press

Since peaking at $145 a barrel in July, the price of crude oil has **fallen below $70** now, and many believe it could fall even lower.

And while falling oil prices will damp income from oil production, those declines will be partially offset by stronger profits from refining and marketing. Earlier this year, companies struggled to pass on the rising cost of crude to consumers. That reversed itself in the third quarter, when pump prices fell more slowly than crude prices and boosted the profit margins of big, integrated oil companies that not only extract oil but refine it and sell the gasoline to customers.

"The ideal environment for the majors is when prices are high but falling," as they were in the third quarter, says Mark Gilman, an analyst at Benchmark Co.

Houston-based ConocoPhillips reported a $5.19 billion third-quarter profit Wednesday, the 41% gain driven by a surge in profit from producing oil and natural gas. The company's refining profit fell due to the absence of a one-time tax benefit and lower production of gasoline, diesel and other fuels. Strong cash flow enabled Conoco to buy $2.5 billion of its own stock during the quarter, while increasing its cash reserve by 42% to $1.1 billion.

Big oil companies stand to gain from the current low-price environment by using their strong financial position to buy companies and assets from smaller distressed rivals.

"For those companies with a hole in their production profiles, in the longer term this will be the time to seize the day and replenish the portfolio with quality reserves at low prices," says Neil McMahon, an analyst at Sanford Bernstein. Key targets would be companies with exposure to hot resource plays like Canadian oil sands and Brazil's recently discovered deep-water oil fields, he says.

For the past couple of years, the majors have complained that high prices have encouraged oil-rich nations to limit access to new exploration opportunities. Tom Curran, an energy analyst at Wachovia Securities who tracks foreign-government licensing activity, expects this to change as cash flows dwindle and some countries begin to have trouble financing big development projects.

With their hefty balance sheets, fiscal discipline and operational experience, major oil companies could once again become the partners of choice for resource-rich countries under increasing pressure to deliver key projects on a tight budget.

"We could see a turn away from the breadth and intensity of resource nationalism," he says. "Over the next 18 to 24 months, you will see a trend in improving terms and conditions for international oil companies in licensing rounds."

One example he cites: As its oil production and prices drop, Iraq is displaying a growing "sense of urgency" to speed up the entry of foreign companies into its oil fields.

Another expected trend that should help Western oil companies is falling costs. Competition for resources in the industry is easing as smaller firms cut capital spending programs and struggle to find funding. That should bring down the cost of oil-field services, such as shooting seismic images or leasing drilling rigs. Raw-materials costs are also falling; steel prices have plummeted 65% since the summer and cement prices are down too.

"As risky, more-leveraged companies fall by the wayside, that will bring down cost pressures and make some of the majors' big projects more economical," says Lysle Brinker, co-director of equity research at consulting firm IHS-Herold.

That economic benefit could disappear, however, if oil continues to decline, since many projects will break even only with an oil price of at least $50 or $60 a barrel.

The companies themselves say they aren't at risk. "Nothing that we had in our plans has been affected by the change in price," **Exxon Mobil** Corp. Chairman and Chief Executive Rex Tillerson said Monday at a meeting in Scottsdale, Ariz. "We were never planning on $100, $150 oil. That is just not the way we run the business."

The political heat felt by oil companies as their profits swelled on rising prices could also ease. Congress has been mulling a potential windfall-profit tax to tap into major energy companies' robust cash flows. But pressure to act is expected to recede as constituents pay less to fill up their tanks.

"You won't see the obscene profitability, and the lower costs at the pump will help things," says Frank Verrastro, director of the Energy and National Security Program at the Center for Strategic and International Studies.

Gasoline demand stays on low side despite price drop

BY ANA CAMPOY

Gas-station owners say that drivers aren't flocking to fill up their tanks, despite plunging gasoline prices.

But the lower prices are helping hard-pressed station operators to improve their profitability by cutting their costs.

"It doesn't look to me like demand is rushing back," said Tom Robinson, president of Robinson Oil Corp., an independent gas retailer based in San Jose, Calif.

In the U.S., gasoline prices have fallen almost 90 cents at the pump in the past month, to a national average of $2.858 for a regular gallon on Wednesday, according to auto group AAA.

But demand for gasoline remains lackluster. It has been edging up a bit for the last two weeks, but remains down 3.3%, compared with year-ago levels, weekly data from the federal Energy Information Agency shows.

In Europe, gasoline and diesel prices also have fallen sharply. The average price of unleaded gasoline in the U.K. fell nearly 6% in the last month to £4.83 ($8.07) a gallon in October, according to the Automobile Association.

The price decline is not as dramatic as in the U.S., because higher taxes in Europe mute the impact of changes in the underlying price of crude oil.

"The evidence we have is that people are still cutting down on their car use," says Nick Vandervell, a spokesman for UKPIA, which represents companies involved in oil refining, marketing and distribution in the U.K. "They're driving slower, not as far, and less often."

Still, cheaper gas prices are easing the pressure on gas retailers. Through most of this year, U.S. retailers have been squeezed by rising gasoline prices, because they couldn't increase prices as fast as their suppliers did. With prices coming down, the lag works in their favor.

Credit-card fees, which are a major expense for retailers, are also lower now that gas is cheaper.

—Guy Chazan contributed to this article.

CORPORATE NEWS

Schneider Electric to limit size of acquisitions

Appetite for big buys is curbed by worries over global economy

By Max Colchester
And William Horobin

PARIS—France's **Schneider Electric** SA will rein in large-scale acquisitions in the coming months, despite posting solid sales growth in the third quarter.

Schneider, which makes power control-and-management equipment for factories and houses, said Wednesday that its group revenue increased 4.1% to €4.65 billion ($6.07 billion) on strong sales in Europe. The group didn't announce profit for the quarter.

But the global slowdown means Schneider likely will face falling demand in key markets, especially in the construction sector, where it sells electrical equipment such as circuit breakers.

Schneider Chief Executive Jean-Pascal Tricoire told analysts that the group would "slow down our phase of acquisitions" due to the economic uncertainty. In the next six months, the company won't spend more than €100 million on a single acquisition, he added.

Mr. Tricoire singled out sales growth in China as being "below our expectations." Schneider recorded third-quarter sales of €879 million in the Asia-Pacific region, up 6.1% from a year earlier.

Sales suffered in China after the Chinese government tightened monetary policy and home building took a hit. Many businesses that were closed during the Beijing Olympic Games for pollution reasons haven't reopened, affecting sales, the company said.

Schneider's sales in Europe rose 9.1% to €2 billion, thanks in part to energy-saving products, such as automatic light switches.

But U.S. sales rose just 1.9%, to €1.3 billion. The company said U.S. revenue was dragged down by sales declines in customized sensors, used in cars and aircraft. Business has been hurt by lackluster demand from the U.S. automotive industry and a labor strike at aircraft maker Boeing Co.

The value of overseas sales also was reduced by a stronger euro, which affected reported results by €204 million.

Schneider forecast that full-year sales will rise about 8% and said earnings before interest, taxes and amortization would be at least 15% of sales. Schneider said its products will continue to rise in price, while the raw materials used to make them likely will fall.

Since the beginning of the year, Schneider's share price has lost almost half its value, underperforming the CAC-40 index amid fears of a slowdown and a perception of deteriorating market conditions for the company.

Schneider's share price fell 8.2% to €44.14 in Paris Wednesday.

Gazprom profit rises, but firm is still cautious

By Jacob Gronholt-Pedersen
And Andrew Langley

OAO Gazprom posted a 30% rise in first-quarter profit, but the Russian natural-gas monopoly cautioned that the global credit crisis could hurt its cash flows and ability to borrow.

While analysts said that Gazprom would shrug off falling oil prices to boost profit throughout the rest of 2008, the state-controlled gas giant isn't immune to the global financial turmoil, which has begun to take hold in Russia. "If lower energy prices hurt cash flow, Gazprom will have to cut spending, said Artyom Konchin, an analyst at UniCredit in Moscow. "That would also mean it can repay less debt, which would in turn worsen its credit condition."

For the quarter ended March 31, the state-controlled gas giant said net profit was 273.44 billion rubles ($10.24 billion), compared with 210.3 billion rubles, boosted by higher domestic prices and stronger demand abroad. Sales surged 48% to 902.94 billion rubles, helped by a 25% boost in domestic gas tariffs from January and a 34% increase in export volumes in the lucrative European markets, where prices aren't capped like they are in Russia.

In a statement, Gazprom said the financial crisis "could affect the ability of the group to obtain new borrowings and refinance its existing borrowings at terms and conditions similar to those applied to earlier transactions."

Gazprom, the world's largest producer of natural gas, had previously said it was able to rely on huge cash flows generated during the past year to steer clear of problems. As recently as Monday, Chief Executive Alexei Miller said that those cash flows would enable Gazprom to overcome the tough credit conditions.

Still, the company has asked the government to put in place an emergency loan facility that would give it access to additional funds to refinance debt should the need arise. It had 1.1 trillion rubles of net debt at the end of March.

Investment bank Renaissance Capital said the first-quarter earnings were strong. "We expect Gazprom's earnings growth to accelerate over the remainder of 2008," thanks to high gas prices in Europe, said analyst Alexander Burgansky.

CORPORATE NEWS

Small cars, big premiums

U.S. drivers who buy fuel-efficient cars take hit on insurance

By M.P. McQueen

High gas prices are prompting drivers in the U.S. to switch to smaller, more fuel-efficient cars. But some of the money they save may be going to higher insurance premiums.

Small cars generally cost more to insure than larger ones because they are involved in more accidents and incur bigger claims, especially for injuries, insurance experts say. That is true even when other factors are taken out, like the tendency of younger and less-experienced drivers to buy smaller, cheaper cars.

A study by Insure.com, an online broker, found that a 40-year-old male driver could pay $1,704 to insure a 2009 MINICooper that gets 16 kilometers per liter on the highway. But that same driver would pay only $1,266, a difference of $438, to insure a Toyota Sienna Minivan that gets 10 kilometers per liter. Similarly, a Honda Civic compact that gets 15 highway kilometers to the litercosts $412 more a year to insure than a Honda CR-V, a small sport-utility vehicle, that gets 11 kilometers per liter.

"There is always a safety trade-off when you move from a large heavy vehicle to a smaller lighter one," says Russ Rader, a spokesman for the Insurance Institute for Highway Safety, a nonprofit, industry-funded group. "Part of what your insurance premium is based on is the loss experience of the vehicle."

Small cars often cost less for liability insurance because they are less likely to harm other cars, says Mr. Rader. But they are more likely to have damage done to them and their occupants are more likely to sustain serious injuries.

Some small cars also get stolen more and some are used more in street racing. In the U.S. alone, four of the top 10 most-stolen vehicles are compact cars, according to the National Insurance Crime Bureau, a nonprofit organization funded by property-casualty insurers, including '90s-era Honda Civics and Accords.

Because insurance companies in the U.S. evaluate risk differently using an individual's driving history, their household composition, neighborhood where the car is parked, and even credit-based insurance scores and sometimes education levels, it pays to shop around. A growing number of insurers are tailoring premiums to the driver using proprietary formulas instead of lumping them into broad risk-categories. So the price you pay to insure a car of specific make and model can be much more or less than what your friends pay to drive the same car. In the U.S., auto premiums overall have risen at an annual rate of about 3% in 2008, according Insurance Information Institute citing federal government statistics.

As gas prices soared earlier this year, so did small car sales. "When gas prices were up to almost [$1.30 a liter] people (in June) were panicking," said Richard Arca, senior pricing analyst with Edmunds.com, the online automotive Web site.

But the higher insurance bills can eat up some of the fuel savings. And, of course, as gasoline prices tumble, the higher insurance becomes even more of a consideration. Alternative-fuel vehicles in general are more expensive to insure, although several insurers offer discounts for hybrids. In this case, the main culprit is higher repair costs.

The 2009 Camry hybrid, for instance, costs an average $1,957 to insure for that 40-year-old male driver while a similar conventional engine 2009 Camry costs just $1,302, according to Insure.com.

A recent study by the Highway Loss Data Institute, an affiliate of the IIHS, found that overall insurance costs for crash damage were higher for 11 of 12 hybrid cars and SUVs than for their gas-only powered counterparts.

Amy Danise, a spokeswoman for Insure.com, explained, "Hybrid cars cost more to insure because they can't (always) use after-market parts, the labor charges per hour are higher and the they take longer to repair."

Some early buyers of the new microcars such as the SmartCar say they initially had trouble just finding insurance. Michelle Rupp, 50 years old, an insurance broker in Seattle, Wash., said she initially wasn't able to find an ordinary auto policy for the SmartCar she bought in 2006. The tiny three-cylinder cars are produced by Mercedes-Benz, a unit of **Daimler** AG. Instead, she had to buy a commercial policy from a small, regional insurer.

"Nobody knew what they were and they (insurance companies) were really freaked out," Ms. Rupp said. Since then, companies including Safeco Corp., recently acquired by **LibertyMutual Insurance** Co.; Geico, a subsidiary of **Berkshire Hathaway** Inc.; and **Travelers & Progressive Insurance** Co. have started writing policies for the tiny cars. LibertyMutual provides discounts for them. Smart USA spokesman Ken Kettenbeil said earlier versions of the Smartfortwo imported into this country prior to January 2008 didn't meet U.S. crash and emissions standards. He said most insurance companies now offer policies for the cars.

Honda

A 2009 **Honda Civic Hybrid** costs more to insure than one of the auto maker's CR-V sport-utility vehicles.

Associated Press

The machinists' strike, now in its seventh week and involving about 27,000 workers, has set Boeing back in delivering planes to airlines around the world.

Strike hurts Boeing net; Northrop profit increases

A WSJ News Roundup

Boeing Co. said Wednesday its third-quarter net income fell 38% as a strike by machinists halted commercial-airplane production at several plants, delaying new aircraft deliveries.

Still, at Boeing's formidable defense business, revenue rose 6.1% and operating earnings rose 3.9%.

Meanwhile, U.S. defense contractors **Northrop Grumman** Corp. and **General Dynamics** Corp. reported solid gains in the period and said order backlogs remain strong.

Boeing suspended financial forecasts until the work stoppage ends, citing "the uncertain length of the labor strike." Negotiations, including an outside mediator, were expected to resume Thursday.

The Chicago-based company reported net income of $695 million, or 96 cents a share, down from $1.11 billion, or $1.44 a share, in last year's third quarter. Boeing said the strike reduced profits by about 60 cents a share. Revenue decreased 7.4% to $15.29 billion.

The machinists' strike, now in its seventh week and involving about 27,000 workers, has set Boeing back in delivering planes to airlines around the world.

Boeing shares have slumped as investors fret about the uncertain outlook stemming not only from the strike, but also from a slowing global economy and tight credit markets.

Speaking with analysts on a conference call, Chief Executive Jim McNerney said Boeing is working to improve its business processes. Regarding repeated delays in the high-profile 787 jetliner program, he said that, in hindsight, "we bit off more than we could chew."

Northrop, of Herndon, Va., said net income rose 4.7% to $512 million, or $1.51 a share, compared with $489 million, or $1.41 a share, a year earlier. Revenue climbed 6.5% to $8.38 billion. Based on its results, Northrop raised its earnings outlook for the full year.

The company, which is a major supplier of fighter jets, said its backlog stood at a record $70.1 billion at the end of the quarter, including $11.5 billion in new contracts. Last month, Northrop received a $5.1 billion contract to build a next-generation aircraft carrier for the U.S. Navy.

Revenue rose at all of Northrop's business segments except shipbuilding, which posted a 1% decrease in sales.

Northrop now expects 2008 earnings from continuing operations of $5.10 to $5.20 a share, up from its previous estimate of $4.90 to $5.15.

General Dynamics said third-quarter profit rose 16% on continued strength in its commercial-aircraft and defense businesses.

The Falls Church, Va., company, which supplies the U.S. military with Abrams tanks and Stryker troop carriers, reported net income of $634 million, or $1.59 a share, up from $544 million, or $1.34 a share, a year earlier. Revenue rose 4.5% to $7.14 billion.

In the information-technology segment, General Dynamics' largest, earnings rose 6.3%, while revenue climbed 4.7%.

Combat-systems earnings increased 15% despite a sales decline of 1.2%. The company's aerospace and marine segments saw increased sales, with earnings rising 24% and 27%, respectively.

Home Retail posts a loss after write-down

By Lilly Vitorovich

LONDON—**Home Retail Group** PLC Wednesday swung to a net loss for its fiscal first half, hampered by a hefty write-down, and warned that conditions are expected to remain tough for the rest of the year.

Home Retail reported a net loss for the six-month period ended Aug. 30 of £446.8 million ($746 million), compared with a year-earlier net profit of £114.5 million.

In the latest period, the company took a write-down of £542.3 million on its do-it-yourself chain Homebase, reflecting the declining retail market. As a result of the write-down, which management flagged last month, the company said the 345-store Homebase chain is now valued at £350 million.

Total sales for Home Retail were flat at £2.74 billion, while sales from stores open at least a year fell 3% at its Argos general-merchandise chain and 10% at Homebase.

The already tough business conditions have deteriorated further in recent weeks, the company said. Since Aug. 31, same-store sales at both Argos and Homebase declined in percentage terms by "high single digits," it said.

"If these conditions continue through our peak trading months of November and December, the profit outcome for the year would likely be around the bottom of current market expectations," said Chief Executive Terry Duddy. To help trim costs, Home Retail said it will hire only 15,000 temporary staff for the Christmas period, down from the usual 20,000.

U.K. retailers, particularly sellers of clothing, housewares, garden and electrical goods are hurting from the fallout related to the credit crunch as consumers either curb spending or seek bargains elsewhere. Mid-to-high-end supermarket chains are also struggling.

Redstone and wife file for divorce

By Merissa Marr

Adding to what has been a tumultuous few weeks for Sumner Redstone, the media mogul and his wife of 5½ years announced Tuesday they have filed for divorce.

The news comes as Mr. Redstone, 85 years old, grapples with major debt issues at his family holding company, **National Amusements**. Mr. Redstone recently rushed to sell $233 million of his family's interest in **Viacom** Inc. and **CBS** Corp. to keep lenders at bay. His holding company has since been locked in emergency negotiations over restructuring a $1.6 billion debt pile.

In a statement late Tuesday night, Mr. Redstone and his wife, Paula Fortunato, 46, said: "After five and a half years together, we have amicably ended our marriage." The couple added: "While this is a difficult decision for both of us, we remain close and supportive friends and are committed to each other's continued happiness and success. We will have no further comment and hope that you will respect our privacy."

Mr. Redstone has a prenuptial agreement with his wife that provides her a $5 million settlement, according to people close to the couple. While Mr. Redstone may end up paying her more, he is expected to settle that using his personal funds, the people said.

CORPORATE NEWS

Glaxo says it is courted to buy smaller drug firms

BY JEANNE WHALEN AND ELENA BERTON

Small drug companies squeezed by the credit crunch are turning to **GlaxoSmithKline** PLC to discuss being acquired, Glaxo Chief Executive Andrew Witty said, adding that Glaxo may step up its acquisition activity in the coming months.

Though Glaxo's earnings fell, the global economic crisis so far has had only "modest impact" on Glaxo's sales, Mr. Witty said. He added, however, that the company would keep a close eye on consumer demand in the months ahead. Glaxo, of Brentford, England, is the world's second-largest drug company by sales, after **Pfizer** Inc.

Mr. Witty made the remarks Wednesday as Glaxo reported that third-quarter earnings were hurt by tough competition from generic drugs for several products. Net profit fell 22% to £1.03 billion ($1.72 billion) from £1.31 billion a year earlier, stung by charges for cost cutting and acquisitions. Excluding those charges, profit fell 1.8% to £1.29 billion.

Sales rose 7.4% to £5.88 billion from £5.48 billion, helped by weakness in the pound.

Glaxo maintained its full-year forecast for a midsingle-digit decline by percentage in earnings for this year due to slowing sales of the diabetes drug Avandia and increased competition from cut-price generic drugs in the U.S.

Glaxo is beginning to see companies in a funding pinch turn to Glaxo as a potential buyer, Mr. Witty said in an interview. He didn't say which firms had approached Glaxo. "We're very focused on buying high quality when we see it. I think there may be more of those opportunities in the future than in the past," he said, adding that Glaxo will continue to favor small acquisitions over large deals. Glaxo in July delayed completion of a £12 billion share-buyback program, preferring to keep the cash for acquisitions.

Mr. Witty said in a conference call he has been spending much of his time in the U.S. lately, trying to ensure that the company is well-structured to cope with changing market dynamics there. He suggested that Glaxo is preparing to change the way it markets drugs in the U.S., saying the current model of sales teams calling frequently on doctors isn't "a sustainable way forward." Glaxo will have to focus more on insurers and other payers that increasingly decide which drugs doctors prescribe, he said.

Mr. Witty has pledged to reduce Glaxo's reliance on the U.S. prescription-drug market and build the company's sales of vaccines, over-the-counter medicines and in emerging markets.

Prescription-drug sales fell 4% in the quarter to £4.89 billion at constant exchange rates. Sales of vaccines, which are part of the category, increased 12% to £730 million. Sales of over-the-counter medicines, toothpaste and sports drinks rose 3% to £994 million.

Reuters

CEO **Andrew Witty** says the economic crisis has had 'modest impact' on Glaxo.

Two cigarette makers report divergent earnings results

BY AJA CARMICHAEL

Philip Morris International Inc. posted a 20% rise in third-quarter profit on strong global demand for its cigarettes, while **Reynolds American** Inc. reported a decline in earnings because of restructuring charges.

Earlier this year, Philip Morris International was split off from **Altria Group** Inc. to focus on markets outside the U.S., where growth in cigarette sales has been stronger.

The international tobacco company, whose brands include Marlboro and L&M, reported net income of $2.08 billion, or $1.01 a share, compared with $1.73 billion, or 82 cents a share, a year earlier.

Revenue excluding excise taxes climbed 17% to $7 billion. Without the effect of currency fluctuations, the increase was 7.2%. Cigarette shipments rose 4%, despite a 2.1% volume decline in its European Union markets.

Both net revenue and earnings were higher in all of the company's regions except its Latin America and Canada segment, which recorded lower earnings despite a 15% rise in net sales.

For the full year, Philip Morris affirmed its forecast for earnings of $3.32 to $3.38 a share, which it said represents annual growth of 19% to 21%, "reflecting strong business momentum."

Reynolds American, the second-largest U.S. tobacco company behind Altria's Philip Morris USA, reported net income of $211 million, or 72 cents a share, down 41% from $358 million, or $1.21 a share, a year ago. Excluding charges for restructuring and a trademark impairment, the company said earnings were $1.29 a share.

Net sales slipped 1.3% to $2.27 billion, as cigarette volumes fell 7.5%. Analysts polled by Thomson Reuters were looking for earnings of $1.19 a share on net revenue of $2.25 billion.

Reynolds is cutting marketing support for its Kool menthol cigarette brand, which reduces the value of the trademark. Instead, it will promote its Camel brand in the menthol sector.

Merck net declines 28%

Drug maker will cut staff, research sites as forecast shrinks

BY KEVIN KINGSBURY AND MIKE BARRIS

Merck & Co. posted a 28% drop in third-quarter net income and the U.S. drug maker said it would cut another 7,200 jobs amid broad-based sales weakness.

The job cuts are in addition to a 2005 restructuring plan that eliminated 10,400 positions. The latest round of cuts is expected to be completed by the end of 2011 with about 40% of the reductions taking place in the U.S.

Merck posted net income of $1.09 billion, or 51 cents a share, compared with $1.53 billion, or 70 cents a share, a year earlier. Excluding restructuring charges, earnings rose to 80 cents a share from 75 cents.

Revenue fell 2.1% to $5.94 billion, or 6.1%, excluding the effect of currency fluctuations. Analysts polled by Thomson Reuters had forecast earnings, excluding items, of 79 cents a share on revenue of $5.98 billion.

Merck, which had about 56,700 employees as of Sept. 30, has been in turnaround mode as it tries to recover from the 2004 withdrawal of painkiller Vioxx on safety concerns and the 2006 loss of U.S. market exclusivity for cholesterol-lowering drug Zocor.

The latest restructuring by the Whitehouse Station, N.J., company includes closing research sites in Japan, Italy and Seattle, Washington, by the end of 2009. The effort is seen achieving pretax savings of about $4 billion between 2008 and 2013. That is on top of the $4.5 billion to $5 billion savings anticipated as part of the 2005 restructuring.

Merck said it sees per-share earnings between 2005 and 2010 increasing by a mid- to high-single percentage compound basis, with revenue climbing 2% to 4%. In late 2005, when Merck's future was clouded by massive personal-injury litigation over Vioxx, executives had forecast average annual per-share earnings gains of at least 10% through 2010 on sales growth of 4% to 6%.

"Our current sales trends for key products, compounded by known industry and emerging economic factors, have led us to reassess the environment in which we expect to be operating between now and 2010," Merck Chief Executive Officer Richard T. Clark said in a statement.

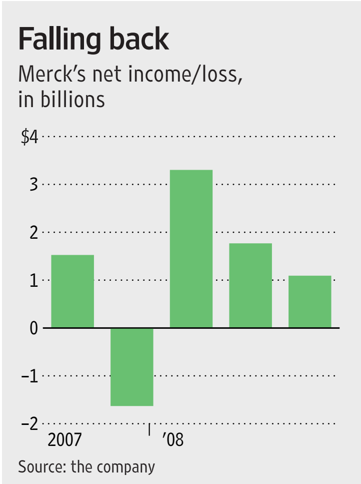
The company on Wednesday projected 2008 earnings, excluding items, of $3.28 to $3.32 a share. That compares with profit of $3.28 to $3.38 a share that it forecast earlier this year, though that outlook was also withdrawn in July.

Also on Wednesday, drug-maker **Wyeth** reported its third-quarter net income slipped 0.7% as key drugs Enbrel and Prevnar and favorable foreign-exchange rates offset falling sales of its former star heartburn drug, Protonix, amid generic competition.

The Madison, N.J., drug maker, which has branched out from its core pharmaceutical operations to become a top vaccine developer, reported net fell to $1.14 billion from $1.15 billion, while earnings per share were flat at 84 cents. Excluding charges related to the company's cost-cutting initiatives, earnings were flat at 90 cents a share.

Wyeth said it now expects full year profit of $3.49 to $3.55 a share, up from the July-boosted estimate of $3.47 to $3.55.

Revenue rose 3.7% to $5.83 billion, with a weaker dollar accounting for 1.7 percentage points of the increase.



CORPORATE NEWS

Crisis fills the skies, too

European airlines cite drop in traffic as economy slumps

BY STEVE MCGRATH

LONDON—European airlines are facing the worst downturn in 25 years, hit by declining consumer and business confidence and the weakening economy, a trade body said.

Confirming the impact the economic downturn is having on the industry, the Association of European Airlines said passenger traffic at its member airlines fell 1.1% in September from a year earlier, compared with a 1.6% rise in August. Airlines' profits are suffering because planes are less full, the group added.

The association's members include Europe's major scheduled carriers such as **British Airways** PLC, **Air France-KLM** SA and **Deutsche Lufthansa** AG, but not budget carriers like **Ryanair Holdings** PLC and **easyJet** PLC.

The trade body said that while monthly passenger-traffic drops aren't unprecedented, previous decreases have been triggered by external shocks such as the Sept. 11, 2001, attacks, the SARS outbreak and the Gulf Wars. This is the first traffic loss since the early 1980s that is attributable to essentially economic factors, it said.

"With the major European economies still in transition to a recessionary state they cannot be expected to recover in the immediate future," AEA Secretary General Ulrich Schulte-Strathaus said in a statement. Mr. Schulte-Strathaus added that a "toxic combination" of an economic slowdown, a decline in business and consumer confidence, and fuel-price-driven inflation "is challenging the very structure of the industry."

The group said passenger traffic for its members fell domestically, in Europe, across the North Atlantic and to Asia. South Atlantic routes bucked the trend, with traffic up 13% in August and 9.5% in September, while "some buoyancy" remained in Middle East markets, the group said.

Because of a modest rise in capacity, airlines' load factors—which measure how full planes are with paying passengers—also were down sharply in all regions. Load factors fell 2.6 percentage points overall, "translating into a massive burden on the industry's profitability," the group said.

Boeing enters space-cargo race

BY ANDY PASZTOR

LOS ANGELES—**Boeing** Co., seeking to expand its role in future U.S. manned space missions, is joining a team that already includes **Lockheed Martin** Corp. and **Alliant Techsystems** Inc. to compete for a contract to ship cargo to the International Space Station after 2011.

The new consortium announced Wednesday will vie against a pair of rival bidders featuring smaller aerospace companies that also hope to provide commercial cargo-vehicle services to the space station. But with the National Aeronautics and Space Administration slated next month to pick two winners for commercial cargo-delivery contracts potentially valued at a total of $3 billion, the latest move raises the ante for the agency.

NASA now can choose a team to deliver cargo that also includes all the major participants in the agency's proposed U.S. space-shuttle successor, which is intended to take astronauts to the space station. Boeing previously tried but failed to gain NASA's financial support to develop a commercial-cargo vehicle of its own.

The other two teams are headed by **Orbital Sciences** Corp., Dulles, Va., and **Space Exploration Technologies** Corp., Hawthorne, Calif. The announcement came the same day Florida space officials dedicated a new commercial launch pad at Cape Canaveral Air Force Station in Florida. The launch complex is intended to be used by the Boeing-Lockheed-Alliant team, if it emerges as one of the winners.

The NASA program to sign commercial cargo-delivery contracts to serve the space station originally was intended to support start-ups and entrepreneurs. But now, Boeing's emergence on one of the teams changes that focus somewhat. Boeing is currently NASA's prime contractor for the international space station, and is part of a joint venture with Lockheed that oversees flights of the space shuttle.

The team Boeing joined is formally led by **PlanetSpace**, a Chicago-based start-up venture interested in commercial uses of space. But the bulk of the design, manufacturing and systems integration will come from the three contractors on the team.

At the same time, NASA is under increased pressure to choose viable contractors for cargo delivery because U.S. lawmakers are eager to stop using Russian-built cargo vehicles to send cargo up to the orbiting space station.

One of Boeing's major tasks will be to assure safe docking of the proposed cargo vehicle with the space station. "By using existing hardware that is U.S.-built and has demonstrated performance, we shorten the development timeline," said Kent Rominger, a senior executive with Alliant's launch-systems unit.

Boeing and its partners are expected to stress that the Orbital team proposes to use foreign hardware in part of the rocket designed to launch its cargo vehicle into space. And Space Exploration Technologies, or SpaceX, is relying on systems that haven't been used by NASA previously.

India settles fuel dispute with airlines

BY NIRAJ SHETH

NEW DELHI—India's ailing airlines struck a deal Wednesday with the government to pay $594 million they owe state-owned oil companies for unpaid fuel charges, but the agreement is unlikely to end a standoff between the industry and the government.

The accord, which gives the carriers six months to pay overdue bills and extends a grace period for paying future bills, averts a looming crisis for the airlines. The unpaid fuel had put some big carriers in technical default. The country's three largest carriers, **Jet Airways** Ltd., **Kingfisher Airlines** Ltd. and state-owned **Air India**, owe a total of $432.6 million to state-owned oil companies, Petroleum Secretary R.S. Pandey told reporters Wednesday.

But the airlines are hardly in the clear yet. In recent months, high oil prices, coupled with taxes, have pushed fares up, sending passengers away. In September, the number of passengers traveling by air dropped by 19% from the same month a year before, the Indian government reported earlier this week.

The airlines blame a mix of state and federal taxes that make jet fuel 60% to 70% more expensive in India than in other Asian hubs, such as Dubai and Singapore. Airlines—which are spending nearly half of their operating budgets on fuel—have been lobbying the government to cut the taxes that they claim drive up their costs from already-high world prices.

"You have the airlines on one side and the oil ministry on the other," said Air India spokesman Jitendra Bhargava. "In India, the fuel prices are very high compared to world prices, and we have been voicing a concern."

The aviation industry has recruited a powerful ally: Civil Aviation Minister Praful Patel. Mr. Patel, who helped broker Wednesday's agreement, has asked the oil and finance ministries to either reduce taxes or provide a $1 billion bailout to the struggling airlines. However, it is unlikely the government would spend money to help airlines with national elections looming, since most voters consider air travel a luxury.

Mr. Patel wasn't available to comment Wednesday, a spokesman from his office said. Calls to the oil and finance ministries weren't returned. The Indian aviation industry posted $938 million in losses collectively last year. Analysts say it is set to lose as much as $2 billion this year.

—Gurdeep Singh contributed to this article

GLOBAL BUSINESS BRIEFS

McDonald's Corp.

Net income increases 11% on solid sales growth

Third-quarter profit at **McDonald's** Corp. jumped 11%, helped by strong sales. The fast-food giant said net income came to $1.19 billion, or $1.05 a share, up from $1.07 billion, or 89 cents a share, a year earlier. Revenue rose 6.2% to $6.27 billion, with global same-store sales—sales at outlets open at least a year—up 7.1%.Overseas, the company continues to expand aggressively in markets such as China. "As we enter the final quarter of the year, October sales trends remain strong, and I am optimistic about McDonald's outlook," said Chief Executive James Skinner. The fast-food giant has often been a beneficiary of economic downturns as consumers switch from higher-priced food options.

Groupe Danone SA

French dairy and water company **Groupe Danone** SA posted a 31% jump in third-quarter sales, largely reflecting the acquisition of Dutch baby-food company Numico NV. Sales rose to €3.85 billion ($5.03 billion) from €2.93 billion a year earlier, also helped by strong sales at the dairy division. Stripping out currency fluctuations and acquisitions, sales would have risen 8.3%. Danone underwent a major transformation last year to focus more on healthy foods. It sold its cookies division to Kraft Foods Inc. and bought Numico. Sales at the water division rose 3.7%—a performance that Danone called "disappointing" and Chief Financial Officer Pierre-Andre Terisse attributed to consumers turning against plastic bottles because of environmental concerns.

Svenska Handelsbanken AB

Svenska Handelsbanken AB reported a 10% rise in third-quarter net profit, as customers chose the Swedish bank over its competitors amid the global financial crisis. Net profit at the Swedish bank rose to 2.81 billion Swedish kronor ($362.2 million) from 2.55 billion kronor a year earlier as the bank's main source of revenue, net interest income, was up 22% to 4.86 billion kronor. Handelsbanken's lower funding costs have given it a competitive edge and helped bolster market share, said Henrik Schmidt, analyst at Keefe, Bruyette & Woods. Deposits have continued to rise in early October. On Oct. 10, accumulated deposits from other banks in Sweden were up to nearly 5 billion kronor from about 2 billion kronor on Sept. 20, said Handelsbanken.

KfW Bankengruppe AG

German investigators and prosecutors searched the Frankfurt offices of **KfW Bankengruppe** AG on Wednesday morning as they opened an investigation into whether the bank committed a criminal breach of trust by transferring €319 million ($416 million) to Lehman Brothers just as the investment bank collapsed. Frankfurt's state prosecutors said they and federal investigators would determine whether five executive-board members and the head of the bank's risk-management division acted criminally by allowing the transfer on Sept. 15—the day of Lehman's bankruptcy. KfW said it will cooperate fully with the investigation. Last month, the bank's administrative board fired two top managers working at the bank at the time of the transfer.

KPN NV

Dutch telecommunications operator **KPN** NV posted a 1.7% drop in third-quarter net profit, but said it expected growth in the coming two years despite fears of a European economic downturn. Net profit declined to €349 million ($455.9 million) from €355 million a year earlier, partly because of higher financing costs for its €11.2 billion debt. Total revenue rose 20% to €3.65 billion from €3.04 billion, boosted by acquisitions last year. KPN also launched a €1 billion share buyback program and reiterated its outlook and free cash flow expectations, a key focus for investors amid the global credit crunch. The company said it expects a good fourth quarter and hasn't seen any indication that its customers are planning for a serious downturn, although it is prepared for economic headwinds.

Tele2 AB

Swedish telecommunications company **Tele2** AB swung to a third-quarter net profit and said it would suspend its share buyback and reduce capital expenditure in a move to maintain a strong financial position. Tele2 said net profit for the three months ended Sept. 30 totaled 831 million Swedish kronor ($107.1 million), compared with a year-earlier loss of 1.21 million kronor. The year-earlier earnings were weighed down by a 1.29 billion kronor goodwill impairment on the 7.1 billion sale of its Spanish and Italian operations. Tele2's net sales from continuing operations fell 2.3% to 9.83 billion kronor from 10.06 billion kronor. "Tele2 has a strong financial position, and we are looking to invest in our existing core businesses," said Chief Executive Harri Koponen.

Repsol YPF SA

A mixture of falling oil prices, exposure to Argentina and the weakness of one of its major stakeholders proved a poisonous mix for **Repsol YPF** SA on Wednesday. Shares in the Spanish oil company plunged 16% to close at €15.08 ($19.70), far below the 8.2% decline of the Ibex-35 index. Argentina's government decided to nationalize its private pension system, triggering fears the country could default on its debt or nationalize other sectors. In the first half, Repsol's Argentinean unit YPF generated 18% of the company's operating profit. The share price was also dented by concerns that debt-laden construction company **Sacyr Vallehermoso** SA may need to sell its 20% stake in Repsol. A Repsol spokesman said there was "no objective reason for the behavior of the stock."

Cie. de Saint-Gobain SA

French construction-materials group Cie. de **Saint-Gobain** SA Wednesday reported a 2.5% rise in revenue for the first nine months of 2008, but lowered its full-year targets to reflect slower growth in Europe. The company said it expects an "overall decrease" in business volumes in the fourth quarter in Western Europe and "to a lesser extent" in Eastern Europe. It said it is aiming for results "slightly below the targets announced at the end of July," when it said it was "expecting operating income at constant exchange rates and recurring net income close to the high 2007 levels." Revenue for the first nine-months rose to €33.44 billion ($43.69 billion) from €32.63 billion a year earlier.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

EUROPEAN UNION

Commission tightens rules for mergers, acquisitions


Imagine

THE EUROPEAN Commission tightened its rules for mergers and acquisitions to ensure that possible competition issues are dealt with more effectively. The tougher rules mainly concern "remedies" that companies offer to be able to proceed with a deal. Remedies usually mean sales of units to remove competition concerns, such as high market share or business overlaps.

The commission, the European Union's executive branch, wants companies to submit more detailed information on the proposed remedies to properly assess their effectiveness.

—Peppi Kiviniemi

LITHUANIA

U.S. admiral says NATO is committed to Baltics


Reuters

The U.S.'s top military officer assured the Baltic countries that the North Atlantic Treaty Organization will defend them, seeking to allay fears over Russia's intentions following its invasion of Georgia.

On a visit to Lithuania, Adm. Michael Mullen, chairman of the Joint Chiefs of Staff, said the August invasion was "unacceptable" and that he was aware of growing anxiety over Moscow in Ukraine as well as in NATO members Estonia, Latvia and Lithuania. He pointed to Article 5 of the alliance's treaty, which says an attack against a NATO member is considered an attack against all.

— Associated Press

SWITZERLAND

Foreign minister rejects German tax-haven talk


Associated Press

THE SWISS government summoned Germany's ambassador to express surprise at Germany's call for Switzerland to be put on a tax haven blacklist, the Alpine country's foreign minister said.

Foreign Minister Micheline Calmy-Rey was quoted as complaining about remarks made by German Finance Minister Peer Steinbrück, above, the Swiss news agency SDA said. Mr. Steinbrück said Switzerland should be put on an international blacklist of tax havens.

The Swiss Finance Ministry said the country applies rules on bank information exchange that were laid out by the Organization for Economic Cooperation and Development in 2000.

— Reuters

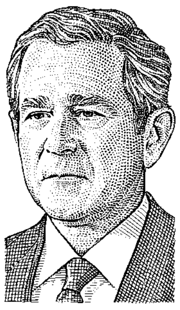
China sees downturn fueling protectionism

Recession could spur importer backlash, Beijing officials say

By Ian Johnson
Beijing

WITH THE WORLD'S major economies headed toward recession, China is starting to worry that its flashy trade surplus will elicit a protectionist backlash.

The topic will be raised at the Asia-Europe Meeting opening Friday, an annual summit of top leaders from the two regions. According to diplomats preparing the two-day meeting, protectionism and ways of alleviating the current financial crisis will be two key topics discussed.


George W. Bush

European leaders have said they will use the meeting to promote a global system of financial regulation. French President Nicolas Sarkozy has expressed confidence he could win China's support for the effort, which could serve as a possible counterweight to U.S. resistance.

A Chinese government spokesman said Wednesday the meeting will be a "perfect platform" to discuss the crisis. Chinese leaders have also taken a keen interest in U.S. efforts to manage the crisis. On Tuesday evening, Chinese President Hu Jintao told U.S. President George W. Bush he hoped U.S. moves to stabilize its financial markets will restore investor confidence and prevent the financial crisis from spreading to the wider economy, according to the government-run Xinhua news agency.

China's financial institutions—most of which are state-owned—are relatively insulated from outside shocks, thanks to heavier regulation and government controls. That makes protectionism the greater worry for China.

In recent talks with senior Chinese officials, World Trade Organization Director-General Pascal Lamy said Chinese officials raised concerns about protectionism. "In their view there's a risk of it reviving," Mr. Lamy said in an interview in Beijing.

That has been reflected by pronouncements of senior officials and discussions in the state-run media. The Chinese official in charge of economic crisis management, Wang Qishan, said China wants a new round of trade talks to succeed and "firmly" opposes protectionism.

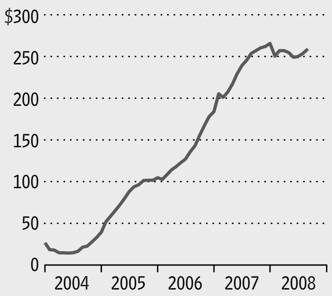
Part of China's concerns lie in its trade imbalance. Growth in exports has remained stable, but growth in imports has been slowing. That has helped give China a record $29.4 billion trade surplus in September, helping to drive the country's foreign-exchange reserves toward $2 trillion.

The global slowdown could accelerate this pace. China's products are primarily low-cost, so tend to sell well during hard times. In past recessions, Chinese-made products have gained market share in the U.S. and could do so elsewhere as well, economists say.

"Made in China is the favored brand of worried Western consumers," said Ben Simpfendorfer, an economist with Royal Bank of Scotland. "We think they will gain significant market share in the euro area. They gained significant market share in the U.S. during the last global slowdown."

Trade worry

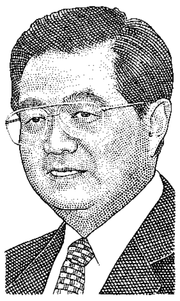
Sum of previous 12 months of China's trade balance, in billions



Source: China Customs

Although a pickup in demand would be good news for China's exporters, that dynamic helped to spur previous calls for protection against Chinese imports. This time, Chinese officials are worried that those calls could yield action damaging to China, particularly from the U.S.

Mei Xinyu, a trade researcher at China's Ministry of Commerce, said protectionist calls are likely to come from the U.S. if manufacturing there continues to erode. "We need to sound the alarm bell" even before protectionist calls start, Mr. Mei said.


Hu Jintao

Protectionist sentiment could also manifest itself in calls for China to stimulate domestic demand in order to boost imports.

Although the European Union, China's biggest trading partner, continues to lobby for higher safety standards and copyright protection, it hasn't showed signs of initiating a trade war. In Europe, with manufacturing already depleted, low-cost Chinese goods are seen to help retailers and consumers more than they trigger job losses. The EU recently extended antidumping tariffs on Chinese shoe imports but declined to set new tariffs on Chinese steel. "We're not yet seeing a protectionist backlash this time around," says Peter Power, a spokesman for the EU Commission, the bloc's executive branch, which is generally an advocate of free trade.

Trading partners have launched 37 investigations this year into allegations of China dumping goods, a 76% increase over a year ago, according to a survey released Monday by the WTO. Investigations take 12 to 15 months, and roughly half end up in punitive tariffs. The EU has launched six investigations, the same number as for all of 2007.

China's concern about protectionism helps to explain its eagerness to complete the current round of global trade negotiations. In July, China got most of the key points it wanted, according to Mr. Lamy, who says China sees the WTO as a bulwark against protectionism. "Strategically they know that we are the only game in town against protectionism," he said.

—John W. Miller, Ellen Zhu and Andrew Batson contributed to this article.

Pakistan makes a formal request to IMF for funds

By ***Matthew Rosenberg*** *in New Delhi and* ***Bob Davis*** *in Washington*

Pakistan yielded to the pressure of its financial crisis and formally asked the International Monetary Fund for help Wednesday, an embarrassing step for the government of President Asif Ali Zardari just a month after he was inaugurated.

With its foreign-currency reserves dwindling fast and its allies unwilling to hand over the needed cash, Pakistan appeared to have little choice if it hoped to avert an economic collapse brought on by soaring global food and fuel prices, decreasing foreign investment and an increasingly bloody struggle against Islamic militants.

Pakistani officials hope that by soliciting IMF funds, its allies such as the U.S., China and Saudi Arabia, as well as other international lending institutions, will feel more comfortable contributing their own aid.

"The signal from every quarter was that if Pakistan goes to the IMF then it will make life easier for friends of Pakistan to help Pakistan," said Ashfraque Hassan Khan, a Pakistan finance ministry official. "That is why Pakistan decided to do this."


Asif Ali Zardari

While the two sides still have to work out how much money Pakistan is to receive, Pakistani officials have said in recent days that the country needs $3 billion to $4 billion in the next month and as much as $15 billion over the next two to three years to stave off bankruptcy. Mr. Khan said the IMF program would last for two years and could provide Pakistan with "$5 billion to $6 billion but it can go up."

Mr. Zardari had hoped to avoid IMF funding by tapping allies. But he failed to secure any firm commitments when he visited Beijing last week and a U.S. diplomat this week warned there would be no unconditional handouts.

Turning to the IMF is a humiliating move for Mr. Zardari, whose personal history is tied up in Pakistan's troubled history with the fund. At one point in the mid-1990s, for instance, the IMF halted loans to the country after the government run by Mr. Zardari's wife, then-Prime Minister Benazir Bhutto, ran up huge deficits. Her mismanagement eventually led to the downfall of her government. Ms. Bhutto was murdered late last year. Mr. Zardari, who was inaugurated as president last month, had declared that Pakistan wouldn't seek IMF help and instead "tighten its belt."

His government tried to do that with the kind of stringent spending cuts usually mandated by the IMF in return for a loan. It eliminated ruinous subsidies on fuel and drew up plans to do away with subsidies on electricity.

But Pakistan has continued to hemorrhage hard currency as the global economic crisis has deepened and Islamic militants have pressed their fight to the capital. Pakistani officials blame the terrorism for scaring away foreign investors. Pakistan's foreign-currency reserves fell to a six-year low of $7.75 billion in the week ended Oct. 11.

Currency bets take a toll

Companies in Mexico and Brazil are stung by losing positions

One day, **Controladora Comercial Mexicana** SAB de CV was thriving as Mexico's No. 3 retailer and a competitor of discount giant **Wal-Mart Stores** Inc. The next day, Oct. 9, the family-owned chain, known to Mexican shoppers as La Comer, had filed for bankruptcy protection, crippled by risky foreign-currency bets.

Such abrupt reversals have gotten more common these days. As global stock markets have plunged in recent months, so has the value of almost everything else, from Mexico's peso to the price of oil. That's left some companies that made big wagers on the direction prices were headed reeling from unexpected losses.

Throughout Latin America, companies are telling investors they have lost millions, in some cases billions, of dollars due to foreign-exchange gambles that, in some cases, had little to do with their core businesses.

Losses from bad-currency bets are ricocheting through the world's major developing economies, including India and Korea. Officials at **Citic Pacific** Ltd., a Hong Kong-listed conglomerate backed in part by the Chinese government, have accused the company's finance director of making unauthorized bets related to the Australian dollar, resulting in nearly $2 billion of foreign-exchange losses.

For now, however, such losses appear to be most widespread in Brazil and Mexico. In Brazil, the growing list of blue-chip casualties includes paper-pulp giant **Aracruz Celulose** SA and industrial conglomerate **Grupo Votorantim**. In Mexico, trading in tortilla maker **Gruma**'s stock was halted earlier this month after its potential losses mounted to $684 million.

The surprise disclosures have sent stock prices tumbling, and regulators in both countries are investigating whether companies adequately disclosed their trading risks to investors.

Some local reports have speculated that the damage in Brazil alone could exceed $30 billion and may affect two hundred companies.

"We really don't have the details yet, and it's definitely not clear where the losses are. There are a lot of transparency issues," says Alexander Carpenter, senior vice president for Latin America at Moody's Investors Service, which has issued a flurry of credit downgrades and warnings across the region.

The bad bets were made using currency derivatives—contracts tied to the value of the U.S. dollar. Companies lost badly when the dollar shot up in value starting in early September as investors cashed out of investments in emerging markets, fleeing to safer havens. And as companies raced to close out their positions they forced local currencies to tumble still further.

Latin American central banks, seeing risks to their economies, sold billions of dollars from their reserves to currency markets to prop up their currencies and cushion the blow from derivatives losses.

Mexico alone burned through about 13% of its international currency reserves. Brazil's government is considering extending loans to affected companies.

"The companies that bet and lost will have to face up to their responsibilities," Brazilian President Luiz Inácio Lula da Silva said recently as corporate losses mounted. "Obviously, what Brazil will always be disposed to do is create conditions so that the financial system can lend."

In Mexico, authorities said they are investigating whether Comercial Mexicana and other companies properly disclosed the currency bets that resulted in investor losses. Under Mexican law, failure to disclose certain transactions could result in fines, and in some rare cases, criminal charges.

Among the first Latin American companies to swallow a loss was Brazilian pork and poultry processor **Sadia** SA, which has seen its stock slide roughly 45% since it announced in September it had lost $360 million in currency trades.

"We had no idea they had these kinds of contracts," says Marcos De Callis, who runs a $300 million Brazil fund for Schroder Investment Management and lost money when Sadia's stock price plummeted. "When you buy stocks from an industrial company, you expect [them] to stick to their business."

Since then, a dozen more Latin American companies have announced large currency losses. And investors are punishing companies they think might be in danger.

Shares in **Cemex** SAB, the world's third-largest cement maker, fell nearly 56% this month as concern grew over $21 billion in derivatives on its books. Executives said in an earnings call with investors Friday that Cemex was closing out its positions and would cut its global work force by 10%.

Some bankers predict the losses will prove manageable. Marcos Lisboa, executive director of risk and internal controls at Unibanco in Brazil, said there are problems "but nothing like the order of magnitude people are worried about."

He added that some companies who lost money on the dollar's rise will make it up with more-competitive prices for their exports.

Still, the finger-pointing has started. Brazil's Sadia fired its chief financial officer and is considering suing its bankers for pushing dangerous investments.

In other cases, risk-control experts say weak governance is to blame. The companies have said their boards and top management didn't know about the trades.

Companies appear to have been lulled into making risky bets, perhaps without fully understanding them. Both Mexico's peso and Brazil's real have strengthened steadily against the dollar in recent years, thanks to high commodity prices and record foreign investment. Few thought a turnabout was likely.

Executives at Comercial Mexicana, whose stores sell digital cameras, TVs and other imported products, had protected itself against exchange-rate fluctuations by buying up dollars on futures markets. But, in recent months, with the peso's continuing rise, that insurance proved costly. So, starting during the summer, Comercial Mexicana's treasury department stopped buying dollars as insurance and instead began laying bets against the U.S. currency, according to people familiar with the matter.

"They got into a comfort zone, and tried to make money on the appreciation of the peso," says Nicolas Olea, an executive with KPMG in Mexico City. Since Aug. 1, the peso has dropped about 24% against the dolla.

Comercial Mexicana suddenly faced huge losses. The total cost to close the position: $1.4 billion.

Foreign-exchange meltdown

Large currency-trading losses by companies that bet against the U.S. dollar have rattled investor confidence in some emerging markets.

Company (country)	Business	Loss from foreign-exchange derivatives, in millions
Citic Pacific (Hong Kong)	Infrastructure	–$1,890
Comercial Mexicana (Mexico)	Retail	–1,400
Grupo Votorantim (Brazil)	Diversified	–1,040
Aracruz (Brazil)	Cellulose	–920
Cemex (Mexico)	Cement	–711*
Gruma (Mexico)	Corn flour, tortillas	–684
Sadia (Brazil)	Processed food	–360
Vitro (Mexico)	Glass	–227

*As of Oct. 14; includes derivatives related to currency, interest rates and share price

Sources: the companies; WSJ research

Republicans are **using party money** for ads against Democratic presidential candidate Sen. Barack Obama, which means they are paying a premium.

U.S. candidates hold similar amounts of cash

By T.W. Farnam

WASHINGTON—Both presidential candidates, together with their parties, had similar amounts of cash on hand at the end of September, despite Sen. Barack Obama's record-breaking fund raising that month.

Sens. Obama and John McCain have been raising money for their national and state parties through so-called joint fund-raising accounts. Once all that money is taken into account, Democrats had $164.4 million available to them on Sept. 30, while Republicans had $171.7 million. The Democrats brought in $209.5 million in September, compared with $171.6 million for the Republicans.

Most of the Democrats' money is held by Sen. Obama's presidential campaign, while the largest share of the Republican money is held by the Republican National Committee. At the end of September, Sen. McCain was still holding $29.6 million that he raised for his campaign before the Republican Convention; he can't spend the money because he is participating in the public funding program for presidential campaigns, but he can donate it to the Republican Party.

While Sen. Obama has been buying advertising directly for his campaign, the Republicans have used party money for ads in support of Sen. McCain. Campaign finance law requires broadcasters to charge candidates the lowest rate that they charge any advertiser, but that benefit isn't offered to political parties, meaning the Republicans are paying at least a 25% premium on television ads, according to a GOP strategist familiar with the party's finances.

Figures on ad spending show Sen. Obama has been significantly outpacing Sen. McCain and the Republicans the past few weeks.

"Like any other campaign, we'll spend the bulk of our dollars at the end," the Republican strategist said, adding that the pace of fund raising will also pick up. "Campaigns sometimes raise their money earlier, party committees tend to make their money later."

Although Sen. Obama's campaign has promoted his wide base of small-dollar donors—it says 3.1 million people have given to the campaign—both sides collected about a third of their September money from donors writing checks of less than $200.

Sen. Obama and the Democratic National Committee took in about $77.5 million from donors giving less than $200, and received $69.5 million from donors giving $2,300 or more. Individual giving is capped at $2,300 to any one candidate, but a party can collect bigger checks.

The Republicans took in $29.7 million from contributors making donations of less than $200 and $26.4 million from those giving more than $2,300. By far the top source for the GOP was the $84.1 million Sen. McCain received from the government's program to fund presidential campaigns. When accepting the government's money, Sen. McCain agreed not to raise or spend any other money directly for his campaign. He can raise money for the party, however, and his Web site directs donors to the joint account with the Republican National Committee and several state parties; the account took in $36.2 million last month.

U.S. layoffs surged in September

By Meena Thiruvengadam

WASHINGTON—The number of U.S. workers laid off last month climbed to the highest level since just after Hurricane Katrina in 2005, according to a report by the Department of Labor.

The report from the department's Bureau of Labor Statistics said employers laid off 235,681 workers on a seasonally adjusted basis in September, an increase of 497 from the previous month. Employers conducted mass layoffs—defined as instances in which 50 or more people lose jobs—2,269 times, the report said. The last time employers cut work forces en masse at this rate was in September 2001.

Unadjusted to reflect seasonal fluctuations, the greatest number of layoffs occurred in Western and Southern states.

Hurricanes Gustav and Ike likely contributed to the surge in September's layoffs, the Labor Department said. Louisiana and Texas, two states hard-hit by the storms, recorded the second- and third-highest number of initial jobless claims related to mass layoffs in the month. California posted the highest number of such claims due to mass layoffs.

This year through September's end, employers in the U.S. laid off a total of 1.51 million people—a six-year high—through mass layoffs.

U.S. to host summit on Nov. 15

By Henry J. Pulizzi

WASHINGTON—U.S. President George W. Bush will host leaders from the Group of 20 at a Nov. 15 summit on the global financial crisis, the White House said.

"The leaders will review progress being made to address the current financial crisis, advance a common understanding of its causes, and, in order to avoid a repetition, agree on a common set of principles for reform of the regulatory and institutional regimes for the world's financial sectors," a White House spokeswoman said.

The meeting, which leaders from the Group of Eight industrial nations agreed last week to hold, will be the first in a series.

French President Nicolas Sarkozy initially called for the summit in an effort to gain momentum for sweeping changes to the global regulatory framework and other measures to avoid a repeat of the crisis that has shaken global financial markets.

The White House spokeswoman said it is unlikely that a new regulatory regime would emerge from next month's summit.

Still unclear is the U.S. president-elect's role in the summit, which comes just 11 days after the U.S. election. The White House has sought input from both candidates, saying both are "supportive" of the summit.