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THE WALL STREET JOURNAL.

U.S. business and trade leaders urge a rescue plan

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What's News—

Business & Finance

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■ **China's demand for oil** and Saudi Arabia's influence on supply have been helping keep the price of crude aloft. Page 1

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■ **ECB and Bank of England** tried to smooth distortions in interbank money markets by injecting billions of dollars into the banking system. Page 20

■ **U.S. stocks traded lower** as the Senate reconsidered the bailout package. In Europe, banking shares gained, but mining and auto stocks fell. Page 20

■ **Merger-and-acquisition** activity held up during the third quarter. The U.S. was particularly strong, climbing 27% to $368.2 billion. Page 19

■ **Italy offered reassurance** on its banks after UniCredit lost nearly one-quarter of its value this week. Page 4

■ **Xstrata dropped** a $10 billion bid for Lonmin while increasing its stake in the platinum miner to thwart other buyers. Page 4

■ **U.S. auto sales** in September continued to decline despite customer incentives, with several car makers reporting declines of more than 30%. Page 6

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	10831.07	-19.59	-0.18
Nasdaq	2069.40	-22.48	-1.07
DJ Stoxx 600	257.75	+1.70	+0.66
FTSE 100	4959.59	+57.14	+1.17
DAX	5806.33	-24.69	-0.42
CAC 40	4054.54	+22.44	+0.56
Euro	$1.3998	-0.0047	-0.33
Nymex crude	$98.53	-2.11	-2.10

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World-Wide

Obama and McCain returned to Washington to support the $700 billion bank-rescue package, as lawmakers appear to have revived the bill by adding an increase to federal deposit-insurance limits and several tax breaks, clearing the way for the Senate vote looming Wednesday and raising the odds of passage in the House. Pages 1, 31

■ **The U.S. Senate was expected** to approve a U.S.-India nuclear-cooperation accord, nearing a vote that would be the last hurdle to civil nuclear trade with India after a three-decade ban.

■ **A top U.S. negotiator took** a new proposal to North Korea to try to salvage a nuclear-disarmament pact, amid reported signs of activity around the country's nuclear-bomb testing site.

■ **Conservative Party leader** Cameron sought to counter critics who say he lacks the experience and policies to deal with Britain's financial crisis. Page 9

■ **Alaska Gov. Sarah Palin** and Democratic Sen. Joe Biden meet in a U.S. vice-presidential election debate Thursday. Pages 11, 12

■ **Iraq's Shiite-led government** took command of 100,000 U.S.-backed, mostly Sunni fighters who turned against al Qaeda, pledging to integrate them.

■ **A suspected U.S. missile** strike on a Taliban commander's home in Pakistan killed six, officials said, a possible sign the U.S. was proceeding with cross-border raids despite protests.

■ **Eight EU nations offered** to create a maritime security force to help fight piracy off Somalia, France's defense minister said.

■ **China's 2008 Olympic** female gymnasts were all old enough to compete, but questions remain about the 2000 team, international federation FIG said.

■ **EU monitors began** patrolling Georgian territory, and some were allowed into a buffer zone around South Ossetia. Page 9

■ **Japanese police said** a man set fire to an adult video theater in Osaka, killing at least 15 people and injuring 10.

■ **Russia's last czar,** Nicholas II, and his murdered family were victims of political repression, the country's high court ruled.

Editorial & Opinion

Austria moves right

The far-right's electoral gains in Austria stem from simple economic populism. Page 15

EU leaders air disputes over how to handle crisis

German minister rejects French plan for joint bailout fund

By Marcus Walker and Joellen Perry in Berlin and David Gauthier-Villars in Paris

BERLIN—France is leading calls for a common European Union response to fallout from the global financial crisis, but Germany's finance minister said in an interview Wednesday that Berlin wasn't interested in French proposals for a joint bailout fund and a Europe-wide financial regulator.

Conflicts between leaders of two of Europe's biggest and closest economies over how to handle the financial crisis could deepen rifts within the 27-nation bloc about how to conduct and regulate finance as governments struggle to rescue international banks with domestic taxpayers' money.

The U.K. government continues to discuss its own rescue plan. Options under consideration include: a U.K. fund like the U.S. plan to buy

Please turn to page 31

Reuters

For bailout vote, Obama, McCain are just senators

By Christopher Cooper

WASHINGTON—With action on the $700 billion bank-rescue package looming Wednesday, presidential candidates Barack Obama and John McCain prepared to return to Washington for what has proven to be unusual duty for them this political season: casting a vote in the U.S. Senate.

The senators have each missed hundreds of votes while campaigning for president, saying they would return to the Capitol only when they could make a difference in a close vote. Sen. Obama, the Democratic nominee, initially had said he wouldn't return to vote on the rescue package, which originally was expected to handily pass the Senate.

That was before the measure failed to pass the House earlier this week. Since then, lawmakers appear to have revived the bill by adding an increase to federal deposit-insurance limits and several tax breaks, clearing the way for the Senate vote and raising the odds of passage in the House.

Both Sen. Obama and Sen. McCain, his Republican rival, have worked to ensure the bill's passage, even as they have voiced reservations about some aspects of it. While the Senate legislation doesn't appear to be in peril, Sen. Obama now says his vote could help persuade House members to support the measure when that chamber takes it up again, perhaps as early as Thursday.

"I'll be flying back to Washington today to cast my vote to safeguard the American economy," Sen.

Please turn to page 31

China's thirst, Saudi clout underpin oil

By Neil King Jr. And Patrick Barta

Two stalwarts are still standing between the world's slumping economies and a steep drop in oil prices: China and Saudi Arabia.

The credit crisis and fears of a recession have sparked some predictions in recent weeks of an imminent plunge in crude prices. A global recession could clobber demand, causing a surplus in supply and a swift fall in oil prices, the argument goes.

But so far, prices have been surprisingly resilient, bobbing around $100 a barrel for weeks, despite the U.S. stock-market turmoil and congressional wrangling over a financial rescue package. Two of the main forces keeping oil aloft, analysts say, are China's continuing thirst for it and Saudi Arabia's ability to tighten the spigot on world supplies when it pleases.

Where crude prices go from here, these analysts say, could hinge more on Beijing and Riyadh than Washington or New York. Surging fuel prices and a weakened U.S. economy have sent oil demand down sharply this year in the U.S. and Europe. That downdraft, along with heightened supplies of Saudi crude, has helped drive prices down more than 30% from record highs in July. U.S. benchmark crude for November delivery

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THE FINANCIAL CRISIS

Sigma's fall could worsen market's pain

Lehman's collapse has the last big SIV facing liquidation

BY NEIL SHAH AND CARRICK MOLLENKAMP

LONDON—The latest wave of financial turmoil has crippled $27 billion London-based investment fund **Sigma Finance** Corp., raising concerns that a messy sale of its assets could weigh on already wobbly markets.

In a sign of the broadening repercussions of last month's demise of securities firm **Lehman Brothers Holdings** Inc., Sigma faced imminent liquidation Wednesday after a drop in the value of its investments, which included Lehman debt, forced it to default on its borrowing agreements. The default will likely leave investors in some $6 billion of Sigma's own debt holding paper worth as little as 15 cents on the dollar, and allows banks that lent to Sigma to sell some $25 billion in collateral, consisting largely of bank-issued bonds.

If the banks sell, they could worsen the pain in credit markets, which have suffered badly in recent weeks amid growing concerns that banks and funds will be unable to honor their obligations. "This doesn't help," said Howard Simons, a bond strategist at Bianco Research in Chicago. "The lending markets that banks rely on were already rattled before this."

Sigma's lenders could choose to keep the fund's souring assets, rather than sell into a weak market. In that case, they could face a total of some $2 billion in write-downs, according to a report from Citigroup Inc. On Tuesday, at least three banks were circulating lists of Sigma assets to potential buyers to get a sense of what they would be worth, people familiar with the matter say.

An official at investment firm **Gordian Knot** Ltd., which runs Sigma, declined to comment. On its Web site, Sigma posted a statement saying that its board had decided to cease trading and "is expecting the appointment of a receiver."

Launched in 1995, Sigma is the last major survivor of a breed of investment funds that played a central role in the current financial crisis. Known as structured investment vehicles, or SIVs, the funds used short-term borrowings to make longer-term investments in everything from bank debt to U.S. subprime mortgages. The funds became popular among banks, which set them up as a way to park investments off their balance sheets. By mid-2007, they had amassed some $400 billion in assets.

When short-term lending markets began to clog last year, the SIVs were rendered unable to finance their investments, forcing many to the verge of liquidation. Some major banks, such as **Citigroup** and **HSBC**, stepped in to rescue affiliated funds. Other SIVs sold off their assets or came to agreements with their creditors. Sigma survived in part because it had invested in high-quality securities, and in part because it had taken precautions to protect itself from being forced to sell its assets if markets turned against it.

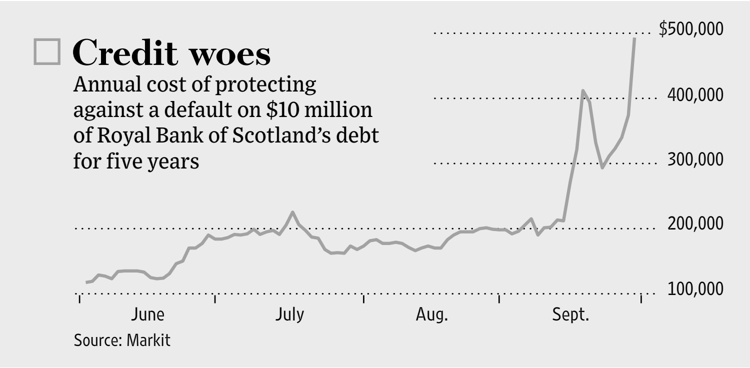
The Lehman default, however, proved fatal for Sigma—not only because the fund held an estimated $110 million in Lehman debt, but also because it had come to depend heavily on the so-called repo market to finance its investments. In a repo transaction, a fund turns over securities as temporary collateral for a loan, then later buys back the securities at a price that includes interest on the loan. If the value of the collateral falls below a certain level, the lender can demand added collateral in a move known as a margin call.

Lehman's default on Sept. 15 precipitated a sharp drop in the value of the bank-issued bonds that make up nearly two-thirds of Sigma's investments. That, in turn, led to increased margin calls from lenders and a depletion of Sigma's cash reserves, according to a report from ratings firm Moody's Investors Service. On Monday, one of Sigma's lenders—**J.P. Morgan Chase** & Co.—terminated its repo agreements, followed by **HSBC** Holdings PLC and **Royal Bank of Scotland** Group PLC, people familiar with the matter say. On Tuesday, at least one lender issued a notice of default, according to Moody's. As a result, all of Sigma's lenders are expected to move to seize Sigma's assets if they haven't already, essentially paralyzing the fund, analysts say.

Moody's and Standard & Poor's Ratings Services late Tuesday cut Sigma's credit ratings and warned that investors in roughly $6 billion of Sigma's remaining debt may not get much of their money back.

Birgit Specht, an analyst at Citigroup in London, expects holders of Sigma's medium-term notes to recover roughly 15 to 20 cents on the dollar.

CORRECTIONS & AMPLIFICATIONS



A chart with the headline, "Credit woes" that ran with the Heard on the Street column Wednesday was incomplete. The corrected chart appears above.

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.

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

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Fed weighs more interest-rate cuts

Manufacturing data, auto sales suggest economy is worsening

BY SUDEEP REDDY, JON HILSENRATH AND TIMOTHY AEPPEL

Federal Reserve officials are weighing further interest-rate cuts, even if Congress passes a $700 billion rescue plan, in the face of new evidence that the economic outlook is deteriorating and financial conditions have gotten severely strained.

The Fed's willingness to consider more rate cuts marks a turnaround from a little more than two weeks ago, when officials at a regular September meeting declined to move the central bank's target federal-funds rate from 2%.

A reduction in rates is still far from certain—in part because of lingering inflation worries. But in addition to severe blows to the financial system sparked by the credit crisis, economic data have become steadily worse in the past two weeks.

The latest signals were abundant Wednesday. Auto makers were hammered in September by tight credit conditions and wavering consumers, with both **Toyota Motor** Corp. and **Ford Motor** Co. posting sales declines of more than 30% from a year ago.

The manufacturing sector lurched sharply downward in September after moderate weakness in the past year. The Institute for Supply Management's monthly gauge of the manufacturing sector fell sharply, to its lowest level since October 2001, indicating an overall economy in recessionary territory. The index fell to 43.5 last month from 49.9 in August. Figures below 50 indicate a contraction for the sector, and the latest level generally corresponds to overall economic growth of about 0.8%, the ISM said.

"Manufacturing had avoided much of the decline that we'd seen brought on by the financial-services sector," said Norbert Ore, a Georgia-Pacific Corp. executive who directs the survey of purchasing managers. "This month really was a big break in trend."

Meanwhile, a report on construction spending showed that commercial-building activity slowed in August, adding to weakness in the residential sector. Global indicators of growth have also softened noticeably.

"The global economy is sliding into recession," J.P. Morgan Chase & Co. economists warned clients in an email after the dismal round of manufacturing data.

For Fed officials, the calculation on rate cuts is complicated. Many believe the Fed's aggressive actions in the past year—which brought the fed-funds rate down from 5.25%—helped to cushion what could have been an even more severe blow to the financial system. Mortgage interest rates, for instance, have remained low, despite the sharp tightening of credit in the housing sector.

An even lower target rate could help to soften the credit blows that are sure to build in the months ahead in the wake of a bleak September that left credit markets barely functioning.

But Fed officials have been wary of further easing. One worry: More rate cuts could weaken the dollar and push crude-oil prices up again, making conditions even harder on households. Improvement in the two areas has been among the little good news the economy has seen in recent weeks.

The Fed's rate-setting committee is scheduled to meet next at the end of this month. Officials previously have been willing to cut rates before regularly scheduled meetings, as in January, if their already planned actions could provide an added boost to confidence and markets.

They're likely to wait until after Congress decides on a rescue plan, to gauge whether confidence improves. Even if a plan is approved, it could be weeks before it begins to get implemented.

Many manufacturers are already feeling pinched. **Power Curbers** Inc., which makes machines that lay sidewalks and curbs, is feeling the cold blast of the credit crunch, like a large chunk of the U.S. factory economy.

Their business had been slow for a while, given their link to the construction business. "Our domestic business had fallen about 35% from the first of the year through about August," says Dyke Messinger, chief executive of the family-owned business based in Salisbury, N.C. But as the financial situation worsened in recent weeks, its customers, who typically finance purchases, suddenly stopped ordering. One major order was yanked. "We haven't had a domestic order in six weeks," Mr. Messinger says. "At this point, that's unprecedented."

Faced with such an abrupt drying up of business, the company on Tuesday decided to shut its assembly line for two weeks, which means layoffs for most of its 100 workers.

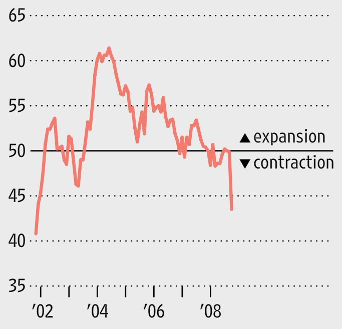
"Some of our customers have said specifically that they can't get financing," says Mr. Messinger. "Others say they just have to put it off—even after we asked them if there was some way we could help them bring the order back on." He says they have some international orders they can work on after a two-week pause, as well as replacement parts that need to be made, but he's already thinking he may face another shutdown in November.

Kerry Herndon, president of **Kerry's Bromeliad Nursery** Inc. in Homestead, Fla., a mass producer of inexpensive potted orchids sold in retail stores such as Costco and Home Depot nationwide, has just one word to describe how he's feeling: "terrified."

He started seeing a slowdown in sales long before the financial crisis hit, and has cut more than 50 of his workers, about 20% of the total, since June. And more cuts will be necessary, he says. What worries him in particular is that the slowdown is so widespread and is even occurring in places like wealthy suburbs and resort areas that long seemed immune to the ebb and flow of the larger economy.

Arc of a diver

The U.S. ISM Purchasing Managers Index, monthly data



Source: Institute for Supply Management

CORPORATE NEWS

CARTELS

EU imposes record fines on makers of paraffin wax


Associated Press

THE European Union imposed one of its highest-ever cartel fines, accusing nine companies of fixing prices and markets for paraffin wax, used in products like chewing gum, tires and candles.

"There is probably not a household or company in Europe that hasn't bought products affected by this 'paraffin mafia' cartel," said EU antitrust commissioner Neelie Kroes, above.

Sasol Ltd., **ExxonMobil** Corp., **Eni** SpA, **Hansen & Rosenthal**, **Tudapetrol**, **MOL Nyrt**, **Repsol** SA, **RWE** AG and **Total** SA will have to pay a total of €676 million ($951.6 million). South Africa's Sasol was fined the most—€318 million.

—WSJ News Roundup

VIDEOGAMES

Gamestop will acquire France's Micromania

GameStop

GAMESTOP CORP. will acquire French videogame retailer, Micromania for $700 million.

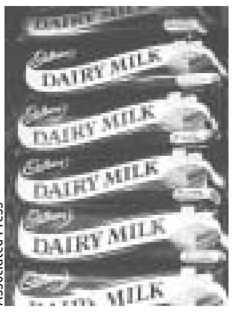
The Texas-based videogame seller already operates in several markets overseas but doesn't have any stores in France. It will acquire Micromania's 332 French locations from private-equity fund L Capital Management, bringing its world-wide store total to 5,889.

Chief Executive Daniel A. DeMatteo said GameStop expects the Micromania deal to help it achieve per-share earnings growth of 25% or more in fiscal 2009 and to add to its fiscal-fourth-quarter profit. For the previous fiscal year, GameStop earned $288.3 million, or $1.75 a share.

—Kerry E. Grace

CONFECTIONS

Cadbury CFO will depart in April to chair Inchcape



Associated Press

CADBURY PLC'S executive director and chief financial officer, Ken Hanna, will step down in April, the company said.

Mr. Hanna, who will have served five years with Cadbury, is set to become nonexecutive chairman of international car retailer **Inchcape** PLC, the company said. He has been a member of Inchcape's board since 2001.

London-based Cadbury said it has started an external search for a new finance chief.

The maker of Dairy Milk chocolate and Trident chewing gum split from its U.S. beverages division, Dr Pepper Snapple Group Inc., earlier this year.

—WSJ News Roundup

UniCredit rebounds a bit

Italian government announces measures to keep banks solid

By **Stacy Meichtry** *in Rome and* **Sabrina Cohen** *in Milan*

UNICREDIT SpA forged ahead of other European banks in developing sprawling cross-border operations. But the financial crisis has turned the Italian bank's strength into a source of worry for investors.

Shares in the Italian bank partially rebounded Wednesday, after losing 21% of their value this week and reaching a 10-year low, as investors fretted that the bank might have to be recapitalized.

On Wednesday, the bank reaffirmed support for its chief executive, and the Italian government announced it was prepared to take measures to keep Italy's banks on solid financial footing. UniCredit shares rose 11% to €2.89 ($4.05) on the Milan stock exchange Wednesday.

The turbulence cut the bank's market capitalization to €38 billion by the end of Wednesday's trading and prompted a UniCredit spokesman to strenuously deny rumors that CEO Alessandro Profumo was under pressure to resign.

Unicredit's woes mark a stark change of tune for a bank regarded as a trailblazer in Italian and European banking.

Few bankers have been as aggressive or successful as Mr. Profumo in extending his bank's operations across the Continent. While Italian rivals merged to create domestic behemoths such as Intesa Sanpaolo SpA, Mr. Profumo earned praise for keeping UniCredit's focus on foreign expansion—a strategy aimed at weaning UniCredit off Italy's sputtering economy, and propelling it into the big leagues of European banking.

It was under Mr. Profumo that Unicredit acquired German bank HVB Group AG in 2006—a deal that created the euro zone's fourth-largest bank by market capitalization.

As the financial crisis spreads from the U.S. to more parts of Europe, however, investors have begun to punish UniCredit for not being Italian enough. They fret that UniCredit, unlike its more parochial Italian rivals, faces exposure to the subprime mortgage crisis and the collapse of Lehman Brothers.

UniCredit stock has come in for a turbulent ride, which has seen it cede its position as Italy's biggest bank by market capitalization to Intesa Sanpaolo.

On Tuesday, billions were shaved off UniCredit's market capitalization, as its shares plunged 14%, forcing the Milan stock market to suspend trading in the stock for the rest of the day. Among the factors driving the sell-off were investor fears that UniCredit might be undercapitalized.

Some investors also think the bank's German unit HVB Group could be drawn into a consortium of commercial banks that will provide €35 billion to rescue German real-estate lender Hypo Real Estate Modling AG.

Analysts note that stock market regulators in Italy have been slow to respond to the challenges facing a bank of UniCredit's stature.

As the crisis gathered pace, UniCredit shares remained one of the only big banking stocks that investors could sell short. The short-selling spree ended late Tuesday, when Italy joined other European nations in imposing restrictions on short-selling. "UniCredit was the perfect target," says Marcello Zanardo, a banking analyst with Keefe, Bruyette & Woods Ltd.

The bank denied rumors its chief executive was under pressure to resign.

By Wednesday the Italian government and Italy's central bank had mounted a full-court press aimed at reassuring investors that Italian banks are stable. The Bank of Italy is set to accept a broader range of assets as collateral to assist banks in need of liquidity, two people familiar with the matter said Wednesday.

UniCredit also announced on Wednesday that it had spun off an undisclosed portion of its real-estate portfolio in a bid to reach its 2008 target for Tier 1 capital ratio—a measure of capital against risky assets. Italy's finance ministry, meanwhile, said the government, along with the Bank of Italy, was prepared to step in to ensure the stability of Italian banks.

Those moves, however, might not be sufficient to calm jitters among UniCredit investors. After a string of dramatic European bank rescues in recent days, investors have begun to question whether the 27-nation European Union is properly equipped to deal with the ramifications of the global financial crisis.

UniCredit currently answers to more than half a dozen regulatory bodies across Europe. According to the Brussels-based think tank Breugel, UniCredit held more than 65% of its total assets in European nations outside Italy in 2006, compared to an average of 24% among Europe's 15 biggest banks. In 2007, UniCredit earned nearly half of its revenues from operations outside Italy.

—Luca Dileo in Rome contributed to this article.

52-WEEK SHARE PERFORMANCE

UniCredit

On the Milan Stock Exchange
Wednesday's close: **€2.89, up 11%**
52-week change: **down 54%**

Source: Thomson Reuters Datastream

Xstrata ends Lonmin bid while increasing stake

By Robert Guy Matthews And Dana Cimilluca

Spooked by uncertainty in the credit markets and falling commodity prices, Anglo-Swiss miner **Xstrata** PLC backed away from its $10 billion offer for platinum producer **Lonmin** PLC.

But in a sign that it doesn't believe the world's economic slump will last long, Xstrata increased its stake in Lonmin to 24.9%, the maximum allowed before needing antitrust approval from some European regulators. The stake increase essentially blocks rivals from taking over Lonmin without Xstrata's consent.

Xstrata's decision to step back from its offer shows that higher lending rates have made some proposed mining acquisitions too expensive. Xstrata obtained the credit line needed to acquire Lonmin but didn't want to risk having to refinance a substantial portion of the debt within 12 months, as the credit line's terms required.

Another big pending mining deal—between **BHP Billiton** and **Rio Tinto**—received approval Wednesday from Australian regulators but still needs a green light from European regulators, who are expected to rule at the beginning of next year. BHP Chief Executive Marius Kloppers has said that financing isn't an issue in the all-stock deal.

Miners, buoyed by a couple of years of high commodity prices, are seeing most prices for metals and minerals decline as economic growth slows world-wide, including in China, which has been a principal driver of demand. Despite the slower growth, mining companies retain large cash reserves and still expect the world's hunger for copper, iron ore, aluminum and other metals to grow in the long term, even if short-term prospects look shaky.

Sensing what CEO Mick Davis called a "current lack of clarity and certainty regarding the future availability of credit," Xstrata backed away from an outright acquisition in favor of tapping some of the company's huge cash reserves to increase its stake in Lonmin—essentially hedging that demand for commodities will get stronger.

Lonmin, based in London, said Wednesday it plans to become more efficient and improve its performance. "Xstrata's attempt to acquire Lonmin highlights the fundamental long-term value of Lonmin's business," Lonmin Chairman Sir John Craven said in a prepared statement.

Xstrata already owned 10.7% of Lonmin's struggling shares and bought 22.2 million more for an average of £19.79 ($35.18) a share. That was significantly less than the £33 a share Xstrata plunked down for its initial offer in August. Lonmin rejected that offer as too low.

Since Xstrata made its offer, the price of platinum, which is mainly used for pollution-controlling catalytic converters in automobiles, has fallen nearly a third. Car makers are selling fewer automobiles as the world's economy weakens. In the U.S., where the automotive market was already on the ropes, getting credit to buy cars and trucks is expected to get even tougher as lenders increase their loan rates amid looming financial uncertainty.

Under U.K. takeover rules, had Xstrata followed through with a bid for the whole company, it would have had to pay the same £33-a-share price for the rest of Lonmin's shares. That is about a 100% premium to where Lonmin currently trades. Lonmin's stock, which had tumbled in recent days on nervousness that Xstrata would walk away, dropped 20% Wednesday to £18.13. In a year, Xstrata can make a bid that is lower than its initial offer. Xstrata faced a Thursday deadline imposed by U.K. market regulators to make an offer for the rest of Lonmin or walk away.

Xstrata's decision to back off from its offer suggests that until market volatility subsides, financing big takeover deals with debt will be difficult.

Xstrata has an investment-grade credit rating and a strong track record for making deals. It had planned to finance the Lonmin offer with $15 billion of debt from a group of banks including **Deutsche Bank** AG, which also was advising Xstrata on the deal.

CORPORATE NEWS

GE plans to raise capital via Buffett, stock offering

Berkshire Hathaway will invest $3 billion in preferred shares

By Donna Kardos

General Electric Co. disclosed a $3 billion investment from Warren Buffett's **Berkshire Hathaway** Inc. and announced an offering of at least $12 billion in common stock.

The moves come as the conglomerate, whose finance arm brings in nearly half its revenue, has seen its stock pummeled by investor worries amid the global credit crisis. The Fairfield, Conn., company had maintained that its finance arm was having no troubles.

That changed last week as GE cut its third-quarter and full-year earnings guidance, citing "unprecedented weakness and volatility in the financial-services markets," and announced a number of major moves—including suspending stock buybacks and freezing its dividend—to strengthen its capital and liquidity.

Warren Buffett

Under the offering announced Wednesday, the underwriters will have a 30-day option to buy shares representing another 15% of the offering amount to cover overallotments. GE expects to announce the pricing of the deal before the market opening Thursday.

Mr. Buffett's deal with GE, which comes just a week after he made a $5 billion investment in brokerage **Goldman Sachs Group** Inc., includes the purchase of perpetual preferred stock from GE in a private offering, and rights to purchase $3 billion in common stock. The move by Mr. Buffett represents his second large expression of confidence in the financial system since the credit crisis began to intensify in recent weeks.

Mr. Buffett tried to reassure GE investors Wednesday by issuing a statement that the company has "strong global brands and businesses with which I am quite familiar. I am confident that GE will continue to be successful in the years to come."

Jeffrey Immelt

GE Chief Executive Jeffrey Immelt said the moves enhance flexibility and allow the company "to execute on our liquidity plan even faster."

Additionally, he said "it gives us the opportunity to play offense in this market should conditions allow."

Mr. Immelt reiterated the company's long-held commitment to its AAA credit ratings and added that the GE continues to "successfully meet our commercial-paper needs."

Mr. Immelt also reaffirmed the third-quarter and 2008 guidance the company issued last week when it cut prior projections.

The near-term fate of GE Capital depends on two sensitive corners of the economy: commercial real estate and loans to midsize businesses. The weakening economic prospects of those sectors, amid the global financial crisis, are intensifying pressure on Mr. Immelt, who already is planning strategic changes in GE's portfolio. Among other things, the financial crisis will make it more difficult for GE to sell some divisions and could hurt its earnings in coming quarters.

In late-afternoon trading Wednesday on the New York Stock Exchange, GE shares were down 3.5% to $24.61.

More firms named in dairy case

A WSJ News Roundup

Hong Kong regulators said products made by **Cadbury** PLC, **Mars** Inc. and **Kraft Foods** Inc. cleared tests for the industrial chemical at the center of a tainted dairy-products scandal in China.

But 15 more Chinese dairy companies were identified Wednesday as making milk products contaminated with the industrial chemical melamine, authorities in China said, widening a scandal affecting products ranging from baby formula to chocolate.

The contamination has been blamed for the deaths of as many as four children and kidney ailments among more than 54,000 others.

Hong Kong's Center for Food Safety said Wednesday it found satisfactory results for melamine tests in several Western brands it had tested, including Mars' M&M's and Snickers products and Cadbury Chocolate Eclairs and Picnic Bars. It also cleared Kraft's Oreo Wafer Sticks, which Indonesian regulators had said tested positive for melamine traces.

Indonesian health officials also had said they found traces of melamine in the Mars products. Cadbury pulled 11 Chinese-made products from shelves, including the eclairs, earlier this week as a precaution after conducting its own tests.

The results "add to the overwhelming body of evidence that our high-quality products are clear of melamine," said Khaled Rabbani, Mars's director of corporate and regulatory affairs for the Asia-Pacific region.

An additional 31 batches of Chinese milk powder were found to be tainted with melamine, according to data on the General Administration of Quality Supervision, Inspection and Quarantine Web site Tuesday. Out of the 20 companies on the list, 15 hadn't been named in previous tests.

The new batches were mostly milk powder products for adults. A previous round of tests found melamine in 69 batches of infant milk powder.

The new figure brings to at least 100 the number of tested batches of milk powder found to contain melamine. Product-safety officials couldn't be reached for comment Wednesday, a national holiday in China.

Thailand is testing nearly 100 imports from China for possible melamine contamination. Officials in Japan said the trading company **Kanematsu** Corp. there began recalling a popular dessert imported from China after finding chemical contamination in the treats.

CORPORATE NEWS

Conoco picks a president

Carrig is now in line to lead oil company; lawyer climbs ranks

BY RUSSELL GOLD

ConocoPhillips promoted John A. Carrig to president and chief operating officer, putting him in line to become the next chief executive of the Houston-based oil company.

The move preserves ConocoPhillips's tradition of being led by financial executives; many other large oil companies are run by petroleum engineers or other officers with operational backgrounds.

Mr. Carrig, 56 years old, is a tax lawyer who rose through the ranks at Phillips Petroleum, serving as treasurer and then chief financial officer. In 2001, he became the top financial officer of ConocoPhillips when the company was created through a merger. ConocoPhillips is the third-largest U.S.-based oil company by market capitalization.

He is a longtime ally of ConocoPhillips's current Chief Executive James Mulva. Mr. Mulva, 62, has said he plans to retire in about three years.

Taking over the top spot may be a tricky transition for Mr. Carrig, however, because the current-day ConocoPhillips is very much the creation of Mr. Mulva. He has put more of a personal imprint on the company he runs than the chief executives other oil giants like Exxon Mobil Corp. and Chevron Corp., the largest U.S. oil companies.

Mr. Mulva orchestrated the merger of Conoco and Phillips Petroleum and has built the company into a global oil powerhouse through a series of large acquisitions and deals. He is known in global oil circles as a deal maker who is easy to work with.

Mr. Carrig has worked closely with Mr. Mulva on a series of multibillion deals that turned Phillips Petroleum from an also-ran into a full-blown member of the Big Oil fraternity. In addition to working on the Conoco-Phillips merger, he helped the company make its $6.5 billion acquisition of Atlantic Richfield Co.'s Alaska assets in 2000, and worked on multibillion deals to acquire refiner Tosco Corp., natural-gas producer Burlington Resources Inc., and a minority stake in Russian's OAO Lukoil.

Sig Cornelius, one of two veterans of premerger Conoco in a senior position, will become the new chief financial officer. John Lowe, the current head of exploration and production, will become a part-time special assistant to Mr. Mulva at the beginning of next year.

The company also said it had hired Red Cavaney, the former head of the oil industry's trade group, the American Petroleum Institute, to head its Washington D.C. lobbying effort and its public affairs department. Mr. Cavaney has headed the institute since 1997. He previously served on the White House staffs of Presidents Ronald Reagan, Gerald Ford and Richard Nixon.

China energy firms broaden reach

Chinese oil company **Cnooc** Ltd. is bidding for natural gas assets in the Caribbean, and is teaming up with refiner **China Petrochemical** Corp. to buy a stake in an Angolan oil field, the latest efforts by Chinese state-owned energy companies to expand their global reach.

Cnooc and China Petrochemical, known as Sinopec, are close to buying a stake held by U.S.-based **Marathon Oil** Corp. in an Angolan oil block, after agreeing to a price of around $1.8 billion, two people familiar with those negotiations said Wednesday. Marathon has chosen Sinopec and Cnooc's joint offer over separate bids from ONGC Videsh Ltd., the overseas investment arm of India's state-run **Oil & Natural Gas** Corp., and Brazil's **Petróleo Brasileiro** SA, known as Petrobras, the people said.

By **David Winning** *in Beijing and* **Benoît Faucon** *in London*

Buying up

Cnooc's completed M&A deals* since 2002

TARGET	VALUE, IN MILLIONS	DATE ANNOUNCED
NNPC-OML 130	$2,692 mil.	Jan. 8, 2006
Repsol YPF SA	592	Jan. 18, 2002
North West Shelf Gas	537	Aug. 23, 2002
Tangguh LNG Project, Indonesia	275	Sept. 25, 2002
Qinhuangdao 32-6 Oil Field	150	July 17, 2003
MEG Energy	125	March 11, 2005
Muturi PSC, West Papua	105	Feb. 1, 2004
Liuhua 11-1 Oil Field, China	40	July 17, 2003
Widuri Oil Field	0.6	Jan. 13, 2002
Cnooc Finance	not announced	Sept. 5, 2003

* Includes Cnooc's joint ventures with other companies. Source: Thomson Reuters

It could take another two weeks to finalize the deal, one person said.

Separately, Cnooc has bid between $300 million and $700 million for natural gas assets in Trinidad and Tobago that are currently owned by **Talisman Energy** Inc., a person familiar with the matter said.

Sinopec and Cnooc are China's second- and third-largest oil producers by capacity, after China National Petroleum Corp.

China's oil companies have been stepping up their pursuit of overseas assets as the country's domestic oil output stagnates, and its supply of natural gas fails to keep pace with the increase in demand. The global economic slowdown also has depressed the value of some oil and gas fields, opening up opportunities.

Just last week, Sinopec, parent of listed unit **China Petroleum & Chemical** Corp., struck a deal to pay $2 billion for Canada's Tanganyika Oil Ltd., which has oil fields in Syria. Chinese mining companies also are on a similar overseas buying binge. So far this year, Chinese companies have completed $26.3 billion of deals for businesses in the oil, natural gas and mining industries, according to data provider Dealogic.

The two new prospective deals represent partial departures from the usual overseas strategy of China's oil companies. Cnooc's bid for the Trinidad and Tobago assets signals a reentry into the Americas, a region it had backed off from after its failed 2005 bid for California-based Unocal. The possible deal in Angola is also unusual because Chinese oil companies have typically competed with each other in getting overseas assets, rather than cooperate.

Cnooc's overseas business is largely focused on Nigeria and Indonesia currently, although it has a small foothold in Canada's oil-sands sector. Calgary-based Talisman's daily output from Trinidad and Tobago averaged 6,439 barrels of oil equivalent last year, accounting for 2% of production from its international business, the company said on its Web site.

Xiao Zongwei, head of investor relations at Hong Kong-listed Cnooc, declined to comment on any possible bid for the Talisman assets. Talisman spokeswoman Teri Keyser said: "There have been a number of interested parties, but it's too early to say" what stage the discussions are at. Talisman said in May that it wanted to sell its assets in Trinidad and Tobago in the second half of this year, as part of a strategic review.

In the Angola deal, Sinopec and Cnooc still must negotiate other terms of a sale-and-purchase agreement with Marathon for 20% of deep-water Block 32. The companies will seek approval from the Chinese and Angolan governments before a deal is completed and announced, the two people familiar with those talks said.

Lee Warren, manager of Marathon's external communications, declined to comment, as did Cnooc's Mr. Xiao. Sinopec's media-relations department couldn't immediately be reached for comment.

Angola is a major supplier of crude oil to China, and has been a big recipient of loans and investment from China in recent years.

Block 32, where 11 successful exploration wells have been drilled, is operated by **Total** SA of France, which owns a 30% stake. **Sonangol**, Angola's state oil company, owns 20%, while U.S. oil major **ExxonMobil** Corp. owns 15% and a unit of Portuguese oil and gas firm **Galp Energia** owns 5%. Marathon intends to retain a 10% interest in Block 32 after the sale.

—Hyun Young Lee in Ottawa and Shai Oster in Beijing contributed to this article.

Auto makers reported **sharp declines** in U.S. auto sales for last month.

AFP

U.S. auto sales continue to fall despite incentives

BY SHARA TIBKEN

U.S. auto sales fell in September despite sales incentives and falling gasoline prices in what **Ford Motor** Co. said was the weakest month yet for the industry this year.

"Consumers and businesses are in a very fragile place," said Ford marketing chief Jim Farley.

General Motors Corp. Chief Operating Officer Frederick "Fritz" Henderson said he expects the U.S. auto-market weakness to continue into 2009 as consumers worry about credit and gasoline prices. On the bright side, GM said September marked its best monthly market share in 2008.

Ford, **Toyota Motor** Corp., **Honda Motor** Co. and **Nissan Motor** Co. reported declines of 35%, 32%, 24% and 37%, respectively, while GM rode its now-expired employee-prices sales promotion to keep its decline to 16%.

GM sales of cars and light trucks for September dropped to 282,806, from 334,974 a year earlier. There were 24 selling days, one less than a year earlier. Sales of trucks and sport-utility vehicles fell 19% to 164,366, while car sales declined 9.8% to 118,440.

GM launched an employee-discount promotion Aug. 20 in honor of its 100th anniversary, which stemmed sales declines that month and prompted the incentive's extension through September.

GM announced new incentives Wednesday to replace its employee-pricing program. The auto maker plans to offer discounts of as much as $5,000 on some pickups and SUVS, including several 2009 models.

Toyota's fifth straight month of sales drops shows how the Japanese giant—once considered almost immune to the economic forces that have battered its Detroit-based rivals—is also suffering. Toyota sold 144,260 vehicles in September, compared with 213,042 a year earlier.

Toyota, which is battling GM for the crown of the world's best-selling auto maker, said passenger car sales fell 28% to 88,342, while SUV sales dropped 38% to 22,784. Toyota led GM in sales in the first half of the year and narrowly missed unseating GM as the world's top auto seller last year.

Ford sold 120,355 light vehicles, down 35% from 183,769 a year earlier. Ford truck and van sales fell 39% with SUV sales tumbling 57%.

Honda's sales fell 24% to 96,626, with cars off 22% and trucks sliding 27%. **Volkswagen** AG said its U.S. vehicle sales for September fell 9.4%, to 17,109 from 18,891 a year earlier. **Hyundai Motor** Co.'s U.S. sales fell 25%, to 24,765 from 33,214.

Chrysler LLC's sales fell 33% to 107,349 units from 159,799. The company reported a 34% drop in truck sales, while car sales declined 29%.

Nissan posted a 37% September drop to 59,565 vehicles from 94,269 a year ago.

Porsche wavers on outlook

BY CHRISTOPH RAUWALD AND STEVE MCGRATH

FRANKFURT—Shares in **Porsche Automobil Holding** SE skidded amid tumbling sales in key European markets and as the German auto maker revealed its normally robust growth had slowed.

Porsche, which is in the usually resilient high-end auto market, said it couldn't give an outlook in the "present economic situation," and shares in other European auto makers declined. Porsche shares fell €6.44 ($9.06), or 8.5%, to €69.36 in Frankfurt.

Auto makers are warning of a slowdown in global sales worsening in the second half of 2008 and into 2009 as the economic downturn and lack of available credit continue to take a toll.

French car sales rose 8.4% in September from the previous year, data from a French car makers association showed, defying the downturn in the rest of Europe thanks to consumer tax breaks for low-consumption, low-emission vehicles. However, the increase reflected two more working days this September. After adjustment, September's total was down 1.4%. In Spain, car sales were down 32% in September.

Porsche, which this month increased its stake in Europe's biggest auto maker, **Volkswagen** AG, to 35.14%, said revenue in the fiscal year ended July 31 rose 1.3% to €7.46 billion. **Daimler** AG on Wednesday denied market speculation that it was about to issue another profit warning, although it said conditions had worsened.

—David Pearson, Gordon Sorlini and Jason Sinclair contributed to this article.

CORPORATE NEWS

Alcoa to cut 660 jobs

Smelter in Texas is being phased out as demand wanes

By Robert Guy Matthews

Citing continuing power-supply problems, lower prices and decreasing demand for aluminum, **Alcoa** Inc. said it will lay off 660 people by year end at its Texas operations and take a third-quarter pretax charge of about $48 million to cover the costs.

The move comes amid tough times for the aluminum industry, which is experiencing falling prices and increased competition for a shrinking market, and is an effort to reduce production and power costs to remain competitive against bigger rivals **Rio Tinto** and **United Co. Rusal.**

The layoff at the Rockdale, Texas, smelter essentially closes the aluminum-production operations there. Alcoa closed roughly half the production at Rockdale in June and laid off about 160 people at that time because of a conflict with a local utility company. Alcoa filed suit in August against **Luminant Generation** Co., claiming the energy company was charging Alcoa market rates for energy, rather than selling it on a previously agreed to cost basis. Luminant alleges that Alcoa wanted an unreasonably low-cost power supply.

Alcoa's curtailment of operations at the Texas smelter this summer set the stage for it to phase out operations completely. "When we initially curtailed half of our aluminum production in Rockdale, we said it would be extremely challenging to try to be competitive operating only half of the plant," said John Thuestad, president of Alcoa's U.S. Primary Products business. "Unfortunately, the cumulative effect of operating only half of the smelter, well-known issues regarding the cost and long-term reliability of the power supply in Rockdale, and current market conditions, have forced us to make this difficult decision."

Aluminum plants are heavy users of power, which accounts for nearly 30% of production costs. To mitigate expenses, aluminum companies have been moving operations from high-cost power countries such as the U.S. to relatively cheaper locations like Canada, Iceland, the Middle East and Russia.

In New York, Alcoa's shares were down 5.7% at $21.30 in midafternoon trading Wednesday.

The Rockdale smelter won't close entirely. Some operations, employing about 140 people, will remain open. But the move will reduce Alcoa's aluminum production, including the June shutdown, by about 270,000 metric tons a year. More importantly, it reduces the production of some of the company's highest cost aluminum. Alcoa smelts about 4.5 million tons of aluminum production capacity a year. Alcoa said it will continue to operate its aluminum atomizer and anode operation in Rockdale. Prices of aluminum have fallen in recent months as China, India and other emerging markets have reduced consumption.

Bloomberg News/Landov

A **worker performs** a job at an Australian plant of Alcoa, which is trying to reduce costs to compete against bigger rivals.

Australian panel clears BHP offer to buy Rio Tinto

By Alex Wilson

MELBOURNE, Australia—**BHP Billiton**'s $119 billion bid to buy rival **Rio Tinto** cleared another hurdle as Australian competition regulators said they won't oppose a deal.

A decision by the European Commission, due Jan. 15, now stands as the last serious regulatory barrier to the all-stock bid, which has been rejected by Rio Tinto.

Australian Competition and Consumer Commission Chairman Graeme Samuel said the deal would be unlikely to substantially lessen competition even though it would combine two of the world's three biggest suppliers of iron ore.

The commission had identified iron ore as an area of potential concern, but said Wednesday that there has been significant expansion in the iron-ore industry.

"The ACCC's inquiries indicated that the merged firm would be unlikely to limit its supply of iron ore, given the uncertainty it would face in relation to the profitability of this strategy and the risk that limiting supply would encourage expansions by existing and new suppliers as well sponsorship of alternative suppliers by steel makers," Mr. Samuel said.

BHP Chief Executive Marius Kloppers has said that he doesn't believe the takeover will require any remedies on competition grounds and has argued that the enlarged group will be able to bring on new sources of supply at a faster rate.

Australian and European regulators have been sharing information so the green light in Australia could bode well from BHP's standpoint regarding the European Commission's decision, seen by analysts as the most significant regulatory barrier to a deal.

CORPORATE NEWS

Roche says bid is on track

Drug firm confident it can get financing for Genentech offer

BY JEANNE WHALEN AND DANA CIMILLUCA

Drug giant **Roche Holding** AG said it remains confident it can raise the money it needs for its $43.7 billion bid for full ownership of **Genentech** Inc., despite turmoil in financial markets.

Bankers are closely watching the deal, saying it will help show whether there is still life in mergers and acquisitions, outside financial services. Anglo-Swiss miner Xstrata PLC on Wednesday backed away from its $10 billion plan to acquire platinum producer Lonmin PLC, spooked by falling commodity prices and the uncertainty of credit markets.

"We are confident to be able to raise the required financing" for the Genentech deal, a Roche spokesman said, repeating a comment Roche Chief Executive Severin Schwan made Sept. 16, just as the latest chapter of turmoil in financial markets was beginning.

Roche, based in Basel, Switzerland, in July offered $89 a share for the 44% of Genentech it doesn't already own. Genentech's board rejected the offer as too low.

The Roche spokesman on Wednesday declined to say whether the company planned to raise its offer. Genentech, of South San Francisco, Calif., didn't respond to a request for comment.

Genentech shares eclipsed $98 after Roche's initial offer but in recent days have slipped to less than

The $43.7 billion offer is seen as a barometer for deal making generally .

Roche's bid as investors have grown worried about the takeover going through. Genentech shares were down 2.5% to $86.50 in late-afternoon trading Wednesday on the New York Stock Exchange.

Xstrata backed away from its offer for Lonmin because it wasn't able to borrow money on terms it found attractive. Xstrata, like Roche, has an investment-grade credit rating, giving it better access to financing than other companies.

Roche has contacted a handful of banks to gauge their interest in providing loans to finance the Genentech deal, according to people familiar with the matter. Roche is looking to raise about two-thirds of the purchase price from banks, according to one person. Roughly 10 banks have responded to say they are interested, though Roche hasn't sent out proposed terms to potential lenders. A person familiar with the deal predicted Roche could line up financing later this month. There is no guarantee that Roche will be able to raise money on attractive terms or proceed with an offer.

The exact timing and price of any offer could hinge on data coming out next month from a clinical trial of one of Genentech's biggest drugs, Avastin. That data should show how well Avastin works in certain colon-cancer patients. If the results are positive, they could improve Avastin's sales prospects and, thus, Genentech's value. As a result, some analysts predict Roche will want to agree on a deal with Genentech directors before then.

—Ron Winslow contributed to this article.

CEO bets big on Las Vegas Sands

BY TAMARA AUDI

In a sign of how credit turmoil is forcing companies to look for new sources of funding, Sheldon Adelson, the billionaire chief executive and major shareholder of **Las Vegas Sands** Corp., agreed to lend his gambling company $475 million of his own cash.

The loan, announced Wednesday, will allow the Las Vegas company to avoid breaking the terms of a $5 billion credit facility. The facility was tied to certain cash-flow requirements that the company risked missing, and breaking the covenant could have affected its ability to borrow down the road, according to analysts.

Mr. Adelson's willingness to pony up his own cash indicates how difficult borrowing has become, especially in industries that depend on access to credit to fuel their operations and expansions.

"This was the least costly and best option for the company," Mr. Adelson said Tuesday evening. He joked: "My wallet's a little thinner."

Investors and analysts had speculated for weeks over how the gambling company—best known for the Venice-themed Venetian resort in Las Vegas—would navigate a cash-flow shortage that would have put it out of compliance with its loan terms and in the difficult position of renegotiating with lenders as Wall Street continues to be consumed by turmoil.

Analysts said protecting lending covenants is crucial to the company's future.

"The last thing you want to do when you have this dynamic where you're going to be looking to the market for years to come to raise capital for development is trip covenants and impact your credit," said Bill Lerner, a gambling analyst with Deutsche Bank.

According to a Securities and Exchange Commission filing, the terms of the Las Vegas Sands credit facility dictate that the company's debt can't exceed 7.5 times its cash flow.

Mr. Adelson had hinted in the company's most recent earnings conference call in July that he might put his personal wealth into the company if necessary.

Even with Mr. Adelson's loan, Las Vegas Sands faces some hurdles. The company is seeking $3.3 billion to refinance an existing loan, and nearly $2 billion to finance a portion of its latest project in Macau, China's gambling enclave.

Mr. Adelson said Tuesday the company might decide against refinancing the $3.3 billion loan "the more onerous the terms get in this market." But he said the company is continuing to pursue financing of the nearly $2 billion needed for the Macau project with Asian banks, which he said aren't as affected as U.S. banks.

"We're in the process of packaging that deal so it will be the least costly," he said. He also said his loan to the company illustrated his own confidence that Las Vegas Sands would be able to weather the credit crunch. "If I thought there was some issue about financing, would I have put...almost a half a billion into the company?"

The $10 billion to $12 billion Macau project, which will open in phases, is a sprawling complex that includes hotels, casinos, restaurants and retail. It is expected to be completed in 2012.

Major casino projects in Las Vegas and elsewhere already have been canceled or postponed as gambling companies struggle to come up with cash to finance them.

Casino company **MGM Mirage** is seeking the final pieces of financing to finish its $9.2 billion condo and resort project, City Center, scheduled to open next year on the Las Vegas Strip.

MGM Mirage said it has more than $2 billion in "commitments" from banks but still needs to raise $500 million to complete the financing package.

Sanofi seen cutting jobs in France

BY DAVID GAUTHIER-VILLARS AND JEANNE WHALEN

A group of French unions said they expect French drug maker **Sanofi-Aventis** SA to announce Thursday that it will cut roughly 800 sales jobs in France, the unions said in a statement Wednesday.

Such a cut would represent about a third of Sanofi's sales force in France, Philippe Guerin-Petrement, a delegate with the Force Ouvriere union, said in an interview. Some of the drug-sales representatives plan to stage demonstrations Thursday in various French cities, he said. A Sanofi spokesman declined to comment. Like other big drug companies, Paris-based Sanofi has been cutting jobs for several years amid tough times in the drug industry.

In February, Sanofi said it had cut the size of its global sales force by 5% over the previous two years, to 35,629 representatives. The company said it cut 2,900 sales jobs in the U.S. and Europe during that period, with the U.S. sales force alone declining by about 18% to 7,800 people.

GLOBAL BUSINESS BRIEFS

Zentiva NV

Zentiva holder raises stake in challenge to Sanofi bid

A private shareholder raised its stake in Zentiva NV, challenging French suitor Sanofi-Aventis SA, which is bidding to take over the Czech generic-drug maker. Belviport Trading Ltd., a closely held firm whose owners remain anonymous, raised its holding in Zentiva to 10.06% from 6.08%, according to a regulatory filing in the Netherlands, where Zentiva is registered. Last month, financial company PPF Group NV and its insurance joint venture with Italy's Generali SpA raised their combined stake to 21.59% from 19.23%. Both companies upped their holdings even though Zentiva's board has formally backed Sanofi's 43.86 billion korun ($2.52 billion) bid. Sanofi already owns 24.9% of Zentiva and its offer is contingent on gaining control of more than 50% of total shares. PPF, Belviport and Slovak financial company J&T, which holds 7.6%, have yet to declare their intentions.

Tesco PLC

Retailer **Tesco** PLC said nonexecutive director Mervyn Davies has resigned because of potential conflicts of interest as Tesco expands its financial-services business in regions similar to those of U.K. bank Standard Chartered PLC. Mr. Davies, 55 years old, is chairman of Standard Chartered. Tesco is close to completing its £950 million ($1.69 billion) acquisition of **Royal Bank of Scotland Group** PLC's 50% stake in Tesco Personal Finance Group Ltd., which provides financial services such as loans, credit cards and savings accounts. Mr. Davies will have spent more than five years with Tesco when his resignation takes effect on Oct. 31.

Orica Ltd.

Orica Ltd., the world's largest maker of explosives, said Wednesday that it has entered into a joint venture with **Southwest Energy** LLC to operate an explosives business in the U.S. The Australian company will have a half stake in the business for an initial consideration of $32 million, comprising contributed businesses and cash, with a further earn-out payment of up to about $60 million, it said. Orica Chief Executive Graeme Liebelt said the joint venture complements Orica's existing regional markets in copper, gold and molybdenum mining.

Nuance Communications Inc.

Nuance Communications Inc. acquired a speech-recognition business from **Philips Electronics** NV in a €66 million ($92.9 million) deal that will expand its services in speech-driven clinical documentation for health care. Austria-based Philips Speech Recognition Systems offers speech-recognition applications in 25 languages, which Nuance called "the most comprehensive language portfolio in health care" for medical documentation. Nuance expects the deal to add two cents to three cents a share in earnings and $37 million to $40 million in revenue for the fiscal year. Nuance increased its earnings and revenue forecast for its fiscal fourth quarter. The company now expects earnings of 25 cents to 26 cents a share, xcluding items, for the quarter ended Tuesday, up a penny from its August projection. It forecast revenue of $258 million to $262 million, raising the low end from $255 million.

Bayer AG

Bayer AG said it received approval from the European Commission to start selling Xarelto, a new type of oral drug aimed at preventing blood clots. The pill will compete against **Sanofi-Aventis** SA's Lovenox, an injectable drug that racked up €2.6 billion ($3.66 billion) in sales last year. Drug companies believe that oral drugs such as Xarelto could have an advantage as they could be considered more convenient than Lovenox. Bayer and partner **Johnson & Johnson** have applied for Food and Drug Administration permission to sell Xarelto in the U.S. **Bristol-Myers Squibb** Co. and partner Pfizer Inc. are also racing to develop an oral anticlotting drug, and Germany's **Boehringer Ingelheim** GmbH recently gained approval to sell its oral drug Pradaxa in Europe.

Bradford & Bingley PLC

A rescue package for beleaguered U.K. mortgage bank **Bradford & Bingley** PLC doesn't break European Union state-aid rules, the European Commission said. The commission, the EU's executive arm, said it had been in contact with the U.K. government over the weekend to help design measures to protect the bank from failure in a way that would comply with EU law. The U.K. government has agreed to submit a restructuring plan for the bank within six months that will then be examined by the commission. The U.K. Treasury said Monday it will transfer the bank's retail business and branch network to Abbey National, owned by Spain's **Banco Santander** SA, and that the rest of the business would be nationalized.

Straumur-Burdaras

Straumur-Burdaras Investment Bank agreed to buy the majority of the overseas corporate-finance and brokerage platforms of fellow Icelandic investment bank Landsbanki for €380 million ($534.9 million). Straumur is acquiring 100% of Landsbanki Securities (UK) Ltd., which includes the joint operations of the former Teather & Greenwood and Bridgewell, Landsbanki's European and U.S. business Landsbanki Kepler, as well as Landsbanki's 84% stake in its Irish operation Merrion Landsbanki. Last year, the combined revenue of the three was €232 million. They employ some 680 people in nine European countries and the U.S. The announcement came two days after Iceland's Glitnir Bank, was effectively nationalized in a €600 million deal.

Volkswagen AG

Volkswagen AG expects to export 125,000 vehicles a year from the plant it is building in the U.S., the company's chief financial officer told analysts Wednesday, according to a person familiar with the matter. The auto maker expects a plant near Chattanooga, Tenn., to open in late 2010, Hans Dieter Pötsch said at a conference hosted by Credit Suisse First Boston. The plant will make a midsize car that VW hopes will drive growth in the U.S. market. Mr. Pötsch's presentation included a slide showing the plant will make 125,000 that will be sold in the U.S., and another 125,000 that will be exported to other countries, a person who attended the meeting said. VW has until now only said the plant will make cars for the American market and played down the possibility of exporting vehicles.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

EUROPEAN UNION

Russia allows observers around South Ossetia


Associated Press

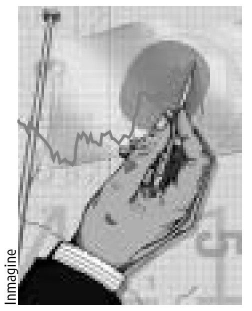
EUROPEAN Union monitors began patrolling Georgian territory Wednesday and Russian troops allowed some of them into a buffer zone around the breakaway region of South Ossetia despite earlier warnings from Moscow they would be blocked. But EU monitors were quickly allowed to pass through Russian checkpoints near two Georgian villages on the perimeter of Moscow's so-called security zone.

Russia and Georgia agreed to the EU observer mission as part of an updated cease-fire plan following the war, which ended with Russian and separatist forces in control of the breakaway regions.

—Associated Press

JAPAN

Manufacturer confidence hit 5-year low last month


Inmagine

CONFIDENCE among Japan's large manufacturers fell sharply to a five-year low in September, hit by the double whammy of higher costs and shrinking consumer demand at home and abroad amid a global economic slowdown.

According to the Bank of Japan's quarterly survey of corporate sentiment released Wednesday, a key confidence index for large manufacturers declined to minus-3 in September from plus-5 in June, turning negative for the first time since June 2003. The companies expect the index to decline further, to minus-4, in the next three months.

—Yuka Hayashi

WORLD TRADE ORGANIZATION

Dispute panel backs EU on U.S. antidumping plan


Fotosearch

THE WORLD Trade Organization dealt a new setback to a U.S. method for dealing with unfairly priced imports, ruling that the U.S. antidumping measure broke international trade rules.

In the latest ruling over the method favored by the U.S., which has been the target of a dozen trade disputes, a WTO dispute panel backed a European Union complaint that the Commerce Department had acted illegally.

While the U.S. can appeal the panel's findings, the WTO's top court has rejected the method, known as zeroing, three times. The EU welcomed the ruling.

—Reuters

Cameron makes his case to lead the U.K.

Tory leader seeks to counter criticism he lacks experience

BY ALISTAIR MACDONALD
Birmingham, ENGLAND

DAVID CAMERON, who is vying to become Britain's next prime minister, sought to counter criticisms that he lacks the experience and policies to deal with the country's financial crisis.

The Conservative Party leader is ahead of U.K. Prime Minister Gordon Brown in opinion polls and has gained popularity by moving the Conservative Party left—to the center Tony Blair once claimed for the Labour Party. In a speech at the annual party conference, Mr. Cameron tried to paint himself as having the character to lead Britain through difficult times.

The speech, reflecting how the credit crunch is shaping politics around the world, presents a new twist in U.K. politics and the pitched Brown-Cameron rivalry. Mr. Cameron has been winning voters away from Mr. Brown with speeches heavy on charm and personal touches that have stressed pro-environmental and family-friendly issues. On Wednesday, he moved closer to Mr. Brown's comfort zone, the economy and financial sector.

"Today the financial crisis means that all eyes are on the economy and the financial markets and that is absolutely right," Mr. Cameron said in a speech that lasted just over an hour.

The U.K. is suffering in the credit crisis, testing the already-unpopular Mr. Brown's leadership. Mr. Brown must call an election by 2010 and Mr. Cameron is positioned to run against him. The country, which relied heavily on the financial-services sector in its past 15 years of an economic boom, has nationalized two banks and helped rescue a third.

The Conservatives rescripted their annual conference agenda, and Mr. Cameron's speech was rewritten to take account of the economic crisis. An opening-day celebration of the party's recent local election victories was canceled and replaced with a session on the credit crunch. The party has pushed out a series of economic- and finance-related policies and speeches throughout the four-day event in Birmingham.

It is a "sober" conference, said Liam Fox, the Conservative member of Parliament in charge of defense policy.


Associated Press

David Cameron, at the annual Conservative Party conference, promised to fix Britain's "broken society in the way that Margaret Thatcher fixed its broken economy."

While the Conservatives lead the Labour government in polling, Mr. Brown's government recently has clawed its way back from the record lows that would have seen it lose in a landslide if an election were called. A poll in the Sunday Telegraph newspaper put the Conservatives at 43% of the vote, down three points, with Labour up seven points at 31%. Voters said they had more confidence in Mr. Brown and his Treasury chief Alistair Darling to handle the economy than Mr. Cameron and his lead finance politician George Osborne.

The banking crisis has played to Mr. Brown's strengths; Mr. Brown enjoyed a 10-year reign as head of the Treasury under Mr. Blair. Mr. Brown also is experiencing a bump following the Labour Party conference last week and his well-received speech there. In his speech, Mr. Brown hit a nerve when, in an allusion to Mr. Cameron, he said it was not the time for a "novice."

Mr. Cameron countered Wednesday, saying, "experience is what they always say when they try to stop change."

In his nearly three years as leader of the Conservatives, Mr. Cameron, a former public-relations executive, has sought to banish the image of what one Conservative politician called the "nasty party." He has toned down Tory rhetoric on tax cuts and smaller government and the dangers of European integration.

Even though he dedicated less time to social issues to discuss the financial crisis, in his speech Mr. Cameron promised to fix Britain's "broken society in the way that Margaret Thatcher fixed its broken economy." In language reminiscent of Mr. Blair, he talked of mending the environment and of understanding what drives people to crime.

Many party members had queued for up to four hours to see the speech. "Exactly what the country needs in these current economic circumstances," said Robert Winfield, an unemployed financial administrator from Leeds, England.

European slowdown hits the region's labor markets

BY EMMA CHARLTON AND JOE PARKINSON

LONDON—The slowdown in Europe's economy is hitting labor markets in the U.K. and the 15 countries that use the euro as employers scale back output and reduce payrolls.

The weak data have fueled market speculation about rate cuts by Europe's central banks, though these are considered more likely for the Bank of England, whose rate setters meet next week, than for the European Central Bank, whose policy meeting Thursday is expected to leave the refinancing rate unchanged.

The euro zone's unemployment rate rose to its highest level in more than a year in August as tightening credit conditions and weaker confidence led businesses to cut costs. The euro zone's jobless rate hit 7.5% in August, from 7.4% in July, according to European Union statistics agency Eurostat.

Many euro-zone members have strong legal protections for workers, making it time-consuming and expensive for businesses to cut jobs. It usually takes many months for a downturn in the economy to lead to a sharp rise in the unemployment rate.

So while the job market in the U.S. turned quickly as the economy weakened—with the U.S. unemployment rate rising to 6.1% in August from 4.7% a year earlier—Europe's jobless rate has been slower to pick up. Indeed, the unemployment rate for the EU as a whole was 6.9% in August, down from 7.1% a year earlier.

But available evidence suggests the pace of job reductions sped up last month, with companies in the U.K. and the euro zone announcing more than 50,000 job cuts during the month and many flagging more in the months ahead.

"Since the end of 2007, there's been a gap between slowing gross domestic product and the labor market—employment didn't react very quickly to the economic downturn," said Gilles Moec, an economist at Bank of America. "Employers were hesitant, waiting to see if the oil shock would pass. Now we are more settled in the downturn, and companies are more inclined to cut costs."

In the U.K., a survey of more than 600 purchasing managers in the manufacturing sector showed job cuts were at their highest since records began in 1992. That reflected widespread layoffs, the nonreplacement of those departing and the postponement of planned expansions, research firm Markit Economics said.

The same survey for the euro zone showed that payrolls were cut for the fourth straight month and that job losses were at their highest for five years.

The U.K.'s unemployment rate increased to 5.5% in the three months to July, from 5.3% in the three months to June, as the number of unemployed workers rose by 81,000, the latest data from the U.K. Office for National Statistics shows.

—Paul Hannon and Steve McGrath contributed to this article.

Rebounding joblessness
Euro-zone unemployment rate

Source: Eurostat

Spanish housing prices fall

First drop in decade strains economy on brink of recession

BY JONATHAN HOUSE

MADRID—Spanish housing prices fell for the first time in a decade in the second quarter, adding new stress to an economy already on the brink of recession.

Data released Wednesday by Spain's National Statistics Institute, or INE, showed second-quarter house prices fell at an annual and a quarterly rate of 0.3%. The data are based on a new methodology designed by Eurostat, the European Union's statistics arm, which is seeking to promote uniform housing data throughout the EU.

Spain's housing boom started to deflate in the first quarter of 2007, when prices reached nearly three times their 1997 levels and after years of overbuilding. The correction was hastened by tougher financing conditions in the aftermath of the U.S. subprime-mortgage crisis.

Unlike prices in other countries that have experienced boom-to-bust housing cycles, including the U.S. and the U.K., Spanish prices haven't fallen until now because homeowners and builders have tried to hold on to their properties rather than sell them in a falling market.

"This is an idiosyncrasy of the Spanish market," said José García Montalvo, an economics professor at Universitat Pompeu Fabra. He notes that until this year, Spain's housing-sector adjustment has been more visible in sharp falls in sales transactions and housing starts.

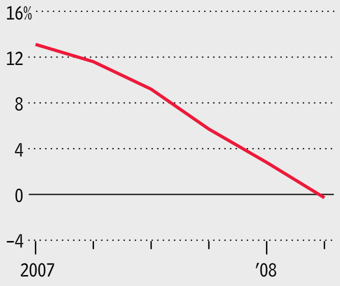
The decline in housing investment has brought the Spanish economy, once one of the euro zone's main engines of economic and employment growth, to the verge of recession. The government now expects the economy to stagnate, and possibly contract, in the second half of this year.

Spain could now start to see greater financial stress if housing prices start to fall below mortgage values, Juan Ramón Quintás, chairman of Spanish savings-bank association CECA, said Wednesday.

"A fall in prices causes a rise in bad debt. ...If someone can't pay their mortgage, and his house is worth less, he might not have the option he had before of selling the house" to cover his debt, Mr. Quintás said.

First fall in a decade

After several quarters of slowing growth, Spanish house prices declined for the first time in 10 years in the second quarter. House prices in Spain, change from a year earlier:



Source: Spain's National Statistics Institute

U.S. to begin spy program despite concerns on privacy

BY SIOBHAN GORMAN

WASHINGTON—The U.S. Department of Homeland Security will proceed with the first phase of a controversial satellite-surveillance program, even though an independent review found the department hasn't yet ensured the program will comply with privacy laws.

Congress provided partial funding for the program in a little-debated $634 billion spending measure that will fund the government until early March. For the past year, the Bush administration had been fighting Democratic lawmakers over the spy program, known as the National Applications Office.

The program is designed to provide federal, state and local officials with extensive access to spy-satellite imagery—but no eavesdropping—to assist with emergency response and other domestic-security needs, such as identifying where ports or border areas are vulnerable to terrorism.

Since the department proposed the program a year ago, several Democratic lawmakers have said that turning the spy lens on America could violate Americans' privacy and civil liberties unless adequate safeguards were required.

A new 60-page Government Accountability Office report said the department "lacks assurance that NAO operations will comply with applicable laws and privacy and civil liberties standards," according to a person familiar with the document. The report, which is unclassified but considered sensitive, hasn't been publicly released, but was described and quoted by several people who have read it.

The report cites gaps in privacy safeguards. The department, it found, lacks controls to prevent improper use of domestic-intelligence data by other agencies and provided insufficient assurance that requests for classified information will be fully reviewed to ensure it can be legally provided.

Homeland Security spokeswoman Laura Keehner said department officials concluded that the program "complies with all existing laws" because the GAO report didn't say the program doesn't.