THE WALL STREET JOURNAL.

WSJ.com

DOWJONES Newswires

EUROPE

DOWJONES A NEWS CORPORATION COMPANY

VOL. XXVI NO. 173

FRIDAY - SUNDAY, OCTOBER 3 - 5, 2008

North stars: The new crop of Finnish designers

WEEKEND JOURNAL | PAGES W10-W13

More illegal immigrants leave the U.S. to go home

NEWS IN DEPTH | PAGES 12-13

What's News—

Business & Finance

Efforts by governments across Europe to prop up their banking systems could be having an unintended consequence: the flight of deposits from banks that don't enjoy state largess. These banks have started complaining that state-backed institutions are stealing their customers. Page 1

■ **The ECB left its key rate** unchanged, but signaled a cut is likely soon as turmoil damps growth and inflation. Page 1

■ **U.S. stocks extended** losses on rising recessionary fears. A surprising profit outlook from UBS couldn't help Europe, also stung by U.S. data. Pages 15, 16

■ **UBS said** it will post a small third-quarter profit, after cutting its U.S. mortgage-related positions. Page 2

■ **Bank of America** gave a key role to Merrill's Thain, making him the front-runner to succeed Lewis as CEO. Page 15

■ **Spain's jobless rate** surged to 11.3% in September, largely on a slowing construction industry, signaling an abrupt economic turnaround. Page 8

■ **U.S. jobless claims** hit their highest level since the 2001 recession, with factory orders tumbling as well. Page 8

■ **Auto industry gloom** is spreading to emerging markets that have been key sources of growth. The latest hot spot to cool off is Russia. Page 3

■ **The U.S. commercial paper** market shrank by $94.9 billion to $1.607 trillion in the latest week. Page 18

■ **Gazprom clinched** a deal to give utility giant E.ON a stake in one of the world's largest natural-gas fields. Page 5

■ **Nokia unveiled** its long-awaited touch-screen phone, a challenge by the world's biggest mobile-phone maker to Apple's trail-blazing iPhone. Page 4

■ **Microsoft will start** a European Internet-search-technology center with hubs in Paris, London and Munich. Page 4

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	10482.85	-348.22	-3.22
Nasdaq	1976.72	-92.68	-4.48
DJ Stoxx 600	254.24	-3.51	-1.36
FTSE 100	4870.34	-89.25	-1.80
DAX	5660.63	-145.70	-2.51
CAC 40	3963.28	-91.26	-2.25
Euro	$1.3809	-0.0189	-1.35
Nymex crude	$93.97	-4.56	-4.63

Money & Investing > Page 15

World-Wide

France's Sarkozy unveiled a $28 billion aid package for small businesses, part of emergency measures to soften the impact of the global financial crisis in an effort to shield the country's economy from recession, as the president lobbies for a continent-wide effort to tackle the problems. Page 1

■ **Putin accused** Ukraine of sending personnel to fight Russian forces in Georgia in August. Moscow and Kiev agreed to a gradual three-year transition for Ukraine to purchase Russian natural gas at market prices. Page 8

■ **Merkel chastised** Russia's conduct in Georgia and told Medvedev its territorial integrity is "nonnegotiable." Page 28

■ **Suicide bombers struck** two Shiite mosques in Baghdad, killing at least 24 people and wounding over 50. Page 8

■ **Russia aims** to deploy a new nuclear missile next year designed to penetrate antimissile defenses and will build eight submarines to carry it, officials said.

■ **A suicide bomber killed** four people in northwest Pakistan. The U.N. ordered children of some staff to leave unsafe areas in Pakistan, including Islamabad.

■ **Reports that a Skype** joint venture in China monitored users' communications added impetus to an industry effort to establish a conduct code. Page 6

■ **India's government hailed** U.S. lawmakers' approval of a civilian nuclear pact that New Delhi considers crucial for the nation's energy needs. Page 9

■ **A U.S. nuclear envoy tried** for a second day Thursday to persuade North Korea to resume dismantling its nuclear program in exchange for energy aid.

■ **London's police chief** resigned, after a tenure that included the shooting death of an innocent man in the wake of terrorist transit attacks. Page 2

■ **Taiwan ordered** Nestlé to halt sales of some China-made dairy products. The company said the products have "minute traces" of melamine and are safe. Page 5

■ **Searchers found** the wreckage of Steve Fossett's plane in California's rugged Sierra Nevada one year after the famed adventurer vanished on a solo flight.

EDITORIAL & OPINION

Europe's Paulson plan

The Old Continent may have to rescue its own banking system. Review & Outlook. Page 10

Bypassed lenders grouse about state aid to banks

Guaranteed firms attract customers; a fight for deposits

By Sara Schaefer Muñoz

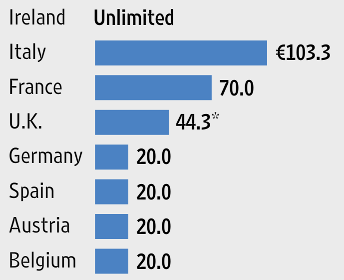
LONDON—Efforts by governments across Europe to prop up their banking systems could be having an unintended consequence: the flight of deposits from banks that don't enjoy state largess.

As the U.K. has nationalized two troubled banks, and Ireland has taken the extraordinary measure of guaranteeing all deposits in its six largest financial institutions, other banks have started complaining that the state-backed institutions are stealing their customers. That is worrying European regulators and putting pressure on other governments to act—pressure that on Thursday prompted Greece to say it, too, would guarantee all deposits in its banks.

The issue is particularly sensitive at a time when worries about banks' financial health have frozen the markets on which they rely to

Partly covered

Limits on deposit insurance in selected European countries, in thousands of euros



*Banking bill would raise insurance to €63.2 thousand (£50 thousand). Converted to euros at current rate.

Source: Dow Jones Newswires

borrow money, making customer deposits a crucial source of funding. In an age where Internet accounts allow customers to transfer funds at the touch of a button, those deposits can move very quickly. Also, a few depositors can make a big difference; a Credit Suisse report released this week estimates 4% of the customer base in the U.K. holds 45% of the deposit base.

"Deposits are very much a focus now," says Simon Adamson, a senior analyst at research firm CreditSights. Sudden moves of customer deposits can "exacerbate funding crises to some extent."

Tracking deposit flows among banks is difficult, in part because individual banks generally don't disclose the exact amount of their deposits except when reporting financial results. Some banks in the U.K. and Europe, though, have seen noticeable outflows since the Irish deposit guarantee was announced Tuesday, say people familiar with the matter. At the same time, there has been "a positive impact on deposit inflows of Irish banks," said a spokeswoman for the Central Bank and Financial Services Authority of Ireland.

In another sign of the effect of government backing, U.K. mortgage lender Northern Rock, which was nationalized in February, has seen a surge in deposits in recent days. The inflows have been so great that the bank said yesterday it was forced to scale back its savings products so it

Please turn to page 27

Sarkozy Adds To Aid Plan For Businesses

By David Gauthier-Villars

PARIS—President Nicolas Sarkozy introduced an array of emergency measures to soften the impact of the global financial crisis on French businesses and consumers, in an effort to shield Europe's third-largest economy from recession as he lobbies for a continent-wide effort to tackle the problems.

On Thursday, Mr. Sarkozy's office announced a €20 billion ($28 billion) aid package for France's small businesses, including measures that would make it easier for them to get loans. Earlier this week, Mr. Sarkozy said the French state will buy as many as 30,000 unfinished homes to help developers finish incomplete projects, and allow more home buyers to access government-backed loans. He also persuaded auto maker **Renault** SA, in which the French government holds a 15% stake, to publicly commit to keeping open a factory in Normandy.

The president has said more measures would follow, including the construction of additional new nuclear reactors that would provide new jobs in the energy sector.

French banks thus far have weathered the effects of the subprime crisis better than some of their foreign rivals, in part because most have a strong retail focus. Yet the economy is struggling: More than 40,000 workers joined the jobless ranks in August, France's worst

Please turn to page 27

Jean-Claude Trichet
ECB President

Associated Press

As ECB keeps rate steady, Trichet foresees a cut

By Joellen Perry

FRANKFURT—The European Central Bank kept its key rate steady Thursday, but in a major shift, its president signaled the bank's next move would be down, and that a cut could come quickly as market turmoil damps growth and inflation.

The ECB, which makes monetary policy for the 15-nation euro zone, held its policy rate steady at a seven-year high of 4.25%. The 21-member Governing Council's decision was unanimous, said ECB President Jean-Claude Trichet following the decision.

Mr. Trichet said that policy makers—in a turnaround from their usual focus on inflation risks—discussed cutting rates amid the mounting financial-market upheaval that is expected to take a toll on growth in the euro zone, an economy second in size only to the U.S.

"We concluded we were right to maintain rates as they are, but I confirm there were two options," Mr. Trichet said. The admission, coming when annual euro-zone inflation remains at nearly double the ECB's preferred level, shows the depth of concern about the euro zone economy's health. A rate cut would be the ECB's first since June 2003.

"This was really a very decisive shift in their stance," says Marco Annunziata, chief economist at UniCredit in London. On Thursday he brought forward his prediction of a quarter-percentage-point cut to November from the second quarter of

Please turn to page 27

LEADING THE NEWS

UBS sees small profit after four straight losses

Swiss bank has cut U.S. mortgage risk; mum on write-downs

By Katharina Bart, Goran Mijuk and Anita Greil

UBS AG said it will make a small profit in the third quarter after substantially cutting its U.S. mortgage-related positions, following four straight quarterly losses stemming from subprime debt.

The Swiss banking giant, hard hit among European banks early in the credit crunch, used its shareholder meeting Thursday in Basel to try to reassure shareholders that it is moving ahead with the cleanup plan laid out by its new chairman in August and said it expects to post a full-year profit in 2009.

But it didn't detail whether it had stemmed outflows from its wealth-management unit, one of the lingering issues for a bank that has taken some $42 billion in write-downs. And while it said it had "reduced substantially," mainly through disposals, its book of mortgage-backed securities, it declined to provide details. It also didn't comment on the need for any additional write-downs, which some analysts expect to be another $3 billion in the third quarter. The Zurich-based bank is scheduled to report third-quarter earnings Nov. 4.

UBS shares rose on relief that its asset write-downs appear to be lessening and that the risk of another capital increase has now diminished after two fund-raising efforts in the past year. The stock climbed 8.1% to 21.30 Swiss francs ($18.91).

The bank continues to cut costs, including jobs, and "we will continue to do so in the coming months to ensure a return to profitability at the earliest possible time," Chairman Peter Kurer said at an extraordinary shareholders meeting, where investors approved the appointment of four new members to the board.

Swiss brokerage firm Helvea estimated that UBS has cut its residential and commercial mortgage positions to about $24 billion from $39.2 billion at the end of June. Since the beginning of the year, UBS has cut its exposure by more than 70%, according to analyst estimates.

52-WEEK SHARE PERFORMANCE

UBS

On the Swiss Exchange

Thursday's close:

21.30 Swiss francs, up 8.1%

52-week change: down 65%

Source: Thomson Reuters Datastream

Impala Platinum bids $2.5 billion for two concerns

By Robb M. Stewart

Impala Platinum Holdings Ltd. said it has offered more than 21 billion rand ($2.5 billion) for two smaller companies in a move that will expand its resource base and bolster its black-empowerment credentials in South Africa.

The proposed acquisition of Johannesburg-based Northam Platinum Ltd. and parent **Mvelaphanda Resources** Ltd. comes as global economic concerns have pushed down platinum prices and the stock of platinum miners.

"The combination of Implats, Northam and Mvela Resources will create a fully integrated, widely held South African platinum producer with a strong balance sheet and cash flows," Impala Chief Executive David Brown said.

Implats had said in September that it was in talks with Mvela and Northam. Implats, which produced 1.91 million platinum ounces in the prior fiscal year, said it would settle 70% of the purchase price in new shares and the balance in cash.

Key to the purchase is Booysendal, a platinum project with a resource of about 103 million ounces. **Anglo Platinum** Ltd., one of the world leaders in platinum production, earlier this year sold the other 50% in Booysendal to Northam.

London police chief resigns after tenure of controversies

Associated Press

LONDON—London Police Chief Sir Ian Blair resigned Thursday after a tenure marked by controversies that included the shooting death of an innocent man in the wake of the terrorist attacks on the city's transit system.

Sir Ian's time in office ended in a public showdown with London's new mayor. Sir Ian told reporters at Scotland Yard that he believed that he could work effectively with new Mayor Boris Johnson—but that the mayor wasn't interested in working with him—a sentiment made evident at a meeting this week.

Dominic Grieve, the Conservative Party's policing critic, said it was about time. "This is the right decision," Mr. Grieve said. "We have been calling for Sir Ian to step down for almost a year."

Mr. Grieve cited the death of Jean Charles de Menezes—the Brazilian who was killed by antiterrorist police in July 2005, when he was mistaken for a suicide bomber—as a failure of leadership by Sir Ian.

Sir Ian eventually apologized for the killing. However, on the day of the shooting, Sir Ian told journalists that Mr. de Menezes failed to obey his officers' instructions.

It was alleged that Sir Ian misled the press and public over the shooting, though an investigation later absolved him of any blame, and he said it proved that "despite much speculation to the contrary, I did not lie to the public."

More recently, his handling of a dispute with Assistant Commissioner Tarique Ghaffur was criticized. Mr. Ghaffur, the Met's most senior Asian officer, is suing the Met for reportedly claiming religious and racial discrimination.

"The new mayor made clear, in a very pleasant but determined way, that he wished there to be a change of leadership at the Met," Sir Ian said. "Without the mayor's backing, I do not consider that I can continue in the job."

Sir Ian will remain in the job until Dec. 1 to allow a successor to be found.

In statement to reporters at London City Hall, Mr. Johnson praised Sir Ian and said he had "done the right thing" by stepping aside.

"There comes a time in any organization where it becomes clear that it would benefit from new leadership and a new sense of purpose," Mr. Johnson said. "I believe that time is now."

Since Mr. Johnson's election in May, there had been speculation that relations between the new mayor and the police commissioner were frosty. Mr. Johnson's Conservative Party saw Sir Ian, who was appointed to the Met's top job in 2005, as too close the governing Labour Party.

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

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium

Telephone: 32 2 741 1211 FAX: Business: 32 2 732 1102
News: 32 2 741 1600 Editorial Page: 32 2 735 7562

SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799 Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com

Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01

Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.

Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

LEADING THE NEWS

Emerging markets stir auto-industry jitters

Bleak sales forecasts at Paris Motor Show; Russia loses steam

BY JONATHAN BUCK, JEFF BENNETT AND EDWARD TAYLOR

PARIS—The auto industry's gloom is spreading beyond the U.S. and Western Europe to emerging markets that have been providing auto makers with key sources of growth.

The latest hot spot to cool off: Russia.

Industry leaders gathered here for the biannual Paris Motor Show warned Thursday that growth now appears to be moderating in Russia, hurt by tightening credit in that country.

While Russian auto sales are likely to continue rising, auto makers are "not going to continue seeing growth rates of 25% to 35%" as they have in the past, **General Motors** Corp. Chief Operating Officer Frederick "Fritz" Henderson said.

This year, Russia was expected to overtake Germany as the single-largest car market in Europe. But it seems to be feeling the impact of the financial crisis that has seen the collapse of some of the world's big-name banks. Moscow's stock market has remained closed for days at a time recently.

Slower-than-expected growth in Russia would compound the troubles facing the global auto industry. Both the U.S. and Western European markets are in profound slumps. In September, U.S. sales of cars and light trucks fell 26% to 964,873. It was the first time since 1993 that auto makers' total U.S. sales were below one million vehicles. Europe has also suffered big declines in recent months.

The outlook in the U.S. has darkened further because of Wall Street's financial crisis.

In an interview at the Paris show, **Ford Motor** Co. Chief Executive Alan Mulally said he thinks the U.S. economic slowdown will be "deeper and longer" than what people previously expected.

The gloom at the Paris show overshadowed presentations of many new innovative automobiles. France's **Renault** SA unveiled a concept for car, called the Fluence, that it plans to offer as an electric vehicle by 2010. **Toyota Motor** Corp. showed a car that measures just three meters in length yet still has room for four passengers. Called the iQ, it is due in Europe in 2009. Toyota eventually hopes to sell 80,000 of them a year.

Until this year, countries like Russia, China and India have served as safe havens for the world's major auto makers, generating growth and profits that helped offset difficulties in mature markets.

But now even these markets are showing signs of weakness. In August, auto sales actually declined in China and India. For China, it was the first decline in monthly sales in more than two years.

Mr. Mulally said slowing global sales will crimp auto makers' revenue at a time when many are struggling to make profits. "It makes it harder for everybody," he said. "It means you have to continue taking action on the cost side."

Ford lost $8.7 billion in the second quarter, and is expected to report another significant loss in the third quarter. Despite Ford's problems, Mr. Mulally said a filing for bankruptcy-court protection "is not in our consideration."

Ford "is going to keep restructuring for lower demand" and has ample financing "in place," he explained.

Industry watchers have been saying for months that the slowdown probably will last the rest of this year and nearly all of next, but even that scenario may be optimistic.

European September sales data, expected in the middle of October, likely also will register another double-digit decline, following on from a 15.7% drop in August. Individual countries will report figures before then and those numbers may give an indication of the current trend. U.K. data are due to be released Monday, and some executives predict a fall in sales of about 20%.

"For the first eight months of 2008 we had improved sales," said Norbert Reithofer, chief executive of **BMW** AG. "Then in September something happened."

He predicted the credit crisis in the U.S. eventually will affect residual values of secondhand cars in Europe. Deteriorating residual values in the U.S. forced BMW in August to revise downward its profit targets for 2008. In the second quarter, BMW booked a charge of €459 million ($643 million) related mainly to its leasing business in North America, following a €236 million charge in the first quarter. "We will have a problem with residual values in Europe, but not in the same dimension as the U.S.," Mr. Reithofer said in an interview.

Brown plans minor reshuffle of U.K. cabinet

BY ALISTAIR MACDONALD

LONDON—U.K. Prime Minister Gordon Brown is expected to shuffle the members of his cabinet Friday, although no senior politicians are likely to lose their positions.

Reassigning cabinet posts is a relatively common way for British prime ministers to boost low poll ratings or fix internal dissent, both of which Mr. Brown has been facing.

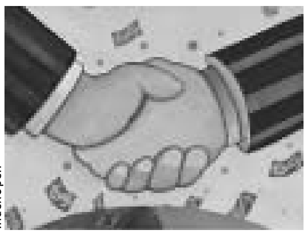
Mr. Brown's predecessor Tony Blair went through a number of reshuffles in his 10 years in charge and Mr. Blair's predecessor, John Major, often made changes as he struggled with falling popularity in his last years. Some changes have been anticipated in the U.K. since the start of the summer, but Mr. Brown is expected to stop short of any big moves, a person familiar with the matter said. U.K. media had speculated that Alistair Darling could be moved out of his role as Treasury chief and that other senior cabinet members could be removed. Such moves are unlikely, the person said.

The current financial-markets crisis has made it harder for Mr. Brown to go for wholesale changes. In recent weeks, he has recovered from record lows in opinion polls. He has been helped by a successful speech at his party conference and he is portraying himself as an experienced politician taking decisive action during the markets turmoil. He helped broker a deal between Lloyds TSB Group PLC and HBOS PLC by waiving antitrust law that would have stood in the way of a takeover.

CORPORATE NEWS

TECHNOLOGY

Axon agrees to HCL bid, rejecting Infosys offer


IndexOpen

BRITISH consulting firm **Axon Group** PLC agreed to accept a £441 million ($781.2 million) bid from India's **HCL Technologies** Ltd., rejecting an earlier offer by India's **Infosys Technologies** Ltd., the company said.

HCL offered to buy Axon for 650 pence a share in cash Sept. 26, an 8.3% premium to the 600 pence per share offer Infosys had made six days earlier.

The acquisition, the largest by an Indian information technology company, comes at a time of difficulty for India's IT sector, which depends heavily on U.S. financial services companies.

—Associated Press

AIRLINES

The new Alitalia will pick a foreign partner in weeks

Associated Press

THE NEW, leaner airline being created as part of a rescue of **Alitalia** SpA will pick a foreign partner in a few weeks, said Corrado Passera, chief executive of Italian bank **Intesa Sanpaolo** SpA, which is involved in the rescue effort. A group of investors is set to invest €1 billion ($1.4 billion) into Alitalia's viable assets, including airport slots and planes, and merge them with Italy's **Air One** SpA.

Attention on a possible foreign partner for Alitalia is focused on **Air France-KLM** SA or **Deutsche Lufthansa** AG. Welfare Minister Maurizio Sacconi said the Franco-Dutch and German carriers had equal chances.

—Valentina Zanotto

INTERNET

Facebook to establish Dublin operations center


IndexOpen

ONLINE social-networking company **Facebook** Inc. will set up an international operations center in Dublin, officials said Thursday.

"After exploring various locations throughout the region, we decided Ireland was the best place to establish our new headquarters," Chief Operating Officer Sheryl Sandberg said in a prepared statement.

The Dublin center will provide a range of online technical sales and operations support services to Facebook users across Europe, the Middle East and Africa, Facebook said, without giving further details. The company didn't say how many jobs the move would create.

—Reuters

Nokia challenges Apple

Its 5800 competes with the iPhone and rival handsets

BY ADAM EWING

NOKIA CORP. UNVEILED its long-awaited touch-screen phone Thursday, a challenge by the world's biggest mobile-phone maker to **Apple** Inc.'s trail-blazing iPhone.

Though the iPhone claims just a fraction of the sales of Nokia's high-end devices, it has developed a fan following with its slick design and access to iTunes music downloads. The iPhone's success has prompted competitors such as South Korea's **Samsung Electronics** Co., Sony Ericsson and Taiwan's **HTC** Corp. to push out rival offerings.

Finland-based Nokia has waited more than a year to respond with its answer to the iPhone, the 5800 XpressMusic touch-screen smart phone. The device's hardware and services—pitched to have mass-market appeal—include eight gigabytes of memory, a 3.2-inch screen and access to Nokia's Ovi Internet-service portal.

The 5800 will cost €279 ($391) before taxes and subsidies when released in the fourth quarter, which includes the key Christmas shopping season. That is nearly half the €499 price charged by some European operators for an eight-gigabyte iPhone.

The Nokia phone's touch screen won't work exactly the same way as the iPhone's, which allows users to zoom in and out using two fingers in a pinching or spreading motion. Nokia's interface allows for only one touch point at a time.

Sales of smart phones—handheld devices with PC-like capabilities—are forecast to jump to $200 billion in 2012 from $65 billion this year, according to research firm Gartner Inc.

Nokia Chief Executive Olli-Pekka Kallasvuo has said that the hype around the iPhone has created a buzz that benefited the entire smart-phone segment.

Still, aggressive pricing by rivals has caused Nokia to lose some market share in the smart-phone segment, partly because it lacked a touch-screen offering.

Nokia

The screen of **Nokia's new smart phone** allows for only one touch point at a time.

Nokia's leading share of the smart-phone market slipped to 47.5% in the second quarter from 50.8% a year earlier, Gartner said. BlackBerry maker **Research In Motion** Ltd. had the second-largest smart-phone market share, at 17.4%.

Though smart phones account for a minor percentage of Nokia's revenue, they are higher-margin products, so tepid sales exacerbate the impact of a slowdown in consumer spending across the company's key markets.

Last month, Nokia said it expected to lose overall mobile-device market share in the third quarter on what it called "unsustainable" price cuts by rivals.

Nokia's share price has fallen 51% this year to a three-year low, wiping nearly €52 billion off its market capitalization. That compares with share-price drops of 45% at Apple and 7% at Samsung.

Nokia also said Thursday that **Terra Firma Capital Partners** Ltd.'s EMI Group will be part of its new music-download service. Other big music labels already part of the service include Vivendi SA's Universal Music Group, Sony BMG Music Entertainment and Warner Music Group.

Nokia's Comes With Music service is aimed at challenging iTunes' dominance of the music-download market; it offers unlimited downloads for a year for one upfront payment, and users can keep all the tracks they download during the 12-month contract period even after the contract ends.

The first phone to be bundled with the music service, the 5310 XpressMusic, will be sold in the U.K. starting in mid-October through retailer **Carphone Warehouse** PLC, priced at about £130 ($230).

"It's going to radically shake up the market," said CCS Insight analyst Paolo Pescatore.

Microsoft looks to Europe to catch Web search rivals

BY RUTH BENDER

PARIS—In a move to challenge the dominance of **Google** Inc., **Microsoft** Corp. said Thursday it is establishing a new European Internet-search-technology center, with hubs in Paris, London and Munich.

The company sees Europe as key to long-term growth in the $40 billion Internet-search market as it aims to unseat **Yahoo** Inc. from the world's No. 2 spot in online search, Jean-Philippe Courtois, president of Microsoft's operations outside the U.S. and Canada, said in an interview.


Jean-Philippe Courtois

Earlier this year, Microsoft had proposed buying Yahoo for $47.5 billion, an approach Yahoo rejected.

Microsoft currently makes a third of its total revenue in Europe, where it employs 16,000 people. Research and development spending in the region is about $600 million a year, and the launch of the new search-technology center comes on top of that, Mr. Courtois said.

"What we are trying to do is leverage the different assets we have developed with technologies such as Windows Vista, Windows mobile and MSN," Mr. Courtois said.

Microsoft Chief Executive Steve Ballmer has said he wants the company to become the second-largest player in search advertising within five years.

A Google spokesman in London said Google welcomes competition as it helps to drive innovation, but declined to comment further.

Mr. Ballmer told an industry gathering in California last week that Microsoft must be prepared to spend significant money to compete with Google for a share of the growing online advertising market. "If anyone is going to provide competition to Google, I think Microsoft is in a good position to do that," he said.

Underscoring that aim, Mr. Courtois said expansion in Europe will continue. In the past year the technology giant has made 19 acquisitions of small-to-midsized companies and Mr. Courtois said more are coming, adding that the company's acquisition strategy in the region is "accelerating at great speed."

Microsoft has already bought Norwegian enterprise search firm Fast Search & Transfer for $1.2 billion. Mr. Ballmer said at the end of last month that purchase would make Norway Microsoft's "global center for enterprise search R&D."

Meanwhile, **Ciao** GmbH, a European online comparison-shopping Web site that Microsoft is in the process of acquiring, "is a big contribution for e-commerce," Mr. Courtois said.

"Very developed European countries like France, Germany and Italy are doing well, in particular in the enterprise and consumer business," he said. "But we are observing an even faster growth in Eastern Europe."

Industry experts predict that Microsoft may still try to buy at least part of Yahoo. Neither Messrs. Courtois nor Ballmer commented on this possibility Thursday.

Microsoft currently makes a third of its total revenue in Europe.

Yahoo, meanwhile, has proposed a controversial advertising pact with Google in the U.S. and Canada that is expected to boost revenue by as much as $800 million a year. The move has drawn strong objections from advertising groups, privacy advocates and newspaper organizations. U.S. regulators are deliberating whether to block the agreement, which is set to go into effect this month.

—Adrian Kerr in London contributed to this article.

CORPORATE NEWS

Gazprom closes gas deal

E.ON to swap stock in return for a stake in big Russian field

By **Guy Chazan** *in London and* **Mike Esterl** *in Frankfurt*

Russia's OAO **Gazprom** on Thursday clinched a long-delayed deal that will give German utility giant **E.ON** AG a stake in one of the world's largest natural-gas fields in exchange for Gazprom shares currently valued at about $5.3 billion.

The deal represents a setback for Gazprom, which has touted a strategy of swapping stakes in its highly sought-after Russian reserves for overseas assets—part of a drive to transform itself into a global player to rival energy heavyweights such as **Exxon Mobil** Corp.

The E.ON deal shows how little progress Gazprom has made with that strategy. The company had hoped that E.ON, one of Europe's largest power and gas utilities, would trade some of its European assets for a share in one of Gazprom's fields in Russia. But after four years of talks, the gas giant had to settle for some of its own stock controlled by E.ON.

Under the deal, which was signed with German Chancellor Angela Merkel and Russian President Dmitry Medvedev looking on, E.ON acquired 25% minus one share in the Yuzhno Russkoye field. In exchange, when the deal closes in the second half of next year, Gazprom will get 2.93% of its own stock held by E.ON. The German utility will retain a 3.5% stake in Gazprom.

E.ON had expected to swap stakes in its Hungarian gas trading-and-storage business and a Hungarian power utility for the right to participate in Yuzhno Russkoye. That plan dovetailed with Gazprom's aspiration to expand beyond Russia's borders and into the lucrative European gas-distribution business. But negotiations dragged amid disagreements over valuations. Gazprom said soaring oil prices increased the value of the Russian field and demanded more from E.ON in return.

>Subsequent talks about E.ON assets in other European countries, including the U.K., also foundered. The deal was complicated by the war between Russia and Georgia this summer, which fueled hostility in Europe toward Russian companies, especially state-run ones like Gazprom. Wulf Bernotat, E.ON's chief executive officer, said in an interview last month that Gazprom's drive to secure European assets "probably has not been made easier" by the post-Georgia fallout.

A person close to Gazprom said the company decided the assets E.ON was offering were "inadequate" and that the deal was a "good opportunity to buy back Gazprom stock" when its share price is depressed.

Associated Press

German Chancellor Angela Merkel, left, and Russian President Dmitry Medvedev **applaud as** E.ON CEO Wulf Bernotat and Gazprom CEO Alexei Miller embrace.

Gazprom CEO Alexei Miller in June predicted his company would be the world's largest within seven to 10 years, with a capitalization of $1 trillion. Gazprom's market value has since halved amid turmoil on Russian equity markets to $182 billion.

An E.ON spokesman said the Gazprom stake sale "simplified" negotiations because its value could easily be derived from the company's stock market capitalization. He said the deal was an important "political symbol" of corporate Europe's continued commitment to Russia.

Yuzhno Russkoye, with reserves of 600 billion cubic meters, will supply Western Europe through a pipeline that will run from Russia and under the Baltic Sea.

E.ON describes itself as Gazprom's biggest customer, and has been importing gas from Gazprom since 1973. Last year, it paid more than €4 billion, or about $5.5 billion, to buy a majority stake in a large Russian electricity generator.

Ping An aims to keep its 4.99% stake in Fortis

By Amy Or

HONG KONG—**Ping An Insurance (Group) Co. of China** Ltd. shares jumped as much as 18% Thursday, as its plan to drop a €2.15 billion ($3.01 billion) plan to buy half of **Fortis** NV's asset-management unit removed an overhang on the insurer's finances.

Ping An shares ended 14% higher at 50 Hong Kong dollars (US$6.44), paring losses incurred since late last week due to Fortis's financial instability. Ping An, which holds a 4.99% stake in Fortis, is the Belgian-Dutch financial services group's single largest shareholder.

In a research note, Goldman Sachs analyst Darwin Lam said Ping An's plan to drop the Fortis Investments acquisition is positive for the Chinese company, as it avoids "further strain on Ping An's solvency/capital after severe mark-to-market losses" from its existing stake in Fortis.

Ping An said it booked a 10.52 billion yuan ($1.54 billion) fair value loss in equity in the first half of this year due to its Fortis investment, which dragged its total equity to 83.38 billion yuan, according to Chinese accounting standards.

Ping An, China's second-largest life insurer by premiums after **China Life Insurance** Co., may make provisions in its full-year earnings to reflect the losses on its income statement.

However, Ping An said its holding in Fortis will remain unchanged. "We will maintain our friendly relationship with Fortis," Ping An spokesman Sheng Ruisheng said. "At the moment, we have no plans to lower our holding."

Mr. Sheng said chances are slim that Ping An would reconsider the asset-management deal, and added the insurer has no plans at the moment to acquire other overseas asset-management companies.

In a statement Thursday, Ping An said not all the conditions agreed upon in the deal with Fortis can be satisfied under "the current market environment and condition," but it didn't elaborate.

Fortis was partly nationalized Sunday by the Belgian, Dutch and Luxembourg governments in a bid to shore up its finances. There was also a shuffle of the Dutch-Belgian financial institution's senior management, which included the departure of Chief Executive Jean-Paul Votron.

The change in control in Fortis violated a contract clause on its ownership agreed upon by Fortis and Ping An in April. Ping An disclosed the agreement to the Hong Kong stock exchange in April.

Fortis had made a last-ditch effort to salvage the deal, promising Ping An a guaranteed return, a person familiar with the situation said Thursday, without giving specific figures. The person added that China's insurance regulator had approved the acquisition "in principle" two weeks ago, though it hasn't issued a formal approval.

Taiwan orders Nestlé dairy recalls

A WSJ News Roundup

BEIJING—Authorities in Taiwan told **Nestlé** SA to halt sales of some China-made dairy products as China's tainted-milk scandal continued despite efforts by Beijing to restore confidence in the safety of its food products.

Taiwan health officials on Thursday told stores to pull some Nestlé products, including Neslac, a powdered milk product for young children, from their shelves after they were found to contain trace amounts of melamine, the industrial chemical at the center of China's milk troubles.

Nestlé, the Swiss food conglomerate, said in a statement that its China-made products are safe and said the "minute traces" of melamine found by the Taiwanese authorities "exist in the natural food cycle" and pose no danger to consumers.

The amount of melamine that Taiwan permits in products is significantly lower than in international safety standards.

Nestlé said regulators need to make a distinction between such trace amounts and the much higher levels that resulted from intentional adulteration of milk with melamine in China.

That contamination has been blamed for the deaths of at least three children and for causing kidney ailments in 54,000 others in China. Products ranging from baby formula to fresh milk and chocolate have been affected.

On Thursday, China's General Administration for Quality Supervision, Inspection and Quarantine said it had tested 418 batches of yogurt and liquid milk from 65 different brands in 22 major Chinese cities and found them all to be free of melamine.

Reuters

Workers remove Nestlé products from the shelves of a supermarket in Taiwan.

On Wednesday, the quality-supervision administration said testing on powdered milk had discovered 31 batches containing melamine, including some made by 15 companies whose products hadn't previously been known to be tainted.

The agency said it would post the names of the milk brands that had passed the tests on signs in supermarkets, as the government seeks to bolster public faith in the safety of Chinese dairy products.

Authorities in South Korea, meanwhile, said they had found small amounts of melamine in dairy products imported from New Zealand and used to make baby formula. Import of those products has now been banned.

In the German state of Baden-Württemberg, agriculture officials said melamine traces had been found in Chinese-made "White Rabbit" sweets, but that the level was too low to be dangerous. Some other countries have banned distribution of the same candy.

China Skype use tracked

Report of monitoring spurs industry effort to set code of conduct

The revelation that a Skype joint venture in China has been monitoring its users' communications is adding impetus to an industrywide effort to establish an international human-rights code of conduct for Internet companies.

Canadian researchers reported Wednesday on an investigation of

By **Geoffrey A. Fowler** *in Hong Kong and* **Jason Dean** *in Beijing*

TOM-Skype—a China-based version of the Internet-based phone-and-messaging service—which is run by a joint venture of the Skype unit of **eBay** Inc. and TOM Online, a unit of Hong Kong-based **TOM Group** Ltd. Probing unsecured servers run by the joint venture, researchers said they found evidence of a system that monitored users' text chats, kept track of who participated in voice calls and stored messages that contain politically sensitive content.

Jennifer Caukin, a spokeswoman for Skype, said practices related to a text filter that blocked certain words in chat messages had been changed "without our knowledge or consent and we are extremely concerned. We deeply apologize for the breach of privacy on TOM's servers in China and we are urgently addressing this situation with TOM."

The report was published by the Information Warfare Monitor and by the OpenNet Initiative-Asia, groups that promote Internet freedom. The groups said Chinese authorities may use the system to track users, but offered no evidence of government involvement.

Foreign researchers, rights activists and others say China operates one of the world's most extensive efforts to censor and monitor information on the Internet.

Some Chinese users believe Skype, which advertises itself as having encryption to "protect users from unauthorized eavesdropping," is safe from government monitoring, and it has been widely used by dissidents. TOM-Skype has 69 million registered users.

Ms. Caukin referred questions about any involvement by the Chinese government to TOM, saying it owned the servers. She said Skype's technology remains "the most secure form of publicly available communications today." TOM Group said that, "as a Chinese company, we adhere to rules and regulations in China where we operate our businesses."

Chinese police and information industry ministry representatives said they were unable to comment because of a public holiday.

The Skype report comes as a coalition of international Internet services companies, including **Google** Inc., **Microsoft** Corp. and **Yahoo** Inc., are nearing completion of a voluntary code of conduct drawn up in negotiations with human-rights groups, academics and investors. While that initiative isn't focused only on China, many companies, seeking growth in China's dynamic Internet sector, have come under criticism that they've been too helpful in enabling censorship in the country.

Foreign Internet companies say they must abide by local laws to do business in China, and that their presence there does greater good than harm by giving Chinese greater access to information and channels of communication.

In November 2007, Yahoo was excoriated during a congressional hearing on its role in actions that led to the imprisonment of Chinese dissidents. Chief Executive Jerry Yang apologized to the mother of journalist Shi Tao, who was jailed after a unit of the company handed information about him to Chinese authorities in 2004.

The revelation about Skype shows "exactly why we need a global industry code of conduct on free expression and privacy, and why eBay/Skype should be part of it," said Rebecca MacKinnon, a professor at the University of Hong Kong and part of the committee developing the guidelines.

Skype and eBay aren't members of the coalition, though Ms. Caukin said the company was in broad agreement with its principles.

The Canadian investigation said the messages stored on the servers contained keywords relating to political topics such as Taiwan independence, political opposition to the Communist Party, and Falun Gong, the outlawed spiritual group that has been critical of Beijing.

Chinese activists have used Skype for chat sessions and conference calls to discuss politically sensitive topics. But many say they've long been wary of TOM-Skype and prefer to use the U.S. version of the program. Some have taken the latest report as a sign there is little communication that is guaranteed to be secret in China.

"Some human-rights defenders think it may be time to do things more in the open, and take the chance to educate the Chinese government about what human rights is," said Chine Chan, a campaigner with Amnesty International in Hong Kong.

Users of regular Skype can be affected as well if at least one other person in the conversation is using TOM-Skype, said Ronald Deibert, the director of the Citizen Lab at the University of Toronto, which sponsored the research. "If a company as well known as Skype can't be trusted, then who can you trust?"

Online ethics

Global Internet companies operating in China sometimes face criticism from human-rights and free-speech groups:

- **2005:** A Chinese court relies partly on evidence provided by a Hong Kong subsidiary of Yahoo to hand down a 10-year prison sentence for journalist Shi Tao.
- **2006:** A local partner of Microsoft shut down the MSN Spaces blog of Michael Anti, who published content potentially offensive to Chinese authorities.
  Google launches Google.cn, a version of its service for China that filters results that the government finds objectionable.

- **2007:** Yahoo Chief Executive Jerry Yang (above) apologized to the mother of Mr. Shi during a high-profile hearing in Congress.
- **2008:** A research report on TOM-Skype, a joint venture between eBay's Skype and Chinese media company TOM Group, suggests that software enables monitoring of users' communications.

Source: WSJ reporting; photo: AFP

Bayer looks for health-care deals

By Jeanne Whalen

The chief executive of **Bayer** AG's health-care unit said the German company will be on the prowl for acquisitions in the coming months, believing that it is in a strong position to take advantage of other companies' weaknesses amid the financial turmoil.

Arthur Higgins, CEO of Bayer Healthcare, said in an interview that the company is interested mostly in acquiring businesses that make over-the-counter drugs, medications for animals and medical devices. He said Bayer believes that it already has a strong prescription-drug business and would acquire additional prescription-drug assets only if they offered significant sales growth.

"We think in the coming months, despite some of the uncertainties that are obviously in financial markets at the moment, we're in a very strong position to take advantage of the weakness in some other companies, the uncertainties in the marketplace, and look at strengthening our health-care business," he said.

He added that he expects opportunities "in the next six to 24 months."

Bayer has completed a string of relatively small health-care acquisitions in the past year. This month, Bayer said it was acquiring German biotech company Direvo Biotech AG for €210 million ($294.3 million). Bayer also has bought a medical-device maker in the U.S. and non-prescription-drug businesses in Eastern Europe and China, Mr. Higgins said.

Health-care products made up about 46% of Bayer's total sales of €32.4 billion last year, with chemicals, fertilizers and other products making up the rest.

At the end of June, Bayer had €2.1 billion in cash and cash equivalents that it could use to fund acquisitions; it could also use stock. Analysts see Bayer's health-care unit as having a relatively strong outlook for the next few years, with little exposure to competition from low-cost generics and a solid pipeline of drugs in development.

Bayer this week won European regulatory approval to start selling Xarelto, a new anticlotting drug that the company believes will eventually garner more than €2 billion in annual sales.

EDF weighs another bid for Constellation Energy

By Dana Cimilluca, David Gauthier-Villars And Heidi N. Moore,

Constellation Energy Group Inc. shareholders upset by the $4.7 billion buyout deal Warren Buffett struck with the company may soon get some redress.

Electricité de France SA on Thursday said it and private-equity firm **Kohlberg Kravis Roberts** & Co. may return with another bid for Constellation after their earlier offer was trumped by a lower offer from MidAmerican Energy Holding Co., a unit of Mr. Buffett's **Berkshire Hathaway** Inc.

Constellation agreed to sell itself to Mr. Buffett two weeks ago as a liquidity squeeze in its energy-trading business forced the company to the brink of bankruptcy. It chose MidAmerican's $26.50-a-share offer over a $35-a-share-deal with EDF, KKR and **TPG**, another private-equity firm, in part because Constellation needed to complete a deal quickly. That led to several lawsuits from shareholders frustrated that the company, whose stock traded at more than $100 a share earlier this year, was being sold for so little.

Should EDF and KKR go ahead with a bid and win, the deal Mr. Buffett negotiated leaves MidAmerican well off. In exchange for $1 billion in Constellation preferred shares it bought to shore up the company, MidAmerican would get a nearly 20% stake in Constellation and a $1 billion note paying 14% interest annually should another company outbid it. That means MidAmerican would effectively walk away with a 20% stake, free.

MidAmerican's stake also means that, the price being equal, a new offer would cost 20% more, given the additional shares that would need to be issued to MidAmerican.

On Thursday, a spokeswoman for EDF said the French company and KKR continued to study various possibilities. Last week, EDF Chairman Pierre Gadonneix said EDF would consider a counterbid for Constellation as he announced its plans to buy British Energy Group PLC for $23 billion.

TPG walked away because Constellation's arrangement with MidAmerican made the deal prohibitively expensive for them, people familiar with the matter said.

EDF already owns a 9.5% stake in Constellation. It is interested in the Baltimore-based company's nuclear assets, which it wants to develop as part of a global expansion plan.

In addition to the higher price, EDF and KKR face steep challenges. Foreign firms aren't allowed to own nuclear-power plants outright in the U.S., and license transfers must be approved by the Nuclear Regulatory Commission. There is likely to be concern, as well, that KKR wouldn't be a long-term investor, as MidAmerican has pledged to be. Constellation owns a regulated utility, Baltimore Gas and Electric Co.

Another prerequisite for a successful EDF-KKR bid would be some form of guarantee to keep Constellation liquid until any new deal closes, a person involved in the deal said.

KKR would likely only be able to finance a small portion of its contribution with debt, given the state of the credit markets. But, like other private-equity firms, KKR has a big war chest of cash it raised during the buyout boom.

Merck ends development of its antiobesity drug

By Peter Loftus

Merck & Co. Thursday said it halted development of its experimental antiobesity drug taranabant after clinical trials linked higher, more effective doses with more side effects.

The scrapping of taranabant represents another setback in Merck's attempts to get new products to market amid slowing sales for some of its top drugs and the looming threat of generic competition for others.

Merck previously said the taranabant was effective at certain dose levels in helping people lose weight, but it was also associated with increased risk of psychiatric events.

The company said Thursday that both effectiveness and side effects are dependent on dose levels, with higher doses producing greater effectiveness but more adverse events. Essentially, Merck wasn't able to find a dose level that adequately minimizes risk while helping people lose weight to a significant degree.

Five patient studies of the drug are being halted, said spokeswoman Amy Rose.

The direct financial impact on Merck is relatively modest. Wall Street's expectations for taranabant already were low because of the known safety concerns as well as the U.S. Food and Drug Administration's resistance to approving a similar drug developed by France's **Sanofi-Aventis** SA. An FDA advisory committee recommended against approval of Acomplia, generically known as rimonabant, in 2007 because of psychiatric side effects. Sanofi subsequently withdrew its application.

Deutsche Bank analyst Barbara Ryan said the taranabant news could further pressure Merck shares because it is now even less clear how it will offset sales lost to generic competition in the next decade.

In midafternoon trading in New York Thursday, shares of Merck were down 48 cents, or 1.5%, to $31.61. The shares are off more than 40% in the year to date.

Merck's halt of taranabant suggests this much-heralded class of antiobesity drugs is coming down from its high. The drugs, known as cannabinoid-receptor, or CB-1, antagonists, are designed to block certain brain receptors that regulate appetite.

Merck continued to study taranabant even after it became aware of the psychiatric side effects in mid-stage studies, and after it became evident that the FDA might take a tougher stance against this class of drugs in general. In December, Merck told analysts it planned to file taranabant for FDA approval during 2008. Only in recent months did Merck change that projection and say it was in discussion with regulators about filing plans.

CORPORATE NEWS

Glaxo will settle lawsuit over Paxil for $40 million

By Jeanne Whalen

GlaxoSmithKline PLC agreed to pay $40 million to settle allegations in a class-action lawsuit that it improperly promoted the antidepressant Paxil for use in children while withholding information that the drug was neither safe nor effective in this age group.

The money will be used to reimburse health plans that paid for Paxil use by children younger than 18, according to a copy of the settlement approved this week by the U.S. District Court for the District of Minnesota. During litigation, Glaxo asserted that Paxil was safe and effective, and denied promoting it for children and concealing negative information.

In an emailed statement Thursday, Glaxo said it agreed to the settlement to "avoid the costs, burdens and uncertainties of ongoing litigation." Glaxo added that it denies any wrongdoing or liability.

Other health plans are suing drug makers on similar grounds, according to Steve Swedlow, a lawyer with Swedlow & Associates in Chicago who represented plaintiffs in the Paxil case. But the Paxil case is the first time a drug company has agreed to pay a settlement in such a case, he said.

Paxil isn't approved by the U.S. Food and Drug Administration for use in children, but doctors have the discretion to prescribe it "off label." Drug companies are prohibited from promoting drugs for off-label use. Glaxo, of Brentford, England, last year agreed to pay $63.8 million to settle a class-action lawsuit filed by consumers who bought Paxil for their children.

In 2004, the FDA ordered companies to put strong warnings on antidepressants saying studies suggest that some raise the risk of suicidal behavior or thinking in children and teens.

Toshiba interested in Fujitsu Ltd.'s disk-drive unit

By Yuzo Yamaguchi

CHIBA, Japan—Japanese electronics company **Toshiba** Corp. would be interested in **Fujitsu** Ltd.'s hard-disk-drive business, if approached, an executive said Thursday.

Toshiba President Atsutoshi Nishida, speaking on the sidelines of an industry event, however, said the company has no interest in U.S. flash memory-card maker **SanDisk** Corp., which is also Toshiba's chip-making joint-venture partner. SanDisk last month rejected a bid from South Korean chip giant **Samsung Electronics** Co.

Yoshiharu Izumi, an analyst at J.P. Morgan Securities Japan Co., said it might make sense for Fujitsu to work with Toshiba to turn around the hard-disk-drive business, combining resources.

The Fujitsu spokesman declined to comment on whether it is in talks with Toshiba.

Fujitsu expects its hard-disk-drive operation will break-even or post a slight loss on estimated revenue of 370 billion yen ($3.49 billion) for its fiscal year ending March 2009.

GLOBAL BUSINESS BRIEFS

Latécoère SA

Partner on A380 urges Airbus to speed up payments

French aerospace supplier **Latécoère** SA on Thursday urged Airbus to hand over money it is owed on the A380 superjumbo earlier than scheduled to compensate for delays in delivering the plane to airlines. Toulouse-based Latécoère is a risk-sharing partner on the world's largest airliner, which is being delivered to customers on average two years late because of wiring-installation problems. The company invested €100 million ($140 million) in research and development for the A380 from 2001 to 2006, Latécoère Chief Executive François Bertrand said. Airbus, a unit of **European Aeronautic Defence & Space** Co., confirmed it was in talks with Latécoère but declined to give details.

Marks & Spencer Group PLC

Marks & Spencer Group PLC said Thursday that it would cut spending in response to weak second-quarter sales. The British retailer said that in the 13 weeks ended Sept. 27, sales from U.K. stores open at a least a year fell 6.1% from a year earlier. This compared with a 5.3% fall in the first quarter. Executive Chairman Stuart Rose said the food, clothing and housewares retailer has managed operating costs tightly amid falling sales. M&S said it now expects annual operating costs to grow between 4% and 5%, compared with its previous forecast of 7%. Capital spending this year is expected to be around £700 million ($1.24 billion), down from a previously expected £800 million to £900 million. For the next fiscal year, M&S said it expects to spend around £400 million, primarily on improving its supply chain and information-technology systems. The retailer's shares rose 8.1% in London.

Linde AG

Germany's **Linde** AG said it has bought the 50% of Australian liquefied-propane-gas company Elgas that it didn't already own in a deal valued at €126 million ($176.6 million). The Munich-based industrial gas and engineering company said Elgas was set up in 1984 as a 50-50 joint venture between BOC Ltd.—now part of Linde—and **AGL Energy** Ltd. Elgas is the biggest marketer of LPG in Australia and operates the country's biggest LPG storage facility, at Sydney's Port Botany. It had sales of about €255 million in 2007 and has about 460 employees.

Neptune Orient Lines

A Hamburg consortium has topped **Neptune Orient Lines'** takeover offer for German container shipper **Hapag-Lloyd**, two people familiar with the situation said Thursday. "The Hamburg consortium's bid is around $5.5 billion, and NOL's bid is around $4.9 billion. The consortium's bid was boosted very recently by [shipping-finance company] **HSH Nordbank**, [insurer] **Signal Iduna** and the Hamburg state government," one of these people said. The person didn't elaborate on the extent to which each bid involves assuming debt of Hapag-Lloyd, a unit of **TUI** AG. TUI is expected to make a decision on the winning bidder by Oct. 15. NOL, which is 66%-owned by Singapore state-owned investment company Temasek Holdings Pte. Ltd., began exploring a purchase of the German shipper this year.

WPP Group PLC

WPP Group PLC declared its £1.14 billion ($2.02 billion) offer for **Taylor Nelson Sofres** PLC final and won't raise its bid. The U.K. advertising company said its bid remains open for acceptance until Friday. On Monday, WPP said it had received acceptances for 42.87% of TNS' share capital and extended the deadline for its offer, which TNS has been urging its shareholders to reject, to the end of this week. A spokeswoman for TNS declined to comment on WPP's announcement. WPP the world's second largest advertising and marketing group after U.S.-based Omnicom Group Inc., wants to combine TNS with Kantar, its own market-research and information business.

Nintendo Co.

Nintendo Co. said Thursday it will release a new version of its popular hand-held videogame player that will come equipped with a camera and audio functions in Japan on Nov. 1. The latest console comes as Nintendo seeks to bolster its product lineup to fend off rivals, which are gearing up to challenge its dominance of the game-console market ahead of the year-end holiday shopping season.Kyoto-based Nintendo, which also produces the Wii home game console, said the Nintendo DSi is the world's first hand-held console to come equipped with a camera. The game player will be priced at 18,900 yen ($178) in Japan and is set to be released overseas next year.The new model will hit the market as Nintendo seeks new ways to sell the already established DS, short for "dual screen," in Japan. Domestic sales of the devices for the company's fiscal first quarter ended June stood at 580,000 units, down sharply from 2.1 million a year earlier, in a possible sign of saturation.

Sanofi-Aventis SA

Sanofi-Aventis SA plans to cut 927 jobs at its sales unit in France, said spokesman Jean-Marc Podvin. The French drug maker will cut 817 jobs among drug sales representatives, while an additional 110 jobs would go at the unit's French headquarters, said Mr. Podvin, adding that Sanofi presented its plan to a works council held Thursday. He didn't specify the number of possible layoffs but said that, following negotiations started early this year, about 150 affected employees had accepted offers for redeployment. Sanofi's French sales unit currently has about 3,400 employees.

Coca-Cola Hellenic Bottling Co.

Citing poor performance in Russia, its largest market, **Coca-Cola Hellenic Bottling** Co. SA lowered its forecasts for full-year growth for the second time in less than five months. The company, one of the world's largest Coke bottlers with operations in 28 countries, has long balanced fast growth in its developing markets, such as Russia, with slower growth in its mature markets. Managing Director Doros Constantinou said the lower forecast was due to "further economic deterioration and continued adverse weather in some key markets" in the third quarter. The company now expects volume to grow about 4% this year, down from a previous growth forecast of 6%. Earnings before interest and taxes for the year are expected to be flat. Shares on the Athens exchange fell 19% to €12.52 ($17.54).

OJSC Polyus Gold

Russia's largest gold producer, OJSC **Polyus Gold**, swung to a net profit in the first half, helped by higher gold prices and a 19% increase in output. Net profit was $132.7 million, compared with a $75.5 million net loss a year earlier, when a reduction in gold sales and spending on an option program hit the bottom line. Polyus reported record revenue from gold sales at $505.7 million—a 63% increase from the $309.4 million a year earlier. Total revenue was also up 63%, to $518.9 million. Polyus's gold production grew 19% to 559,000 troy ounces, thanks to increased output at its Olimpiada mine. Higher production and a 38% surge in the weighted average gold price from a year earlier more than offset a 48% increase in cost and the weakness of the dollar compared to the ruble, the company said. Polyus's largest shareholders are former business partners Mikhail Prokhorov and Vladimir Potanin, who each own about 30%.

Atmel Corp.

Microchip Technology Inc. and **ON Semiconductor** Corp. made a joint unsolicited offer to buy rival **Atmel** Corp. for $2.3 billion, as the two look to expand at the expense of a weaker rival. Microchip and ON made their proposal public Thursday, saying they were "deeply disappointed" to learn Atmel's board decided it wasn't willing to discuss a potential deal. The offer is $5 a share, a 52% premium over Atmel's closing price Wednesday of $3.28 on the Nasdaq Stock Market. The stock was at $4.29 in midafternoon trading Thursday. Atmel, San Jose, Calif., said its board will review the offer. The company makes a variety of semiconductors. Microchip, based in Chandler, Ariz., would take the lead in the deal, buying Atmel and then selling certain assets to ON, which has its headquarters in Phoenix.

UniCredit SpA

UniCredit SpA Thursday began the sale of up to €2.3 billion ($3.2 billion) in bonds to individual, or retail, investors. The bond issue was part of a program approved by the board in January—well before the Italian bank came under pressure for its exposure to international market turmoil and investors wiped 20% off its value in just two days. By Thursday afternoon, UniCredit had received orders valued at around €670 million, or about 30% of the issue, said a person familiar with the matter. The offer ends Oct. 29. The bonds mature on Jan. 31, 2011. UniCredit has been the Italian bank worst hit by the current credit crisis so far, because it generates over half of its revenue from outside the conservative domestic lending market.

China Unicom Ltd.

China Unicom Ltd., China's second-largest mobile operator by subscribers after **China Mobile** Ltd., said Thursday it completed the sale of its Code Division Multiple Access operations to **China Telecom** Corp. on Wednesday. China Telecom, China's largest fixed-line operator by subscribers, paid 43.8 billion yuan ($6.4 billion) for China Unicom's CDMA business as part of the restructuring of the country's telecom sector. The restructuring will create three nationwide carriers offering both fixed-line and mobile services. At the end of August, subscribers to China Unicom's CDMA operations totaled 42.36 million.

Continental AG

The new company structure of German automotive supplier **Continental** AG might pave the way for a spinoff of the company's newly-formed rubber business, said Chief Executive Karl-Thomas Neumann. On Tuesday, Continental said it was dividing into a rubber and an automotive division. Chief Financial Officer Alan Hippe is in charge of the rubber business, which comprises the tire operations as well as ContiTech. In August, Continental accepted an unsolicited bid by closely held German engineering company **Schaeffler Group**, which valued the company at around €12.1 billion, or about $17 billion. Schaeffler made substantial concessions, including a raised offer of €75 a share and a guarantee not to take a majority stake before 2012, to win over Continental's management. There was speculation Schaeffler might consider selling the tire operations to help finance the deal.

Marriott International Inc.

Hotel operator **Marriott International** Inc. reported a 28% decrease in fiscal-third-quarter net income and warned that headwinds in the travel market are stiffening. The company also said its time-share business was faring poorly due to declining U.S. property values. The outlook appears to be worsening as steep cuts in airline capacity, declines in consumer spending and waning corporate travel take a toll. Marriott said 2009 is shaping up to be "unusually challenging." Marriott reported net income of $94 million, or 26 cents a share, for the quarter ended Sept. 5, down from $131 million, or 33 cents a share, a year earlier. The latest quarter included a tax-related reserve of eight cents a share. Revenue rose 0.7% to $2.96 billion. Revenue per available room rose 3.4% worldwide but fell 1% in North America. The company said contract sales for its time-share business fell 13%. For the fourth quarter, Marriott projected earnings of 44 cents to 50 cents a share.

GLG Partners Inc.

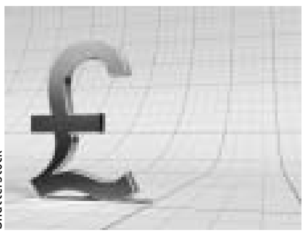
GLG Partners Inc. said its exposure to Lehman Brothers Holdings Inc. was around $95 million—less than 1% of the assets managed by the London-based hedge-fund company. Seeking to reassure investors following Lehman's collapse, GLG said it had already been reducing the number of funds held by the investment bank's European unit since the beginning of the year. Lehman Brothers International (Europe) was put into administration on Sept. 15, hours after its parent filed for bankruptcy in the U.S. On top of this, GLG said, it "negotiated to more fully protect any remaining assets and transactions through a series of bespoke arrangements." The company added that it had no reason to believe Lehman hadn't stuck with these arrangements, but cautioned that until it had checked its assessment with the administrators, "some uncertainty will remain."

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.K.

Defaults on lending rise and should increase more



Shutterstock

DEFAULTS on unsecured lending to British households rose more than expected in the third quarter and are expected to increase further, the Bank of England said.

In a quarterly survey, the bank said the credit crisis and economic uncertainty throttled both supply and demand for loans in the third quarter. Economists noted that the survey was conducted before the latest flurry of bank failure, and so the outlook could be even worse.

The poll found that a net balance of 35.5% of lenders said the default rate on unsecured loans to households increased in the third quarter, up from 9.5% in the second quarter. *—Nicholas Winning*

CHINA

Softening demand lowers manufacturing activity

Shutterstock

WEAKENING demand continued to cool China's manufacturing activity in September, two purchasing managers indexes show, though they sent conflicting signals on the short-term direction.

The CLSA China Purchasing Managers Index indicated a second month of contraction in manufacturing activity. But another PMI published by the China Federation of Logistics & Purchasing moved into positive territory. Some economists tracking the PMI data say the CLSA index better reflects current economic trends, while the CFLP index tends to be a better indicator of output activity in the coming couple of months. *—J.R. Wu*

IRAQ

Shiites, Sunnis targeted in separate fatal attacks

Associated Press

SUICIDE bombers targeted Shiite worshippers as they left morning prayers Thursday at two Baghdad mosques, killing 24 people and wounding more than 50 others, police said.

For most of Iraq's Shiites, Thursday is the main day of Eid, marking the end of the fasting month of Ramadan. No group claimed responsibility, but attacks on Shiite civilians are widely associated with Sunni extremists who hope to reignite sectarian conflict.

In a separate attack, gunmen fatally shot six Sunnis as they traveled in a minibus in the mainly Shiite town of Wajihiyah, a town 100 kilometers north of Baghdad. *—Associated Press*

Spain's jobless rate hits 11.3%

Economic slowdown affects all sectors, as construction slips

BY JONATHAN HOUSE AND THOMAS CATAN
Madrid

SPAIN'S UNEMPLOYMENT rate surged in September, extending a yearlong run of job losses as the country's economy teeters on the brink of recession.

More than 95,000 people signed up for unemployment benefits last month, pushing the total number to 2.6 million—the highest number in more than a decade.

Spain's unemployment rate of 11.3% is the highest in the euro zone, according to the European Union's statistics arm—an abrupt turnaround for a country that until recently was the region's largest generator of new jobs.

"Unemployment has risen in all sectors, largely the result of the end of many residential construction projects, which has a knock-on effect on other sectors," Spain's Labor Ministry said.

BNP Paribas economist Dominic Bryant said Spanish unemployment is now rising at a faster clip than during the country's most recent recession, in the early 1990s.

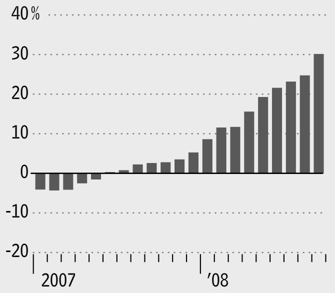
Spain had been one of Europe's fastest growing economies, fueled in recent years by cheap credit that followed the country's adoption of the common European currency in 2002. Spain's 14-year economic expansion, however, heavily relied on new residential construction, which accounted for about 10% of output.

Following years of overbuilding, the Spanish housing boom began to deflate last year, after prices reached nearly three times their 1997 levels. The correction was hastened by tougher financing conditions following the U.S. subprime-mortgage crisis.

Spanish housing prices fell at a 0.3% annual rate in the second quarter, although more-recent data on home sales transactions and new-home starts suggest much sharper declines in activity. The slowdown has halted many building projects and is responsible for the loss of tens of thousands of jobs in construction and related sectors.

Out of work

Spanish jobless claims jumped in September, showing growing unemployment linked to the collapse of the housing sector. Monthly change from a year earlier



Source: Spanish Labor Ministry

The government argued Thursday that the latest figures were skewed by seasonal factors, and said it expected the rate of job losses to slow in the remainder of the year.

Many private economists disagreed.

"Given that the economy is likely to have begun contracting in the second half of 2008, unemployment is likely to continue rising at a rapid pace," Mr. Bryant said.

After repeatedly cutting its own growth forecasts, the government now expects the Spanish economy to stagnate, and possibly contract, in the second half of this year. The steep slowdown has come despite government efforts to prime the pump with some €20 billion ($28 billion) in tax cuts, credit lines for businesses and new spending measures.

The latest figures show that virtually all areas of the Spanish economy are now being hit by the downturn. Claims from people who had worked in the services sector rose 3.9% from August, while those from construction workers rose 3.3%. Claims from industrial workers rose 2.1%, Thursday's figures show.

Spain's deteriorating economy is hurting the country's own accounts. The government predicts that shrinking tax revenue, combined with its fiscal stimulus measures and rising outlays for unemployment benefits, will push public accounts into a deficit of around 2% of gross domestic product by the end of the year. As recently as 2007, Spain had a budget surplus equal to 2.2% of GDP—the second largest in the euro zone behind Finland.

U.S. jobless claims climb again

BY BRIAN BLACKSTONE AND JEFF BATER

New data show the U.S. economy's troubles are deepening, with jobless claims reaching their highest level since the 2001 recession and factory orders tumbling as the manufacturing sector struggles.

The number of U.S. workers filing new claims for unemployment benefits rose 1,000 to a seasonally adjusted 497,000 in the week ended Sept. 27, the Labor Department said Thursday. That was the highest since Sept. 29, 2001, and reflected the impact of recent hurricanes Gustav and Ike, as well as a weakening economy.

Even after accounting for the effects of the hurricane, the report signaled labor-market weakness at a time when the crisis on Wall Street threatens to pull consumer spending and the overall economy into a deeper downturn.

"The claims data paint an unmistakable picture of deterioration in the labor market," RDQ Economics said in a note to clients.

The four-week average of new claims, which attempts to smooth out volatility, rose 11,500 to 474,000. That's the highest since October 2001—when the economy was in a recession—and well above levels typically consistent with declines in monthly employment.

The tally of continuing claims, those by workers collecting benefits for more than one week, jumped 48,000 to 3,591,000 in the week ended Sept. 20. That's the highest since September 2003, suggesting it is getting even harder for the unemployed to find new work.

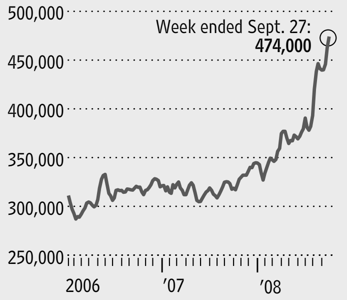
The 4% decrease in orders for manufactured goods in August followed a downwardly revised 0.7% increase in July, the Commerce Department said Thursday. Initially, the government said orders rose 1.3% in July.

"The factory sector appears to be entering another down leg, deepening the industry's recession," said Steven Wood, chief economist at Insight Economics.

Demand for durable goods, products designed to last at least three years, fell a revised 4.8% in August. Capital-goods orders fell 6%, after increasing 0.4% in July. Non-defense capital-goods orders, excluding aircraft, decreased 2.4%, after rising 0.3% in July. Those bookings are seen as a yardstick for capital spending by businesses.

Work woes

Initial jobless claims in the U.S., four-week moving average



Note: Seasonally adjusted data
Source: U.S. Department of Labor

Non-durable-goods factory orders tumbled in August 3.3%, after increasing 0.8% in the prior month. Petroleum is a non-durable, and the drop in oil prices in midsummer likely contributed to the sharp decline.

Putin claims Ukrainian forces fought in Georgia

A WSJ NEWS ROUNDUP

NOVO-OGARYOVO, Russia—Russian Prime Minister Vladimir Putin on Thursday accused Ukraine of sending military personnel to fight against Russian forces in Georgia in August.

Mr. Putin asserted Ukrainian specialists operated weapons used against Russian servicemen during the conflict, in which Russia invaded Georgia.

Russia has said Ukraine helped arm Georgia before the war. Mr. Putin said Thursday weapons sales may have occurred after the war began. He said the weapons systems were operated by Ukrainians.

"When people and military systems are used to kill Russian soldiers, it's a crime," Mr. Putin said.

Russia has said that Ukraine helped to arm Georgia before the war.

On Thursday, German Chancellor Angela Merkel said the North Atlantic Treaty Organization won't give Georgia and Ukraine a roadmap to membership in the alliance at a meeting later this year.

Ms. Merkel's rejection of a roadmap decision this year is effectively a veto, as the military alliance operates by consensus. Russia strongly opposes NATO membership for the two countries. (Article on page 28.)

Mr. Putin's remarks came after Russia and Ukraine agreed to set a step-by-step, three-year transition for Ukraine to purchase Russian natural gas at market prices.

"The parties confirmed their willingness to establish a gradual transition to market prices within three years," Ukrainian Prime Minister Yulia Tymoshenko said after talks with Mr. Putin outside Moscow. Ms. Tymoshenko said they discussed Ukraine's purchases of Russian natural gas and gas transport to Europe across Ukrainian territory.

House holds fate of rescue

Revised bailout bill wins Senate passage; Bush resumes push

By Greg Hitt
And Sarah Lueck

WASHINGTON—Focus returned to the U.S. House of Representatives after the Senate handily passed a financial rescue package Wednesday. That gave the bill its first legislative victory but came with provisions that could complicate efforts to push the $700 billion plan through the House.

President George W. Bush resumed his plea for passage as Democratic and Republican party leaders worked the offices and halls of congressional office buildings. The goal: secure enough votes to send Mr. Bush a bill that he said presents the "best chance" to combat the widening credit crisis.

Speaking to reporters during a meeting with business executives, Mr. Bush said the tight credit markets are in some instances threatening the existence of small businesses. He said Congress "must listen" to those arguing for passage of the bill.

House Majority Leader Steny Hoyer's office expects the bill to be on the floor Friday. Mr. Hoyer said it would be up to Republicans to persuade more of their members to vote for the bailout for it to pass in the House. He said there are "good prospects" for approval.

The compromise bill that passed the Senate represented a marriage of the rescue proposal with a host of measures designed to win the support of reluctant lawmakers. Additions include an increase in bank deposit insurance limits, a suggested change to accounting rules, and a $150.5 billion package of unrelated personal and corporate tax cuts.

The additions boosted support in the Senate, which voted 74 to 25 in favor, the latest twist in the proposal's roller-coaster ride this week. Opposition came from conservatives, populists and senators facing tight races where the rescue bill is drawing criticism.

Senate Majority Leader Harry Reid of Nevada said he expected the House would pass the bill, a sentiment echoed by other senators. House leaders expressed cautious optimism they could secure passage but couldn't be definitive.

Rep. Barney Frank (D., Mass.) said Thursday that he thinks the House has enough votes to pass the rescue package. "I think so; I can't be sure," said Mr. Frank, chairman of the House Financial Services Committee. Failing to pass the bill "would be very bad" for the nation's economy, he added.

Mr. Bush has called the plan vital to secure the proper functioning of financial markets. But lawmakers and the administration have spent more than a week wrangling over the proposal amid a backlash from voters. The disagreements culminated in the unexpected rejection by the House on Monday, in defiance of congressional leaders and the White House, triggering the stock market to sink.

Stunned by the market response, lawmakers regrouped and added items to the bill to win votes. Senate leaders took up the bill, which had stronger support in that chamber, with the aim of putting pressure on the House. Presidential rivals Republican Sen. John McCain and Democratic Sen. Barack Obama flew back to the Capitol to cast votes in favor.

The 10-year, $150.5 billion package of tax proposals includes a measure to ease the bite of the alternative minimum tax, as well as research-and-development tax credits coveted by high-tech companies and drug makers. Its addition is designed to secure the support of Republicans, who were overwhelmingly opposed in the House. But it could irk conservative House Democrats because the measure will add to the deficit.

The bill also reaffirms the Securities and Exchange Commission's authority to suspend so-called mark-to-market accounting, an issue that gained surprising traction among lawmakers looking for less-costly alternatives to the Bush plan. The practice, adopted in the aftermath of the savings-and-loan collapse in the 1980s, pegs the value of assets to their current market price, rather than the price paid for them.

Banks have complained that the strict application of mark-to-market rules has forced them to write down billions of dollars of mortgage-related securities for which there are no buyers, intensifying the squeeze in the credit markets.

The core of Mr. Bush's rescue plan survives in the Senate bill. The measure authorizes Treasury to borrow $700 billion to buy tainted mortgages, securities and other financial instruments that have weakened the financial system and frozen credit markets.

While the change to deposit insurance could bring over some opponents, allowing them to argue that the bill does more to help consumers, the tax provisions could be a sticking point. The tax package had been on a separate legislative track and appeared dead because House Democrats balked at taking it up.

Fiscally conservative Democrats, who provided a solid bloc of 25 "yes" votes Monday, dislike the tax package because it isn't offset by spending cuts or other tax increases, adding to the deficit. The tax items could also drive away progressive Democrats concerned the bailout bill doesn't do enough to help average Americans, congressional aides said.

The move to raise deposit insurance offered by the Federal Deposit Insurance Corp. to $250,000 from $100,000 adds billions of dollars of new liabilities to the federal government. As part of the bill, the FDIC earned expanded authority to borrow taxpayer dollars to back the higher coverage.

Rep. Hoyer, a moderate Democrat from Maryland, said he is urging fiscally conservative Democrats, known as Blue Dogs, to focus on the "the bigger picture" and the need to stabilize the nation's shaky economy. "My gut tells me" they will still support the bill, he said.

Rep. Jim Cooper of Tennessee, a member of the Blue Dog Coalition, voted for the bill Monday and said he will again, despite the tax additions. "I think we have to ignore the Senate irresponsibility. The $700 billion issue is more important than the $30 billion issue," Mr. Cooper said.

Mr. Cooper said he hasn't spoken with colleagues about how they will vote, but expects House Democrats to pick up 10 or 15 votes. "I think a lot of people regret their vote on Monday," he said, "but they need some cover to change their vote," such as the increase in deposit insurance.

The legislation contains a number of tax breaks that have been attacked by fiscal conservatives, including an exemption from a 39-cent excise tax for children's wooden practice arrows, an extension of credits for businesses that employ residents of Indian reservations. The $18 billion in clean-energy incentives allow businesses to provide benefits to employees who commute to work by bicycle.

Even if Democrats hold the line, Republicans will have to find extra support. The House bill failed Monday on a 228-205 vote: 140 Democrats backed it, representing 60% of the Democratic caucus; Republicans brought 65 votes to bill, about a third of the party's ranks.

Party leaders in the House need 12 lawmakers to switch, assuming other votes stay the same. Mr. Hoyer is pressing Republican leaders to deliver 100 votes, half the Republican caucus.

House Minority Whip Roy Blunt (R., Mo.) and others in the Republican leadership were putting pressure on lawmakers in telephone conversations Wednesday. One focus was the Republican delegation from Texas. Despite calls from the president to his home-state lawmakers, more than a dozen Texan Republicans voted against the bill, including Rep. Joe Barton, the ranking Republican on the House Energy and Commerce Committee, and Rep. Ralph Hall, a personal friend of the president's.

"After Monday, there can be no doubts, going to the floor, about where our numbers are," said one Republican leadership aide. "There can be no failure."

—Kara Scannell, Maya Jackson Randall, Jessica Holzer, Louise Radnofsky and the Associated Press contributed to this article.

European Pressphoto Agency

Sen. Harry Reid, left, Banking Committee Chairman Sen. Chris Dodd, right, and Sen. Mitch McConnell, center, **after the Senate's vote** Wednesday.

Reuters

U.S. President **George W. Bush** and Indian Prime Minister **Manmohan Singh**, who met at the White House Sept. 25, have made their nuclear pact a top priority.

U.S. lawmakers pass nuclear pact with India

By Louise Radnofsky,
Jackie Range
And Paul Glader

The U.S. Senate passed a landmark nuclear pact with India, opening the door for American energy companies to enter the fast-growing Indian market.

The agreement, which President George W. Bush made a top priority and is expected to speedily sign, requires India to allow international inspections of its nuclear facilities. In its final months, the Bush administration has also been trying to end nuclear programs in North Korea and Iran, though those efforts have run into roadblocks in recent weeks.

On Wednesday night Washington time, the Senate voted 86-13 to approve the Indian treaty. Mr. Bush, who is sending Secretary of State Condoleezza Rice to New Delhi Friday to commemorate final approval, said the agreement "will strengthen our global nuclear nonproliferation efforts, protect the environment, create jobs, and assist India in meeting its growing energy needs in a responsible manner."

The U.S. has sought to strengthen ties with India, which it sees as a potential counterweight to China. Indian Prime Minister Manmohan Singh staked his government's survival on the deal, which he argued was crucial for his nation's energy needs.

India's power-generation capacity is lagging far behind its requirements. The economy has grown an average of 8.7% annually during the past five years. That trend, combined with rising incomes, has lifted electricity demand 9% a year.

Other countries have expressed interest in the Indian energy market, and France concluded its own civilian-nuclear deal with India on Tuesday. For U.S. companies, the deal will open a multibillion-dollar market for the sale of everything from power-transmission equipment to airplanes.

Brahma Chellaney, a professor of strategic studies at the Centre for Policy Research, a New Delhi think tank, called the agreement "an important turning point" strategically, but said "from a commercial energy standpoint I think it will turn out to be more hype than reality."

U.S. suppliers of technology and equipment, including **General Electric** Co. and Westinghouse Electric Co., a unit of **Toshiba** Corp., hope to benefit from India's nuclear-power plans.

General Electric built nuclear power plants in India in the 1960s and is interested in building new reactors there, as well as providing fuel and other services for new and existing reactors. General Electric said it has had "limited" discussions with Indian officials about the country's energy plans.

Westinghouse Electric, based outside Pittsburgh, plans to build up to eight reactors in India for $5 billion to $7 billion each. It stepped up meetings with government and industry officials in India this year in anticipation of a nuclear pact.

Boeing Co. and **Lockheed Martin** Corp. have bid to sell 126 fighter jets to India, in a deal valued at $8 billion to $10 billion.

The White House and State Department held last-minute negotiations over the past two weeks with key members of Congress to get the nuclear deal completed before the president leaves office. The House of Representatives approved the treaty, which was three years in the making, on Sept. 27.

Before the Senate vote, Sen. Chris Dodd, a Connecticut Democrat, urged approval of the deal, saying, "To have a good strong relationship with this country in this century will be of critical importance to our safety as a nation and to the safety of mankind."

Democratic Sen. Byron Dorgan of North Dakota, asserted that Mr. Bush failed to set sufficient safeguards against India testing nuclear weapons. The senator said the agreement hadn't received adequate consideration by Congress and that it rewarded India for what he described as its defiance of international nonproliferation principles.

When Mr. Bush and Mr. Singh met in Washington on Sept. 25, the U.S. leader said the deal had "taken a lot of work on both our parts."

Money & Investing

Survival tactics

A few fateful days forced the hands of Goldman and Morgan Stanley > **Page 15**

Bloomberg News/Landov

REVIEW & OUTLOOK

Bailing Out Europe . . .

This week's cover of Der Spiegel shows the Statue of Liberty's torch extinguished, under a headline "The Price of Hubris." Even as the magazine published this latest eulogy for American power, the Continent turned out to have more banking problems than Wall Street. Now we'll see if "Europe," in the governing rather than geographical sense, can handle a genuine financial panic.

European governments this week rushed to rescue several of their over-leveraged financial institutions as the money markets seized up. The euro's fall of about 5% against the dollar in recent days shows that investors are more worried about the Old Continent than the New World. Europe is learning that financial turmoil is no zero-sum game. America's loss isn't Europe's or anyone else's gain. The credit mania was a global phenomenon and its aftermath requires global responses.

In contrast to the U.S., Europe has no lender of last resort. The European Central Bank was created to manage the supply of euros, not to rescue failing institutions. It can provide short-term liquidity against collateral to keep the money markets afloat—which it has done admirably so far. But it can't ease a solvency crisis. ECB President Jean-Claude Trichet can provide intellectual leadership and steer governments in the right direction. But in Europe, there are 27 separate national purses and no central treasury.

The ECB's limitations aren't necessarily bad. The Federal Reserve has been stretching its powers to limit, if not the breaking point, and one goal of Treasury Secretary Hank Paulson's plan is to put the burden of injecting capital into the U.S. banking system where it belongs—on the political authorities in the Treasury and Congress. Europe should be wary of damaging its central bank by loading it up with new, fundamentally political, powers.

Instead of gloating about "America's fall," the Old World needs to rescue its own banking system.

That doesn't mean Europe's leaders—alone or in conjunction with neighbors—can't step to the fore with public capital and the power to resolve failing banks before they become systemic threats. Last weekend the governments of Belgium, Netherlands and Luxembourg agreed to inject €11.2 billion into Fortis. On Tuesday, the French and Belgian governments bailed out Dexia bank.

National capitals have also acted alone. The U.K. seized Bradford & Bingley and sold the mortgage lender's retail branches and deposits to the Spanish bank Santander. In Germany, a consortium of private banks, backed by state guarantees, stepped in with a €35 billion credit to Hypo Real Estate, one of Europe's largest real estate, project finance and local government lenders.

The most dramatic intervention occurred in Ireland, where the government guaranteed for two years all deposits, bonds, senior debt and lower Tier-II debt of six Irish financial institutions. British depositors are already flocking to the Irish banks to take advantage of the unlimited guarantee, putting pressure on London to do something similar. This is one of the drawbacks of separate national responses—it creates "depository arbitrage" and gives some banks a competitive advantage.

If successful in staving off a panic, the Irish move may cost nothing or even bring in some cash from the fees banks must pay for the guarantee. But total taxpayer exposure is €450 billion to €500 billion, or well more than twice Ireland's GDP. While expanded deposit insurance can help to ease a bank run in the short term, over time it can also sow the seeds of future bailouts by encouraging greater risk-taking.

The rescues of Fortis and Dexia show that ad hoc cooperation in cross-border cases can work. An advantage of these spontaneous responses is that they don't require new legislation or new institutions, which the EU usually requires years to draw up.

But not all EU governments trust each other as much as those from the Benelux countries, and not all banks can be so neatly divided into national spheres of responsibility. Other cross-border rescue operations could pose vexing problems over how to share the financial burden. Disputes could prevent or delay a timely response.

An alternative would be to establish a temporary Continental resolution authority, not unlike the 1980s U.S. Resolution Trust Corp., with enough power and capital to put out fires across the Continent. This could be a variation on the Paulson plan to buy, hold and then sell toxic or illiquid assets. Another—better—idea would be to recapitalize banks through secure loans, warrants and preferred stock. Once the crisis is over and the assets are put back in private hands, the authority would go out of business.

The European Investment Bank could act as such an authority. Its board of governors is made up of the finance ministers of all EU member states. As a public agency that issues publicly guaranteed bonds, it could set up the rescue fund relatively quickly.

In any case, at this dangerous moment, European governments need to show they have the will and means to defend the financial system. Otherwise, the panic could drag down even sound banks and push the Continent's economies into an even deeper recession than now seems likely.

. . . and America

"If banks, in spite of every precaution, are sometimes betrayed into giving a false credit to the persons described, they more frequently enable honest and industrious men of small and perhaps of no capital to undertake and prosecute business with advantage to themselves and to the community."

So wrote Alexander Hamilton in 1790, amid a populist backlash against bankers. Hamilton didn't hesitate to use the powers of the Treasury to calm markets amid a speculative panic for the good of the larger community. The U.S. is at another Hamiltonian moment, if Congress has the nerve to act in the national interest.

* * *

We are told this is a "bailout for Wall Street." But if Americans are honest with themselves, they will admit that bankers are far from the only cause of our predicament. The U.S. is living through the aftermath of a classic credit mania, one we all enjoyed while it lasted. We don't remember many protests when home prices were rising by 15% a year, or when interest rates stayed at 1% for a year and real interest rates were negative for far longer. Some of the loud voices invoking "free markets" to denounce the Paulson plan were most opposed to tighter money. We know because their complaints were often aimed at us.

Our point isn't to absolve Wall Street or Washington—far from it. The point is that credit manias are by their very nature societal, which is why the panics that follow can do so much damage outside the financial arena. They are part of a larger psychology that sweeps everyone up in euphoria for a time, only to send everyone into a defensive crouch when the credit stops.

Bankers weren't the only ones who enjoyed the credit mania.

The challenge is to prevent a panic from becoming a crash that does far more extensive damage. This is where we are now, and why Congress should pass the Paulson plan even with its flaws. (The Senate took the first step Wednesday by passing the bill.) The government needs the power to use public capital to defend and stabilize the financial system. In that sense, Americans are bailing out themselves.

The critics who believe that talk of a crash is merely a scare-tactic must not be paying attention. The stock market's gyrations are the least of it. Credit markets are ceasing to function by any normal standard, with banks refusing even to lend to one another, much less to credit-worthy borrowers on Main Street.

Wednesday's Youngstown, Ohio, Vindicator carried a story with this lead: "The national credit crisis is squeezing Mahoning Valley manufacturers." The story quotes Herbert Schuler Sr., the boss of General Extrusions, that "Unless you have more cash than you need to borrow, they [local banks] won't do business with you." His firm has already laid off 70 of 350 workers as its auto-supply customers reduce their purchases of its aluminum products.

A mere anecdote, yes. But September sales for Toyota and Ford fell by 30%, as auto buyers find credit harder to come by. Wednesday, the Institute for Supply Management's manufacturing index reported its largest one-month drop in 24 years. While at 43.5 the index remains above recession level of 41, the credit vise may soon guarantee one.

A special word is in order for Congress. Fannie Mae and Freddie Mac deserve attention because those two government-sponsored enterprises did so much to turbocharge the credit mania. By providing subsidized rates of return to global investors, they helped fuel the bubble in housing and mortgage-backed securities that is now haunting so many financial institutions.

Alexander Hamilton

The Members fought furiously against any attempt to make Fan and Fred less dangerous. The Bush Administration was on the right side of this debate for eight years, as was the late Clinton Treasury. This was a scandal in plain sight that all but a few ignored.

Now, having done so much to create this mess, many of the same Members who protected Fan and Fred denounce the "bailout" as a favor to Wall Street. Who do they think were Fannie Mae's business partners? Who marketed Fannie's securities to the Chinese, for a tidy fee? Main Street investors also loved Fan and Fred while they were making private profits by taking inordinate risks with a taxpayer guarantee.

The real heroes of the House are the Members who tried to reform Fannie when that was unpopular and are now trying to defend the financial system while that too is difficult. We have in mind Paul Ryan, the Wisconsin Republican, who has had the guts to support the Paulson plan while his GOP colleagues in safe seats, like Jim Sensenbrenner, run for cover.

* * *

The Paulson plan isn't what we would have drawn up. It will not by itself inject capital into troubled banks, and it carries risks in how Treasury will price toxic assets when it buys them. But it is one more policy tool at a time when something needs to be done, and it is the only one currently up for a vote. Passing it won't by itself revive the banking system, but defeating it will guarantee far more damage to far more Americans.

Mr. Ryan and some other stalwarts are proof that political leadership does exist in Washington, albeit not always at the highest ranks. In this sense, too, the votes this week in Congress are about bailing out America's political leadership from its own embarrassing performance. Americans are anxious, even frightened, about the financial system. They are looking for leaders who will act to defend it.

On Taste

Page W17

■ **Some people might** be too happy to do well at business, Steve Salerno says, as he discusses the pitfalls of positive thinking. Happiness can become a detriment.

■ **A cultural conversations** with Brazilian director Fernando Meirelles.

■ Plus **Pepper . . . and Salt.**