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Central banks cut rates in global action

Emergency move aims to quell crisis; markets stay volatile

The world's central banks opened a new front in a widening battle against the financial crisis—moving short-term lending rates down in unison to soften a looming global economic downturn.

By Jon Hilsenrath in New York, Joellen Perry in Frankfurt and Sudeep Reddy in Washington

The move came together in just the past few days. As the U.S. Federal Reserve planned to rescue the damaged U.S. commercial paper market and governments across Europe scrambled to address a series of European bank failures, the heads of the Fed, the European Central Bank and the Bank of England began a series of telephone discussions about a coordinated attack on interest rates.

They came together in a conference call early Tuesday morning U.S. time when Ben Bernanke, Mervyn King and Jean-Claude Trichet, the heads of the Fed, BOE and ECB respectively, agreed to move together and issue a statement acknowledging that the crisis had become a growing threat to economic growth and that inflation pressures were moderating.

Mark Carney, governor of the Bank of Canada, joined in the call with plans to cut, too. Masaaki Shirakawa, head of the Bank of Ja-

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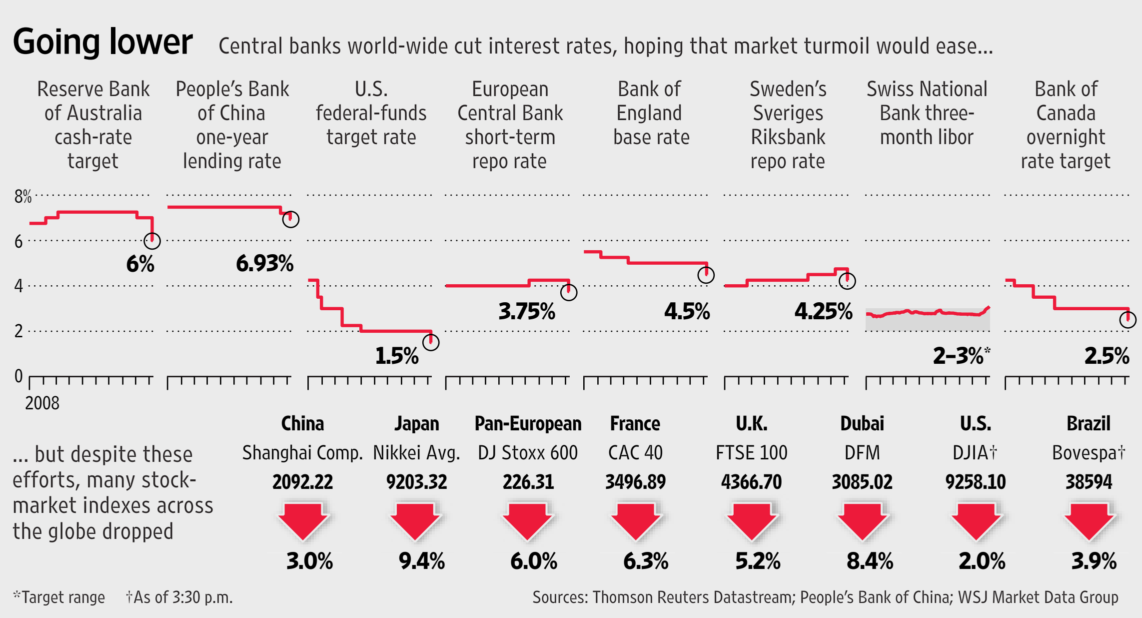
Agence France Presse; Associated Press (3)



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Business & Finance

Central banks around the world acted quickly to open a new front in a widening battle against the financial crisis—moving short-term lending rates down in unison to soften a looming global economic downturn. Page 1

■ **The U.K.'s bank rescue** may turn into a model for other countries struggling to cope with the credit crisis. Page 1

■ **European and Asian firms** are announcing cutbacks in response to the spreading global economic crisis. Page 1

■ **Spanish companies face** a lending crunch, as the nation is likely to fall from its longest economic boom in modern times. Page 2

■ **The U.K. and Netherlands** sought to protect depositors in Icelandic accounts, and Sweden said it would lend $703 million to Kaupthing bank. Page 4

■ **U.S. stocks swung wildly** before closing 2% lower as investors digested action by the world's central banks. European shares fell. Page 19

■ **The yen strengthened** as investors sought stability, but export-driven Japan worried the rising currency may prolong an economic slowdown. Page 24

■ **British Airways is** losing sway in merger talks with Iberia as its share price falls and pensions deficit widens. Page 6

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	9258.10	-189.01	-2.00
Nasdaq	1740.33	-14.55	-0.83
DJ Stoxx 600	226.31	-14.41	-5.99
FTSE 100	4366.69	-238.53	-5.18
DAX	5013.62	-313.01	-5.88
CAC 40	3496.89	-235.33	-6.31
Euro	$1.3654	+0.0003	+0.02
Nymex crude	$88.95	-1.11	-1.23

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World-Wide

Russia pulled its troops out of buffer zones around Georgia's breakaway regions ahead of a deadline Friday, paving the way for EU-brokered talks to resolve what are likely to be intractable border issues. Page 11

■ **Ukrainian President** Viktor Yushchenko dissolved Parliament and called an early election, dashing hopes for the revival of a pro-Western coalition including Prime Minister Tymoshenko.

■ **The global economic outlook** has darkened sharply, with the financial crisis expected to push several advanced economies into recession, the IMF said. Page 4

■ **McCain called** for a $300 billion effort to help U.S. homeowners in a debate with Obama, responding to an economic crisis that has helped his rival. Page 10

■ **A suicide bomber detonated** explosives in Iraq's Diyala province, killing 11 people. An Iraqi archbishop expressed concern over Christians killed in Mosul.

■ **U.S. airstrikes in Afghanistan** on Aug. 22 killed 30 civilians, far more than the five to seven that the military previously acknowledged, U.S. officials said.

■ **A Yeti Airlines plane crashed** as it tried to land in fog at an airport near Mount Everest, killing 18, including 16 tourists from Germany, Australia and Nepal.

■ **Japan's Osamu Shimomura** and Martin Chalfie and Roger Tsien of the U.S. won the Nobel Prize in chemistry for discovery of a revolutionary protein.

■ **South Africa's** ex-defense minister threatened to split the ruling ANC after last month's ouster of ex-President Mbeki.

EDITORIAL & OPINION

Britain shows the way
London's plan to inject capital into its banks is the most sensible step yet. Page 13

U.K. unveils wide-ranging bank bailout

By Sara Schaefer Munoz, Dana Cimilluca and Carrick Mollenkamp

LONDON—U.K. banks and regulators, having hammered out an all-night rescue plan, are gambling it will be enough to increase stock prices and reignite a frozen bank lending market.

The Treasury announced three key measures for its banking system. To shore up banks' finances, it will spend as much as £50 billion ($87.4 billion) on stakes in the banks. To help banks borrow the money they need to do business, it will guarantee up to £250 billion in bank debts. And to help banks find a home for hard-to-sell securities, it will add at least £100 billion to a facility that allows banks to swap those securities for government bonds.

The plan goes further than other government efforts, such as the $700 billion bailout package recently approved in the U.S., by addressing a number of problems at once: banks' capital needs, frozen lending markets, and an overhang of toxic assets.

"I really regard this as one of the most significant positive developments I've seen in this cycle so far," says Hans Lorenzen, an analyst at

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Businesses world-wide suffer from banking crisis

By Leos Rousek in Prague, Daniel Michaels in Brussels, Edward Taylor in Frankfurt, Andrew Osborn in Moscow and Sky Canaves in Hong Kong

Bohemia Crystalex Trading AS sold crystal glasses and bowls through the Great Depression and two world wars. The credit crunch finally pushed the Czech company over the edge.

Crystalex, one of the world's largest glassmakers, filed for bankruptcy protection last week, an early European casualty of the U.S.-exported financial crisis that is now hitting businesses across the globe.

Volvo Cars, a **Ford Motor** Co. unit based in Gothenburg, Sweden, on Wednesday announced 3,300 layoffs; **Wal-Mart Stores** Inc.'s Japan unit said last week that it is closing 20 stores. Ireland's **Aer Lingus Group** PLC decided Friday to replace hundreds of Irish flight attendants

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Crisis batters car sales in Spain

Severe drop in loans points to harsh end to economic boom

By Jonathan House

ALCORCON, Spain—Slack business at a suburban car dealership shows how financial troubles are hurting Spain's economy.

For nearly a decade, **Conceve** SA, a large **Renault** SA dealer outside Madrid, enjoyed buoyant sales in the euro zone's most successful large economy. But most of those sales came from borrowed money.

These past few months, a lending crunch has hit Spanish business. Banks and Renault's financing unit are turning down around half of the financing applications forwarded by the dealership. The result: Conceve's sales fell more than 30% in the first nine months of this year from the 2007 period.

"Their credit-scoring processes have gotten a lot more stringent," says General Manager Paloma Serrano. "They say they're worried about a rise in nonpayments."

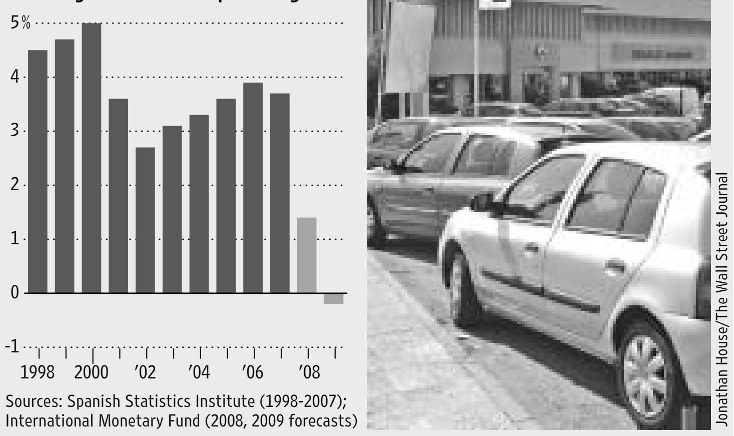
Such clampdowns on lending are a big reason why Spain is likely to fall from its longest economic boom in modern times to a downturn even worse than in the rest of Europe.

Spain enjoyed average annual gross domestic product growth of 3.75% for more than a decade, but it funded this with huge inflows of money from other countries. Today, Spain has a deficit in its current account—a measure of the difference between savings and investment—second only to that of the U.S.

Headed for a hard landing

Spain's sharp economic downturn has spread from the construction sector to other businesses, such as sales from this car lot outside of Madrid, right.

Annual gross-domestic-product growth:



Sources: Spanish Statistics Institute (1998-2007); International Monetary Fund (2008, 2009 forecasts)

The foreign funds are drying up amid the world's banking troubles and fears that Spain might have borrowed too much. In response, Spain on Tuesday became the first European country to implement a U.S.-style package to boost lending. It will spend up to €50 billion ($67.6 billion), or around 5% of GDP, to buy financial assets from banks to give them more funds to lend.

Relative to the size of the economies, the effort is similar in scale to the $700 billion plan the U.S. approved last week.

Still, economists warn that Spain could be in a slump for a couple of years, and even then not return to previous growth rates. The Spanish economy will contract by 0.7% in 2009, while the euro zone as a whole will expand 0.6%, forecasts Dominic Bryant, economist at BNP Paribas.

"Other European countries are experiencing a sharp cyclical slowdown," says Mr. Bryant. "In Spain you have this, plus a structural adjustment of its imbalances."

Spain attracted outside funds after it prepared to adopt the euro in 1999. Adoption of the common currency required adherence to rules on economic stability, and removed worries about a plunge in the country's currency. In addition, following a banking crisis in the early 1990s, Spain had forced banks to build up large reserves against losses. The capital inflows let Spanish households and corporations take on big debts, and helped to finance a construction boom.

International investors have become concerned by this accumulation of borrowings, and are now charging much higher interest rates to Spain's government, banks and corporations. As a result, says Juan Ramon Quintas, head of Spanish savings bank association CECA, "the funds we have available for lending are now limited to the savings of Spanish depositors."

That has slashed banks' lending even to some big corporations. Spanish bank lending grew just 8% in July over the previous year, and is barely rising on a month-to-month basis. It had risen 12% at the end of 2007, over the previous year, and 19% at the end of 2006. That means the credit crunch is squeezing Spanish business, before it hits the rest of Europe.

"Spain is viewed as a country that needs financing and so is seen as riskier," said Fernando Casado, head of the Family Business Institute, a group that includes many Spanish blue-chip companies.

The first to suffer credit restrictions was the home-building sector. After building 600,000 homes in 2006—more than Germany, France, the U.K. and Italy combined—industry officials forecast Spain will build just 200,000 this year. Because construction accounts for a large share of economic output, this fall pushed unemployment to 11.3% in September, the highest in the euro zone.

The pain is spreading. SEAT SA, a unit of German car maker **Volkswagen** AG, announced Friday the temporary layoff of 750 workers. **Ford Motor** Co. and **General Motors** Corp. announced cuts at their Spanish plants last month.

On a recent morning, Conceve's 15,000-square-meter lot in Alcorcon, south of the Spanish capital, was packed with rows of shiny new cars. The cavernous interior of Conceve's indoor showroom was largely silent. Salespeople and their managers gathered in glass-walled offices lining the perimeter.

No customers were visible. Ms. Serrano said the credit crunch has left only customers who really need a new car. "We have a brand [in Renault] that has been a market leader in Spain for many years, so we have a lot of cars out there to service," she said. "This crisis has a financial origin and 75% of the cars we sell need financing."

U.S. Mint widens freeze on selling gold bullion coins

By Moming Zhou

NEW YORK—Citing extraordinary demand, the U.S. Mint has broadened its freeze on sales of gold bullion coins, as individual investors who are priced out of the futures markets have been piling up their holdings of the metal as a hedge against market uncertainty.

"Due to the extreme fluctuating market conditions for 2008, as well as current market conditions, gold and silver demand is unprecedented and the demand for platinum is unusually high," the Mint said in a memorandum late Monday, released to its authorized purchasers.

The Mint added in the memo that it's halting the production and sales of several gold and platinum coins while putting a few other coins under allocation sales. The move came after the Mint halted sales of two other coins in September and August.

Investors tend to snap up gold as the final tangible asset when the economy falls into turmoil. Some gold dealers said they have seen unprecedented demand for coins and bars as the financial crisis on Wall Street and Europe intensified worries about a global slowdown.

While the bulk of the 160,000-ton above-ground gold stock (about 5.1 billion ounces) is used in jewelry and the electronics industry, about 16% is held by investors for pure investment purposes, according to the World Gold Council. The gold investment market, however, is dominated by big institutions, which trade with one another directly in large orders through over-the-counter markets.

Gold is also traded through futures contracts in New York, Tokyo and a few other places. Futures trading, however, requires quite a bit of capital. One futures contract on the Comex division of the New York Mercantile Exchange, for example, represents 100 ounces of gold, or about $88,000 in current prices.

Gold coins provide an easier channel for individual or "retail" investors, who can buy coins through dealers online, much like buying a book at Amazon.com.

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INDEX TO PEOPLE

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

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

G-7's moves are limited

Taxes and spending hard to coordinate; low 'fiscal solidarity'

After coordinated interest-rate cuts by central banks on Wednesday, governments from the Group of Seven leading industrialized economies are under pressure to take similarly decisive joint action to stem the unfolding global financial crisis when they meet later this week.

The ability of governments to deliver more than long-term goals and rhetoric when they meet in Washington on Friday, however, is likely to be limited, analysts say.

*By **Marcus Walker** in Berlin, **David Gauthier-Villars** in Paris and **Michael M. Phillips** in Washington*

White House spokeswoman Dana Perino predicted that the G-7 meeting will "help make sure everybody is on the same page as we move forward since we're all so interconnected now." In theory, G-7 ministers could vow jointly to match the central banks' shifts in monetary policy with fiscal action, pumping up their economies with a boost in government spending or tax cuts, or infusing capital into their banks.

But while it is relatively simple for central banks to cut interest rates together, it is far more difficult to align the international politics of taxation and spending.

"I don't think they can do anything," says Edwin M. Truman, a former U.S. Treasury official who is now a senior fellow at the Peterson Institute for International Economics. At most, he says, G-7 ministers can agree that each country needs to do all it can to minimize economic recessions.

"It's now a question of fiscal policy, and the degree of fiscal solidarity is even lower among G-7 countries than it is among European countries," says Daniel Gros, director of the Centre for European Policy Studies in Brussels.

In a reflection of the G-7's disparate views, Canadian Finance Minister Jim Flaherty said Wednesday that his country is "not in a bailout situation" and that Canadian banks don't need an infusion of government capital, unlike their U.K. counterparts.

So far, European Union efforts to agree on a strategy for dealing with the turmoil have resulted only in an agreement to tell each other about widely differing national moves.

In Europe's latest national initiative, Italian Prime Minister Silvio Berlusconi called an emergency cabinet meeting for Wednesday evening to adopt "urgent" measures to ensure the stability of the country's banking system, without giving details.

Four of the G-7 countries—Germany, France, the United Kingdom and Italy—are European. The others are the U.S., Japan and Canada.The Italian announcement followed Tuesday's decisions by the U.K. to inject massive amounts of capital and liquidity into its major banks, and by Spain to set up a €30 billion-plus ($40.8 billion) fund to buy banks' illiquid assets.

For Friday's meeting, the focus of European leaders appears to be more on longer-term measures that might prevent a repeat of the current crisis.

Morgan Stanley says deal on track as its stock falls

By Aaron Lucchetti

Morgan Stanley sought to shore up investor confidence Tuesday as its shares fell 25%, but its plan to raise $9 billion in capital from **Mitsubishi UFJ Financial Group** remains on track with its original terms, people familiar with the matter said.

Tuesday, the Federal Reserve also invoked "unusual and exigent" market circumstances in speeding approval of the Mitsubishi UFJ investment. Over the weekend, the Fed put the Morgan Stanley capital plan on a fast track, saying in a statement Tuesday that it waived the normal public-notice period and shortened other parts of the approval process because of "unusual and exigent circumstances affecting the financial markets." The Fed has cited such conditions frequently in recent months when it has strayed from its normal procedures.

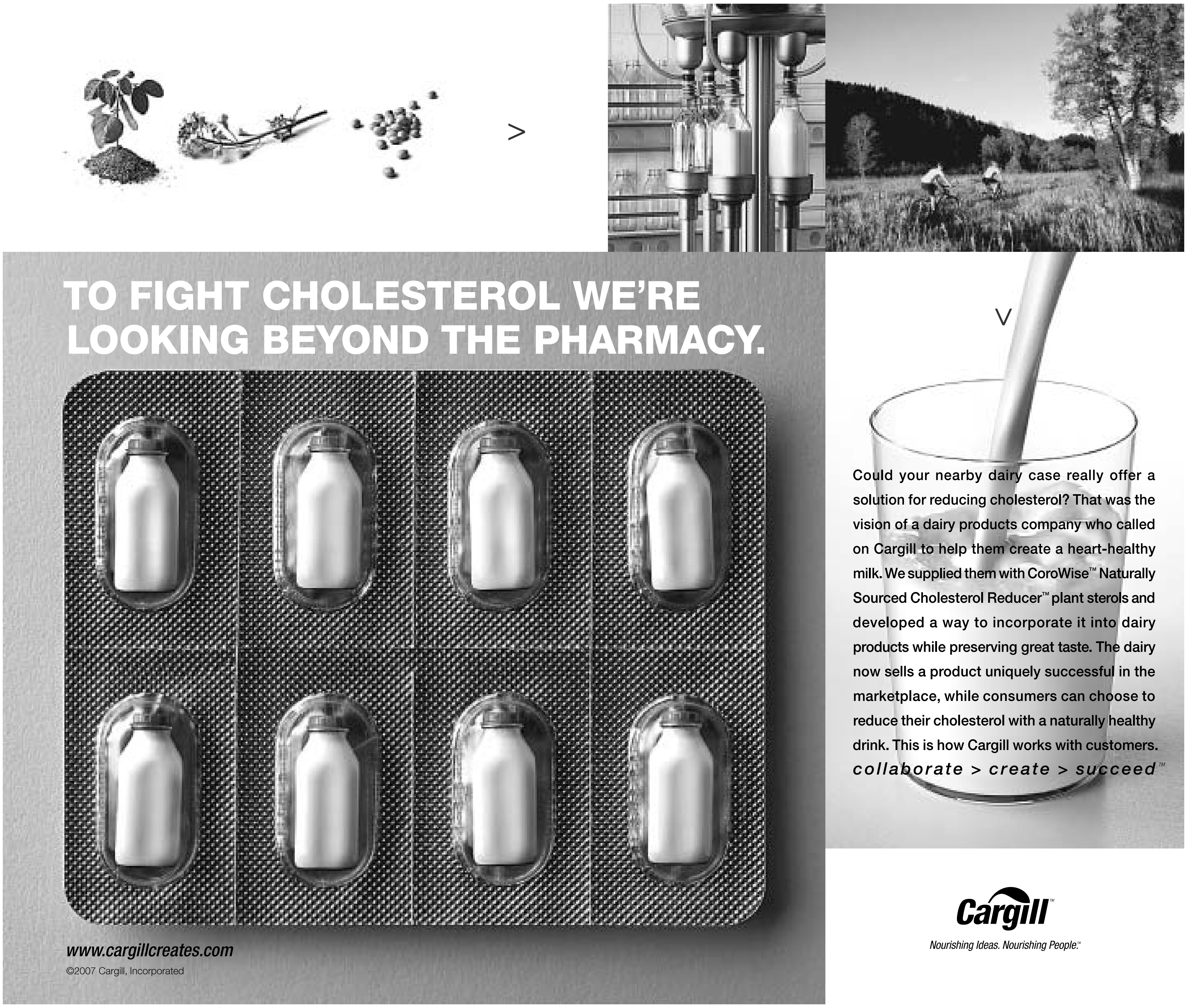
Morgan Stanley is anxious to close the deal, first announced Sept. 22, as investors have demanded it add capital to its balance sheet. The deal could include more cooperation between the firms' securities operations in Japan and in U.S. banking. Morgan Stanley shares fell nearly 40% in intraday trading Tuesday due to fears Mitsubishi UFJ would back away from a deal amid deepening U.S. financial problems. Shares recovered somewhat after Morgan Stanley said the investment was on track to be finalized next week.

In late-Wednesday-morning New York Stock Exchange composite trading, Morgan Stanley's shares were up 3%, or 53 cents, at $18.18.

Morgan Stanley Chief Executive John Mack is expected to host a dinner for some senior Mitsubishi UFJ officials Thursday. Both parties are still committed to the deal, said a person familiar with Mitsubishi UFJ's strategy. Another person familiar with the matter said a deal wouldn't require other regulatory approvals.

Mitsubishi UFJ is investing $9 billion for a 21% stake, according to terms disclosed last month.

—Jon Hilsenrath contributed to this article.



U.S. rapidly rewriting financial playbook

Agencies employ ad hoc approach to policy making

BY DAMIAN PALETTA AND DEBORAH SOLOMON

WASHINGTON—The U.S. Federal Reserve's move Tuesday to backstop the commercial-paper market is the latest in a series of unprecedented steps the government has taken to redraw the rules under which U.S. financial markets operate.

The spreading crisis in global financial markets has forced regulators to work around the lengthy and occasionally onerous process for instituting policy, which can take months or years of debate.

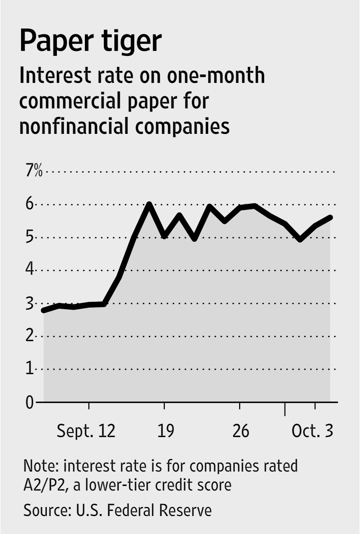
Many of the new powers that have been authorized by Congress—such as higher ceilings on federal deposit insurance—were approved at the last minute with little if any discussion.

This rapid-fire, ad-hoc approach to policy making often takes place on the weekend, with actions culminating after marathon conference calls and late-night sessions. Details are almost always hashed out behind closed doors.

"I wish we had more time," House Financial Services Committee Chairman Barney Frank (D., Mass.) said. "These are hard choices and hard judgments, but I'm not inclined to think that our second-guessing them is a good idea."

Tuesday, the Federal Deposit Insurance Corp. proposed roughly doubling the fees it charges banks to recapitalize the fund that guarantees bank deposits, which has been depleted by recent bank failures. Federal regulators also proposed allowing banks to set aside less capital to cover potential losses from holdings of debt issued by mortgage giants Fannie Mae and Freddie Mac.

The FDIC allowed only 30 days for public comment. Office of Thrift Supervision Director John Reich bemoaned the short window for comment, saying the deposit-insurance proposal needs more study.



The recent changes to the financial-market rule book affect everything from the way Americans protect their money to the way businesses finance inventory; from the way banks raise capital to the way they borrow money from each other.

"The lack of accountability and thoughtful review of these initiatives is really sort of jaw dropping," said Tom Schlesinger, executive director of the Financial Markets Center, a nonprofit that monitors the Fed.

The Internal Revenue Service issued a three-page notice last week that makes it more attractive for one bank to buy another bank by allowing earnings to be offset in certain cases. The notice received little fanfare—the IRS didn't even issue a news release—but implications for the tax-law clarification could mean billions of dollars for the banking industry.

The FDIC held a closed-door 6 a.m. emergency board meeting to approve unprecedented assistance to Citigroup Inc. in the partial takeover of Wachovia Corp.'s banking unit. Also last month, the Fed waived the normal review and public debate process when it quickly approved applications from Goldman Sachs Group Inc. and Morgan Stanley to become bank holding companies.

Current and former government officials have said that many of these actions are taking shape so quickly because of the rapid developments in financial markets.

Most of the high-profile steps have been taken by the Fed and Treasury Department, which have wide authority to creatively respond to crises.

Last month, Treasury announced a new policy of guaranteeing money-market mutual funds, essentially offering protection to investors in what was once considered the safest of investment vehicles.

But in its haste to create the program it overlooked a potential unintended side effect—community bankers said the plan would fuel a flight out of their banks and into money-market funds, which sometimes offer higher investment returns.

Treasury, acknowledging the problem it created, amended the program to make it retroactive and available only to investors in money-market funds as of Sept. 19.

IMF says global outlook is darker

BY TOM BARKLEY

WASHINGTON—The outlook for the global economy has darkened considerably, with the ever-spreading financial crisis expected to push several advanced economies into recession, the International Monetary Fund said Wednesday.

"The world economy is now entering a major downturn in the face of the most dangerous shock in mature financial markets since the 1930s," the IMF said in its latest World Economic Outlook.

Just a few months after upgrading its global forecasts, the IMF is now ratcheting down its expectations for the economy this year and into 2009.

The world economy is now expected to expand at a 3.9% pace in 2008, down from the last estimate of 4.1% in July. The 2009 forecast was slashed from 3.9% to 3%, which would be the weakest level since 2002 and around the threshold of what the IMF considers a global recession.

While the fund still anticipates a recovery to begin late next year, it warned there are "considerable downside risks" to that scenario, which assumes that U.S. and European governments will succeed in their efforts to stabilize markets.

"Global activity is being buffeted by an extraordinary financial shock and by still-high energy and other commodity prices," it said. "Many advanced economies are close to or moving into recession, while growth in emerging economies is also weakening."

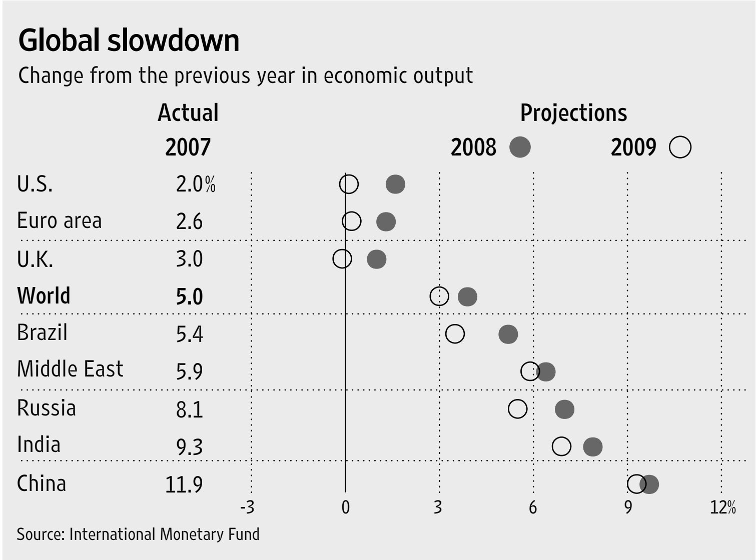
The report was completed before a wave of coordinated rate cuts by the U.S. Federal Reserve, European Central Bank, the Bank of England and other major central banks earlier Wednesday. The IMF suggested in the report that the Fed, ECB and Bank of England should consider easing.

The outlook for the U.S., which lies at the "center of the intensifying global financial storm," has improved for this year after fiscal stimulus lifted first-half growth. The 2008 forecast rose to 1.6% from 1.3% in July. However, the U.S. economy is expected to contract in the fourth quarter of 2008 and early 2009, prompting the fund to downgrade next year's growth estimate to 0.1% from 0.8%.

A U.S. recovery is expected to begin in the second half of next year, the IMF said, as housing prices bottom out and the recently passed financial rescue package helps stabilize markets. The dollar is still seen as valued "broadly in line with medium-term fundamentals," according to the report.

Meanwhile, the IMF expects a "significant slowdown in activity across western Europe followed by a very gradual recovery beginning in the second half of 2009."

The 2008 forecast for euro area



growth was cut to 1.3% from 1.7% in July, and to 0.2% from 1.2% in 2009. Italy's economy is expected to contract this year, and will be joined by Spain's in 2009, the IMF said. The U.K. economy is expected to go from 1.0% growth in 2008 to a 0.1% contraction next year.

The 2008 forecast for Japan was cut to 0.7% from 1.5% in July, with the 2009 estimate lowered to 0.5% from 1.5%. Canada's 2008 estimate was cut to 0.7% from 1.0%, and its 2009 forecast fell to 1.2% from 1.9%.

Iceland grabs No. 3 bank as nations vow to recover deposits

Ripples from the financial collapse in Iceland struck savers and governments elsewhere in Europe on Wednesday, in what economists say may be just the first painful jolts from the small nation for the global economy.

As Iceland nationalized a second big bank and abandoned a brief attempt at pegging its tumbling currency, Britain and the Netherlands on Wednesday sought to protect hundreds of thousands of their savers who have money in frozen Icelandic bank accounts.

*By **Jeanne Whalen** in London and **Charles Forelle** in Reykjavík, Iceland*

Sweden, meanwhile, said it will lend the Swedish branch of the Icelandic bank **Kaupthing Bank** hf up to five billion kronor ($703 million). Sweden's central bank said the move was "to safeguard financial stability in Sweden and ensure the smooth functioning of the financial markets."

The fallout from a financial meltdown in tiny Iceland underscores the often unpredictable connections the global economy has woven among far-flung people, banks and nations, and the damage they can cause.

"Iceland could well go down as the straw that broke the camel's back," said Simon Johnson, an MIT professor and former chief economist at the International Monetary Fund.

The IMF has sent a team to Iceland to investigate the crisis. Prime Minister Geir Haarde said at a news conference Wednesday there had been talks, but that "we have not, at this point at least, asked the IMF for a standby facility or an economic program."

Iceland's economy boomed in recent years, propelled by the availability of easy credit. The country's banks lent heavily at home and abroad, their assets swelling to 10 times the economic output of the island nation. When the credit crunch sapped access to funding, it left Iceland's banks vulnerable, backed by a government forced to scramble for funds. One possible source is Russia, which is considering lending Iceland €4 billion ($5.5 billion). Mr. Haarde said Iceland officials would travel to Moscow for meetings Tuesday.

Iceland's government has vowed not to default on its sovereign debt, but some economists fear it could. That scenario could trigger an exodus of investors from other small, debt-laden countries, pushing down their currencies and making it impossible for them to pay their foreign debt.

The market is wondering, "OK, who's next? It's like Lehman and AIG. It's gone from companies to countries," Mr. Johnson said, referring to the impact the collapse of U.S. investment bank Lehman Brothers had in triggering a sudden loss of confidence in other banks. He urged members of the Group of Seven leading nations and other large nations to come up with a swift bailout package for Iceland to try to contain the damage. Members of the G-7 meet in Washington on Friday.

Some of the worst immediate shocks from Iceland are hitting Britain, where many have deposited money in Icelandic banks such as Icesave, the Internet savings bank of Iceland's **Landsbanki Íslands** hf. Icesave has about 300,000 British depositors—roughly equal to Iceland's entire population. The bank has 120,000 depositors in the Netherlands.

When Landsbanki went into receivership this week, Icesave stopped allowing withdrawals. Under current European Union rules, which Iceland has agreed to follow though it isn't a EU member, British depositors have the right to claim up to €20,000, or about £16,000, of compensation from the Icelandic government. The U.K.'s compensation scheme covers the rest of any claim up to £50,000.

The U.K. government said it will guarantee the reimbursement of all British depositors in Icesave. Prime Minister Gordon Brown on Wednesday said Britain will take legal action against Iceland to try to recover British deposits lost in the Icelandic bank.

In Iceland, there were no signs the chaos was ending. The government used its new emergency powers late Tuesday night to thrust **Glitnir Bank** hf, the country's third-largest, into receivership and fully take it over. Glitnir follows Landsbanki into receivership. **Kaupthing Bank** hf, the nation's biggest bank, is the only significant-sized bank remaining in private hands.

On Wednesday, traders kept away from the Icelandic krona, which ricocheted violently in thin trading. The central bank, which on Tuesday attempted to peg the krona to a basket of currencies equivalent to 131 kronur to the euro, gave up its efforts.

Mr. Haarde also spoke of the potential loan from Russia, saying Iceland was on friendly terms with Russia and he had no indication that Moscow was "asking for something unusual or unnatural in return" for the loan.

—Steve McGrath contributed to this article.

Asians lose confidence

Sharp stock declines before rate cuts show impatience in moves

Investors may have gotten what they wanted when central bankers cut interest rates around the globe Wednesday, but not before sending Tokyo's stock market down 9.4% and punishing other Asian markets in a signal of dissatisfaction with the response to the credit crisis.

The drop in Tokyo's benchmark stock index, its biggest one-day percentage drop since the stock-market crash of October 1987, also stemmed from the rising yen and fears over corporate profits. About 75% of listed-Japanese companies now trade below book value, Toyota among them. (Please see related article on page 24.)

*By **Carlos Tejada** in Hong Kong, **Alison Tudor** in Tokyo, **Tom Wright** in Jakarta, Indonesia, and **James T. Areddy** in Shanghai*

Hong Hong's benchmark index fell 8.2%. Indonesia's benchmark index fell 10.4% before regulators suspended trading, leaving it down 21% since the start of the week, when Indonesia bucked the world trend and raised rates to combat surging inflation. Australia ended down 5%, while South Korea and Taiwan both fell 5.8%. Shanghai's benchmark composite index fell 3%.

The drops, which took place hours before six central banks concurrently cut interest rates and the People's Bank of China added its own cut, reflected a deep pessimism that the rate moves until then were too uncoordinated to have much effect, said Stephen Roach, chairman of Morgan Stanley Asia. A surprise one-percentage-point rate cut by Australia as well as Hong Kong's one-percentage-point rate cut early Wednesday (it later said it would cut by a further 0.5 percentage point), did little to jump-start markets.

"There's a total loss of confidence in global policy makers to deal with this tsunami of a crisis," he said. "The reactions of monetary authorities around the world have been ad hoc and piecemeal. They've been considerable, but occurred on a case-by-case basis."

Japan's benchmark Nikkei Stock Average of 225 companies ended Wednesday at a five-year low on the higher yen and continuing fears that a U.S. economic slowdown is crimping exports, which in turn would weigh on the already-frail Japanese economy. Shares of **Toyota Motor** Corp., an index heavyweight and a leading Japanese exporter, were down almost 12%, after the Nikkei newspaper reported that the car company's annual operating profit will fall 40% on slowing sales in the U.S. Toyota is sticking to its earnings forecast for the current fiscal year, which ends in March, said Yoichiro Ichimaru, a Toyota senior managing director.

Asian lenders continued to express skepticism about financial stability. The one-month Hong Kong interbank offered rate rose to 4.75% Wednesday from 4.15% Monday. The market was closed Tuesday for a holiday. **Bank of East Asia** Ltd. said it would raise mortgage rates by 0.5 percentage point, following earlier moves by other banks.

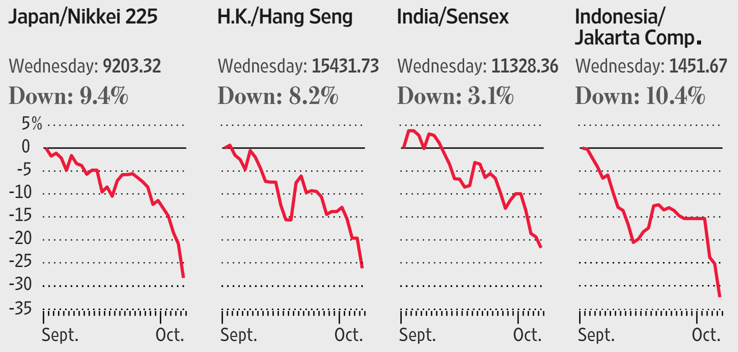
Hong Kong's move shows policy makers are now worried about a strained money supply in addition to a slowdown in world demand for Asian-made exports, said Moh Siong Sim, economist at Citigroup in Singapore. "In effect, you have a double whammy," he said.

Indonesia's drop Wednesday made its market one of Asia's worst performers of 2008. The index now trades around levels last seen in mid-2006, wiping out huge gains from rising commodity prices over the past two years. The exchange said the suspension would remain in place until further notice.

Indonesia is battling double-digit inflation sparked by sharply higher fuel costs. That has forced the central bank to raise rates, even as many Asian policy makers are cutting rates to soften the impact of the global credit crisis. Tuesday, Bank Indonesia raised its benchmark rate by 0.25 percentage point to 9.5%.

Foreign institutions dumped Indonesian stocks as they looked for safer investments in a time of global market turmoil, said James Bryson, a partner at HB Capital Partners, a Jakarta-based asset-management company.

A trader reacts on the Indonesia Stock Exchange trading floor in Jakarta Wednesday.



Source: Thomson Reuters Datastream

It's unclear what effect the rate cut by the People's Bank of China will have on equity markets there. So far, Beijing's actions have had little impact, though they reflect a significant attention to investors' worries. This week, Beijing said it would permit short-selling so investors can hedge the possibility of a further fall in stocks, and late last month it said the nation's sovereign wealth fund would lift its investment stake in major banks.

China's investors aren't taking heart from the measures because they don't alter the fact that a global recession is "doomed to appear," said Sheng Hai, an analyst in Shanghai at Industrial Securities Co. Mr. Sheng said the market telegraphed concerns about the impact on China's corporate earnings well in advance, and "bullish policies can't offset widespread worries about the macro economy."

—Jackie Cheung in Hong Kong and Yoshio Takahashi in Tokyo contributed to this article.

European bank problems strain U.S. power firms

By Rebecca Smith

The deepening troubles of Europe's banks could offer another jolt to U.S. power companies already coping with tightening credit.

On Wednesday, **Sempra Energy**'s shares briefly came under pressure as investors worried that the company's reliance on credit from **Royal Bank of Scotland Group** PLC could imperil an energy-trading joint venture shared by the two companies. Sempra stock fell in early trading amid concerns that the U.K.'s moves to prop up its banking sector could force RBS to pull back from its Sempra venture. But the shares rebounded and were up 4.7% in late trading.

Sempra's stock has lost about 40% of its value this year. Stock prices for U.S. companies that sell electricity at market prices have skidded to their lowest levels since Enron Corp.'s bankruptcy filing in late 2001. These companies are particularly vulnerable because they require large amounts of money to run their businesses, and tightening credit markets have put some under strain by raising borrowing costs.

Sempra in August 2007 created a joint venture, RBS Sempra Commodities, which allowed the San Diego company to shift the credit burden for the trading business to RBS. The move freed up $1 billion in cash that was returned to Sempra. Sempra also owns natural-gas pipelines, two utilities in California and a fleet of power plants that sell electricity on the open market.

Tudor Pickering Holt & Co., a Houston-based investor advisory firm, in a research note released Wednesday morning cited concerns that the U.K. government's moves in the banking sector could force RBS to pull back from its venture with Sempra.

Sempra insists its arrangement with RBS is solid and that the U.K. government's recent moves won't have an impact. Sempra Chief Financial Officer Mark Snell said his firm has been reassured that a government decision not to back banks engaged in "risky undertakings wasn't aimed at us." RBS, he added, is "not trying to unwind or back away from this business."

Mr. Snell said the two companies have a contract that binds them to support the joint venture until at least 2010, and that RBS is obligated to provide whatever capital is needed. Losses are to be shared equally, though the venture has been solidly profitable so far.

The deregulated power sector in the U.S. has been struggling against an array of forces this year. In addition to shrinking energy demand and mounting credit worries, the sector is reckoning with the prospect of costly greenhouse-gas legislation in a new U.S. administration, as well as a decline in overall profit margins.

Even firms that appear to be relatively healthy are feeling the pinch. **Dynegy** Inc., a Houston company that owns more than 18,000 megawatts of deregulated generating capacity, closed Tuesday at $2.17 on the New York Stock Exchange, down 19% for the day and down 77% since May, even though it ended speculative energy trading years ago and now mostly just sells the output of its own plants.

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CORPORATE NEWS

EUROPEAN UNION

Consumer chief proposes new Web-shopping rights

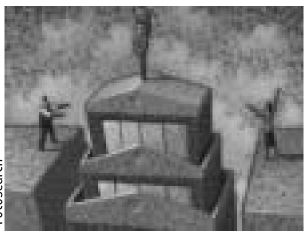
Inmagine

THE EUROPEAN Commission wants to give Internet shoppers more rights and better protection, to boost Internet shopping across the continent and provide consumers with more competitive prices.

EU Consumer Commissioner Meglena Kuneva said she has proposed establishing a blacklist of unfair contract terms. She also suggested cooling-off periods to give consumers time to back out of a sale. She said European consumers were shopping too much within their own country, even when it was more expensive. Increasing Internet shopping across Europe would allow the best cost-quality companies to stand out, she said. *—Associated Press*

FINANCE

Credit crunch gives rise to new French bank giant



Fotosearch

FRENCH mutual banks **Caisse Nationale des Caisses d'Épargne** and **Banque Fédérale des Banques Populaires** said Wednesday they plan to merge.

The European banking map is being redrawn by the global financial crisis, with weaker players being nationalized or forced into mergers. This merger would create France's second-largest bank by market share after Crédit Agricole SA. Concerns have been mounting over the banks after their joint unit—investment bank Natixis SA—was forced to raise capital to repair damages caused by the subprime crisis.

—Nicolas Parasie

U.K.

Union warns of job cuts in H-P's takeover of EDS

Index Open

MORE THAN 3,000 U.K. government jobs will be cut over the next two years as a result of the takeover of **Electronic Data Systems** Corp. by **Hewlett-Packard** Co., Britain's largest union said.

EDS has contracts with departments such as the Ministry of Defense and the Department for Work and Pensions, said the Public and Commercial Services Union. The union, which represents more than 2,000 EDS staff, said it would "vigorously oppose" any layoff plans and warned public-service delivery could be harmed. Hewlett-Packard said that as many as 3,378 positions could be affected.

—Roundup

Steelmakers fear overcapacity

Further output drop could come as prices approach break-even

BY ROBERT GUY MATTHEWS
Washington

WORLD STEELMAKERS, gathering at a meeting in Washington, are scrambling to determine how far to cut output before prices fall below the break-even cost of making steel.

The price of the benchmark steel product, hot-rolled steel, is $780 a metric ton on global markets, says Peter Marcus, steel analyst for World Steel Dynamics. That is down from $1,000 a metric ton earlier this year but still more than the $650 it costs for most steelmakers to make a metric ton of steel.

South Korea's **Posco**, the world's fourth-largest steelmaker by production, this week warned that there could be too much steel capacity by the end of the year, especially given the widening global slowdown, and that steelmakers need to accelerate production cutbacks. "We should prepare for the risk of a deep recession," said Ku-Taek Lee, Posco's chief executive officer.

Lakshmi Mittal

China's steel association said some of its steelmakers were planning to cut production by about 20% to help buoy falling prices. Pittsburgh-based **U.S. Steel** Corp.'s chief executive officer, John Surma, said steelmakers were prepared to match production with demand but declined to provide specifics.

"The question isn't if there is going to be overcapacity," said World Steel's Mr. Marcus. "The question is how they are going to deal with it." The industry is expected to add 5% more capacity within the next 12 months, even though some existing steel plants don't have enough business and are operating at half their capacity, as is the case in Mexico and Ukraine.

Not all steelmakers agree that the industry is headed toward excess supply. "I don't think that we are going toward overcapacity," said Lakshmi Mittal, chief executive officer of **ArcelorMittal**, the world's largest steelmaker, which already has announced it will reduce production by 15% in some markets.

He said tightening in the credit markets could keep supply in line with demand, as proposed new mills or expansions fail to get necessary financing. Moreover, he said the downturn may discourage some new players who had been drawn by high steel prices from entering the market. He believes the long-term prospects for the industry remain strong, with a 5% annual growth rate.

John Surma

Should the price of hot-rolled steel fall to less than $650 a metric ton, the industry could see weaker steelmakers fail. More likely, however, is that the industry may enter a new wave of consolidation, especially now that some steel stocks are trading at 52-week lows.

The mood at the World Steel Association conference marks a sharp change from this summer, when steel prices were at record highs and mills were running at full capacity. Demand was expected to rise 8%, outpacing the 5% capacity growth.

Now, many larger steel buyers aren't getting short-term lines of credit from lenders to purchase raw steel and process it. Others are delaying purchases because they don't want to be stuck with excess steel.

Citigroup to sell back-office arm to India's TCS

Tata Consultancy Services Ltd. said it will pay $505 million for the India-based back-office arm of **Citigroup** Inc., a sign of how Indian companies are seeking to snap up such assets as foreign banks raise funds amid the current financial tumult.

TCS is buying the entire 96.26% stake held by Citigroup in Citigroup Global Services Ltd. TCS is paying cash, according to a company statement. The deal is expected to be completed by year end.

*By **Romit Guha** in Mumbai and **Niraj Sheth** in New Delhi*

Citigroup's back-office operation has more 12,000 employees and expects to generate revenue of about $278 million in 2008, TCS said.

The purchase gives TCS a unit that can handle several operations a bank would need, such as loan processing, origination and cash management, said N. Chandrasekaran, chief operating officer and executive director. The company plans to market the office's services to other financial institutions, he said.

Don Callahan, Citigroup's chief administrative officer, said the deal will help Citigroup reduce operating expenses and allow the company to focus on its core financial-services operations.

As the global credit crisis deepens, some Wall Street banks have been shopping assets for quick cash. Cash-rich Indian technology companies are proving ready buyers, especially for back-office units that mesh with existing outsourcing operations. In September, India's **Wipro** Ltd. and **Copal Partners** Ltd. signaled interest in Lehman Brothers Holdings Inc.'s back-office operations in India after the New York bank filed for bankruptcy-court protection. It was eventually sold to Tokyo-based Nomura Holdings Inc.

In the TCS-Citigroup deal, the Indian company said it will operate the office as a separate entity and retain the entire management. TCS said it received a $2.5 billion, nine-and-a-half-year technology-outsourcing contract from Citigroup, making it one of the Indian company's top five customers.

Miner Aricom weighs partner for two projects

Anglo-Russian iron-ore miner **Aricom** PLC would consider bringing in a strategic partnerto help finance two iron-ore projects in eastern Russia, the company's chief executive, Jay Hambro, said.

Aricom on Wednesday said it expects it will need as much as $1 billion in external funding to develop the two projects. Shares in the miner fell amid concerns it would struggle to finance the project at a time when the debt markets have virtually closed for business. In U.K. trading, Aricom's stock ended at 14.75 pence (26 U.S. cents), down 2.25 pence, or 13%.

Independent consultants verified that the K&S and Garinskoye projects are expected to process 20 million metric tons a year of iron ore into concentrated iron-ore products and direct reduced iron.

BA loses strength in Iberia talks

BY KAVERI NITHTHYANANTHAN

LONDON—A slump in the share price of **British Airways** PLC and a widening pensions deficit have weakened the U.K. carrier's hand in negotiating the details of a merger with **Iberia** Líneas Aéreas de España SA.

BA's shares have lost more than 50% of their value in the past month and analysts say its pension problem could force it to cede a bigger stake in a merged entity to the Spanish airline.

"The level of pension deficit will be a significant factor for any valuation of BA and is likely to be a major issue in its negotiations with Iberia," said Leigh Bailey, credit analyst at ratings agency Standard and Poor's.

BA's pension plans in August showed a deficit of about £1.7 billion ($2.97 billion). It disclosed earlier this year it had paid £610 million to the New Airways Pension Scheme. An industry slowdown amid high oil prices and a credit squeeze likely has hurt the company's revenue since then. BA's three-year actuarial evaluation of its pension plans is due to start in March and may require the airline to inject more cash.

"The pension deficit is very large and rising and it isn't going to go away," said Gert Zonneveld, analyst at Panmure Gordon. There is no suggestion BA's pension woes will scuttle the merger plans.

People familiar with the merger negotiations have said previously that BA hoped to get between 65% and 70% of the merged company. The British and Spanish carriers announced a £3.16 billion all-share merger in July, but the terms haven't yet been worked out.

But Miguel Blesa, chairman of savings bank Caja Madrid, one of Iberia's main shareholders, earlier this week said BA and Iberia continued to discuss terms, and that the most likely scenario would be for BA shareholders to control 60% of the new entity, while Iberia holders would own 40%. Officials at Iberia and Caja Madrid Wednesday said that talks continue, but declined to comment further.

A spokesman for BA said the merger "would conclude as soon as possible but, given current issues in the aviation market, had been delayed."

Any delay in negotiations would give BA time to see if its share price can retrace some losses and give the airline more power at the bargaining table. Shares in BA closed down 7 pence, or 5.7% lower, at 120.9 pence, down 51% from 253 pence on Sept. 8. Iberia's shares have lost 35% of their value in the past month. Iberia Wednesday took advantage of a lower BA share price and exercised options to raise its stake to 7.3% from 7.16%.

—Christopher Bjork and Jason Sinclair in Madrid contributed to this article.

CORPORATE NEWS

Pfizer cited over studies

Suit claims company spun negative results of Neurontin research

By Keith J. Winstein

Pfizer Inc. marketers urged the suppression of medical studies that reached unfavorable conclusions about the effectiveness of the company's big-selling drug Neurontin, according to internal Pfizer documents submitted in a lawsuit against the company.

In 2004, Pfizer's Warner-Lambert unit pleaded guilty to felony charges that it promoted Neurontin for uses not approved by the U.S. Food and Drug Administration, including bipolar disorder and chronic nerve pain. The FDA originally approved the drug as an antiseizure treatment for epilepsy and in 2002 for one kind of pain related to shingles.

Pfizer paid $430 million to resolve the charges and reimburse state Medicaid programs for unapproved, or off-label, uses of Neurontin. Pfizer said it made sure there was no improper marketing after it purchased Warner-Lambert in 2000. Pfizer has booked about $12 billion in Neurontin sales since then and, though the drug is now subject to generic competition, it remains a strong seller.

Documents and emails released this week in the case in U.S. District Court in Boston suggest Pfizer's marketers influenced the drug's scientific record to boost sales at least until 2003 by declining to release or altering the conclusions of studies that found no beneficial effect from Neurontin for various off-label conditions. The case consolidates lawsuits by health insurers and consumers seeking refunds for their Neurontin expenditures, based on alleged civil fraud. Plaintiffs are seeking $4.9 billion.

Pfizer said it was "committed to the communication of medically or scientifically significant results of all studies, regardless of outcome." The company pointed to examples where it published studies of Neurontin with negative outcomes.

According to documents in the Boston case, a European study done in the late 1990s by Warner-Lambert to measure Neurontin's use for diabetic nerve pain produced consternation at Pfizer after it failed to find a significant effect. "I think we can limit the potential downsides of the...study by delaying the publication for as long as possible," wrote Michael Rowbothan, then Neurontin's marketing-team leader, in a 2000 email sent after Pfizer bought Warner-Lambert. He added that "it will be more important to how WE write up the study."

The study's scientific manager, Beate Roder, wrote in an email to employees after Pfizer agreed to buy Warner-Lambert that she had been instructed "that we should take care not to publish anything that damages Neurontin's marketing success." Neurontin has been widely prescribed for diabetic nerve pain, according to market researchers.

In 2002, Angela Crespo, then Neurontin's senior marketing manager, emailed an outside firm that was contracted to write up the study's results: "We are not interested at all in having this paper published because it is negative!!" Pfizer declined to make the three employees in the emails available for interviews.

The company's write-up of the study was subsequently rejected by two medical journals. Some reviewers said the company was putting too rosy a spin on the results, the court documents show. The paper was never published, although Pfizer later summarized some of the study's results in 2003 in an obscure medical journal, Clinical Therapeutics.

That review excluded another study Pfizer conducted in Scandinavia, which examined Neurontin's effectiveness for postoperative nerve pain. The study found Neurontin didn't work measurably better than a sugar pill, according to a Pfizer internal report. The finding has never been published, though the analysis was completed in 2003. Pfizer presented a study summary at a 2002 conference.

Pfizer said it was 'committed to the communication of medically or scientifically significant results of all studies, regardless of outcome.'

Australian bank to buy HBOS arm

By Lyndal McFarland

MELBOURNE, Australia—**Commonwealth Bank of Australia** said it will buy **HBOS** PLC's BankWest arm in Australia for 2.1 billion Australian dollars (US$1.48 billion) as the consolidation of Australia's banking sector continues.

Commonwealth also is considering its options on **Suncorp-Metway** Ltd.'s banking and wealth-management arms and has held high-level talks with the Brisbane-based group on the businesses, which are valued by some analysts around A$8 billion.

Buying BankWest will significantly boost Commonwealth's presence in the fast-growing Western Australia state and help shore up its position as the nation's largest mortgage lender.

The deal continues the land grab under way by some of Australia's biggest banks, which are looking to boost market share amid the current turmoil.

"The Commonwealth Bank regularly reviews acquisition opportunities but rarely have we seen a quality asset such as BankWest become available on such attractive terms to us," Commonwealth Chief Executive Ralph Norris said.

The purchase price represents 0.8 times book value, and 11.2 times 2007 net profit, which traders said is a good deal for the Australian lender. **Westpac Banking** Corp. is paying 2.7 times book price for **St. George Bank** Ltd.

The sale will free up much-needed capital for HBOS, which is being taken over by **Lloyds TSB**, and reduce the U.K. bank's funding requirements during unprecedented volatility in global financial markets.

"Our decision to sell the business was not taken lightly; nevertheless, the capital and funding benefits for us are significant," HBOS International Chief Executive Collin Matthew said in a prepared statement. HBOS will also receive a return of A$360 million of excess capital in BankWest.

Commonwealth will fund the deal through an accelerated institutional share placement, which is being conducted. Commonwealth shares were halted from trade while shares were being placed.

The deal, which includes HBOS's St. Andrew's wealth-management and insurance arm, remains subject regulatory approval. Mr. Norris said he believes there is a good chance that regulators won't stand in the way of the deal.

He also said the acquisition won't stop it from looking at Suncorp's banking arm. But he said the group isn't currently involved in any formal process for Suncorp, which said Monday it has had "several" approaches about its banking and wealth-management businesses.

Analysts expect **National Australia Bank** Ltd. and **Australia & New Zealand Banking Group** Ltd. to take a close look at Suncorp's businesses, which are largely focused on the high-growth Queensland state, and believe Suncorp will be a willing seller at the right price.

—Ross Kelly in Sydney contributed to this article.

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The right 'Fit'

Honda drives out rivals by tapping Sony to market its new car > **Page 29**

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CORPORATE NEWS

Alibaba opens its purse

Chinese firm bolsters online-shopping site with $725 million

By Sky Canaves

China's **Alibaba Group Holding** Ltd. plans to invest five billion yuan, or about US$725 million, in its Taobao.com online shopping site over the next five years, the latest sign of an intensifying battle with Chinese Internet-search giant **Baidu.com** Inc.

Alibaba Group's investment more than doubles an earlier plan to spend two billion yuan on Taobao and is more than three times the 1.5 billion yuan Alibaba has invested in the site since it was established in 2003.

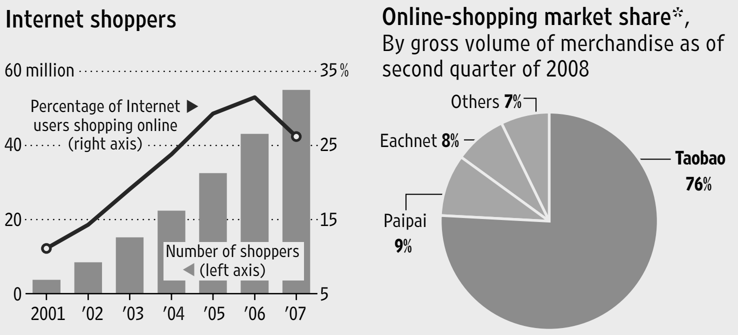
The move comes as Baidu is gearing up to challenge Taobao's status as China's No. 1 auction site by sales volume. Baidu last month started testing its consumer e-commerce platform, with 10,000 sellers drawn from across China. Baidu Youa—which translates as "Baidu's Got It!"—is expected to open before year end. The company declined to say how much it is spending.

Alibaba's decision was prompted by faster-than-expected growth for online shopping, not Baidu's move, Alibaba Chief Financial Officer Joseph Tsai said Wednesday.

Internet consulting firm iResearch projected that the total value of Chinese online consumer sales will increase to 126 billion yuan this year from 16 billion yuan in 2005. Taobao users bought and sold 43.3 billion yuan in goods on the site last year, Alibaba said. Transactions reached 41.3 billion yuan in the first half of this year.

"We believe that online commerce will outgrow the Chinese economy," Mr. Tsai said.

China's online-shopping market



* Includes business-to-consumer, consumer-to-consumer markets

Source: iResearch

About a third of China's 253 million Internet users have shopped online, research firm China IntelliConsulting Corp. reported last month, with three-quarters of online shoppers using Taobao at least once.

When Taobao came onto the scene in 2003, it undercut then-market leader **eBay** Inc. of the U.S. by not requiring sellers to pay fees for listing or selling. As eBay users switched to Taobao, the U.S. company was forced to drop its fees before dropping out of China altogether.

Competition is intensifying, though. EBay last year joined forces with TOM Online Inc., the mainland China Internet subsidiary of Hong Kong's **TOM Group** Ltd., to relaunch its auction site under the Eachnet brand. The site now has roughly an 8% market share of gross sales volume, according to iResearch. **Tencent Holding** Ltd.'s three-year-old Paipai.com has 9%—a distant second to Taobao's 76% share.

"It will be hard for [Baidu] to get the market share from Taobao because users have very strong loyalty to Taobao," says Ning Liu, a senior analyst at technology-consulting firm BDA. "If Baidu's e-commerce platform cannot provide differentiated services it will be hard for it to take off." Mr. Liu said Baidu's main advantage is its search-engine presence, since many Internet users search Baidu for products they want to buy online. Baidu, which is listed on the Nasdaq Stock Market, has 65.8% of the search market, according to China IntelliConsulting.

Alibaba's new investment will go toward technology upgrades, research and development, and marketing and promotion efforts on behalf of Taobao sellers, Mr. Tsai said. The company also plans to open Taobao's technology platform to third-party software providers to develop advanced functions for the site.

Funding will come from Alibaba Group's cash reserves, Mr. Tsai said. Last year's initial public offering of the group's business-to-business platform, **Alibaba.com** Ltd., in Hong Kong brought in US$1.2 billion for the parent company.

—Juliet Ye contributed to this article.

Computer cited in Qantas mishap

By Ray Brindal

CANBERRA, Australia—A **Qantas Airways** Ltd. plane involved in a midair incident over the Indian Ocean experienced an irregularity in its onboard computer equipment that left the plane flying "of its own accord," an aviation safety official said Wednesday.

Qantas, Australia's largest carrier, said about 75 passengers and crew sustained injuries Tuesday ranging from abrasions to fractures on board the Airbus A330-300 flight to Perth, Australia, from Singapore.

Julian Walsh, director of aviation safety at the Australian Transport Safety Bureau, said an onboard electronic centralized aircraft monitoring system indicated there was "some irregularity with the elevator control system."

The aircraft departed from its normal flight at 37,000 feet, climbed 300 feet, "then as the crew were responding, the aircraft pitched down quite suddenly and rapidly," he said.

"Certainly, there was a period of time when the aircraft performed of its own accord," Mr. Walsh said.

The aircraft, built in 2003 and operated by Qantas since then, made an emergency landing at a remote airfield in Western Australia state.

Qantas said that of the 303 passengers and 10 crew on the flight, 14 sustained injuries serious enough to require medical evacuation, and around 30 other passengers and crew received treatment at Perth hospitals.

A spokesman at Airbus headquarters in Toulouse, France, said: "The investigation is ongoing. We are supporting the investigation. It's premature to speculate." The airline also said it would undertake its own inquiry into the cause of the incident.

Separately, Qantas said Wednesday it will reduce its international fuel surcharges by as much as 10% and cut domestic fares by as much as 3% in response to recent falls in oil and jet fuel prices.

Monster closes purchase of ChinaHR

By Joseph De Avila

Job-search company **Monster Worldwide** Inc. completed its acquisition of ChinaHR, paying $174 million for the remaining 55% stake in the Beijing-based online-recruitment company.

Monster hopes the acquisition gives it a stronger foothold in the job-recruitment business in China, Taiwan and Hong Kong. "We've looked at other potential assets in China, and we, by far, believe this is the most attractive," said Chief Executive Sal Iannuzzi. "It really anchors us in a big way in Asia."

In total, Monster has paid $269 million for ChinaHR. Monster previously bought 45% of ChinaHR and made loans to the company totaling $95 million. Monster had the option of taking ChinaHR public but decided to buy the company outright.

So far, Monster's investment in ChinaHR has yet to pay off. The company recorded a $3.8 million loss on its investment in ChinaHR for the second quarter.

Monster's acquisition of ChinaHR is the latest step the company has taken to increase its international presence. Of the big three job sites in the U.S., including Careerbuilder.com and **Yahoo** Inc.'s HotJobs, Monster is the only one with a significant presence in China.

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GLOBAL BUSINESS BRIEFS

Groupe Eurotunnel SA

Revenue declines by 12% following fire last month

Channel Tunnel operator **Groupe Eurotunnel** SA posted a 12% drop in third-quarter revenue, mainly because of disruptions caused by a fire aboard one of its trains last month. Revenue fell to €189.2 million ($257.6 million) from €214.2 million a year earlier. Without the incident in its north tunnel on Sept. 11, in which 14 people were injured, revenue would have been around €210 million, the company said. However, thanks to insurance coverage, "the group should not be significantly affected by this incident," Chairman and Chief Executive Jacques Gounon said in a statement. A total of 2.37 million passengers traveled through the tunnel on Eurostar trains in the latest quarter—an increase of 6% from a year earlier.

J Sainsbury PLC

J Sainsbury PLC posted solid second-quarter sales growth, but the U.K. grocer's shares fell amid talk of a stake sale by a major investor. Sainsbury said like-for-like sales excluding fuel, rose 4.3% in the 16 weeks ended Oct. 4, driven by demand for less-expensive own-brand goods. Total sales rose 8.4%. The grocer didn't report sales figures. Sainsbury shares fell as much as 18% to a four-year low of 258.5 pence ($4.52) Wednesday amid talk that entrepreneur Robert Tchenguiz was selling his stake of about 10%. Sainsbury and a spokesman for Mr. Tchenguiz declined to comment. The stock closed down 15% to 267.75 pence. Separately, **Mitchells & Butlers** PLC said billionaire Joe Lewis has bought Mr. Tchenguiz's 21.77% stake in the U.K. pub company.

Novartis AG

Swiss drug maker **Novartis** AG said an early proof-of-concept study showed promising results for its cancer drug Gleevec in the treatment of a rare lung disease, pulmonary arterial hypertension, but failed to meet its primary goal. Preliminary data from the study involving 59 patients didn't show a significant improvement in a six-minute walk test, the Basel-based company said. The test measures the distance a patient can walk within six minutes. The data, however, suggest that Gleevec, generically known as imatinib, provides a treatment benefit. If Novartis's drug makes it to market, it might rival the flagship drug of Swiss rival **Actelion** AG. Actelion's drug Tracleer was the first successful treatment available for the debilitating and incurable disorder.

KBC Group NV

Belgian bank **KBC Group** NV said it is in strong financial condition and won't be seeking help from the Belgian government. KBC, which is considered one of the more conservative banks in Europe, nevertheless saw its shares hit by wider fears about the solvency of Belgian banks. Recent steep drops in the stock prices of Fortis NV and Dexia SA had prompted customers to begin withdrawing their deposits. The Belgian government bought part of Dexia and organized the sale of 75% of Fortis's Belgian operations to French bank BNP Paribas SA. KBC shares closed down 11% at €43, recovering from an earlier decline of 16%. KBC's Tier 1 capital, assets that banks hold to ensure their solvency, stands at 9% of its capital base, Chief Executive Andre Bergen said.

Deutsche Bank AG

Deutsche Bank AG said it plans to ramp up its retail-banking efforts in Europe and Asia, aiming to double revenue and earnings in its segment for private and business clients within four years. Chief Executive Josef Ackermann turned the spotlight on Deutsche's retail business, a source of stability for the bank as its higher-profile investment-banking business has been hammered in the financial crisis. Deutsche's area for private and business clients aims to achieve pretax profit of about €2 billion ($2.7 billion) and net revenue of more than €8 billion by 2012, roughly double their 2007 level, Mr. Ackermann said, giving the target for the first time. Mr. Ackermann outlined a plan for the unit that includes establishing a European Consumer Bank.

Monsanto Co.

Seed and herbicide supplier **Monsanto** Co. said global agricultural demand remains strong and U.S. farmers still have ample access to credit despite the turmoil in financial and commodity markets. The St. Louis-based company's chief executive, Hugh Grant, said factors driving demand for its corn, soy and vegetable seeds are intact. For its fiscal fourth quarter, ended Aug. 31, Monsanto reported a net loss of $172 million, or 31 cents a share, narrowing from a year-earlier loss of $210 million, or 39 cents a share. The fourth quarter is typically the company's weakest. Revenue rose 35% to $2.05 billion. Mr. Grant expressed confidence that rising protein consumption in emerging markets and low commodity stockpiles will boost earnings.

Thales SA

French aerospace and defense contractor **Thales** SA said it is considering stepping in to help any suppliers threatened by the financial crisis, echoing support from plane maker Airbus. "We have large clients but suppliers of all sizes," Thales Chief Executive Denis Ranque said. "As far as the smaller ones are concerned, we have launched a study to see who might be affected by the credit crisis, and if we have a supplier which is failing, then we will do what we can." The aerospace industry is battling a seven-year backlog of demand for airliners, even though some carriers have buckled under high oil prices and tight credit, while European companies have been squeezed by a weak dollar.

Premiere AG

German pay-TV company **Premiere** AG said its executive-board member responsible for marketing and sales, Oliver Kaltner, had left the company. Mr. Kaltner, who joined Premiere in July, is the third executive to leave the company recently. Former Chief Executive Michael Boernicke left Premiere Sept. 10, followed by Chief Financial Officer Alexander Teschner, who left last week, after Premiere issued a profit warning. Premiere shares fell 13% to end at €2.32 Wednesday. The stock price is down from the €9.27 it was trading at before the warning. "I wish Premiere's management success in its future endeavors," Mr. Kaltner said in a prepared statement. **News Corp.**, which owns Wall Street Journal publisher Dow Jones & Co., has a 25.01% stake in Premiere.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

GERMANY

A sharp rise in production unlikely to be sustained


Getty Images

GERMAN industrial production in August rose unexpectedly and dramatically, but the Economics Ministry said the outlook for production was still weak.

August industrial output rose a seasonally adjusted 3.4% from July, the strongest gain since a rate of 3.9% in August 1993. But the ministry cautioned the data provide no cause for euphoria because incoming orders were weak amid the gloom over the global economy. "The lack of new orders in combination with the drying up of the order backlog clearly argues for further contraction in industrial activity," said Alexander Koch, an economist at UniCredit in Munich. *—Monica Houston-Waesch*

GREECE

State transport strikers protest privatization plan

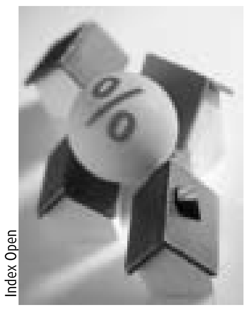

Associated Press

GREEK STATE transport workers launched a 24-hour strike, snarling traffic across Athens and disrupting domestic and international flights by the state carrier Olympic Airlines. Hundreds of strikers demonstrated, marching to Parliament. Employees of public utilities and post offices joined the strike, called by Greece's largest labor union, GSEE, to protest government plans to privatize the debt-ridden airline. Hospital workers and journalists also walked off their jobs.

Last month, the European Union approved Greece's plan to break up and fully privatize the airline by the end of 2009. *—Associated Press*

U.S.

Home-sale gauge rises: a surprising positive sign


Index Open

A GAUGE OF future home sales took a surprising jump in August, a positive sign amid the sluggish U.S. housing market.

The National Association of Realtors' index for pending sales of previously owned homes rose 7.4% to 93.4 from 87 in July, the industry group said. The pending sales index, designed to gauge the market's direction, is based on signed contracts for previously owned homes.

Analysts had projected a decline of 1.5% during August, a month in which fears about Fannie Mae and Freddie Mac weighed heavily on mortgage markets. The data reflect activity before turmoil in credit markets worsened substantially in September.

When a court hesitates

Irish abortion case could force a decision from reluctant judges

BY PAULA PARK

AN IRISH CASE promises to elicit a decision—or another dither—from the European Court of Human Rights on whether a woman has a basic right to abortion to preserve her health.

The court has one justice from each of the 47 European nations, including Ireland, that signed the European Convention on Human Rights, which covers rights to life, privacy, freedom of speech, religion and the like. Its purpose is to uphold the convention's principles.

But the court has, in essence, turned a blind eye to Ireland's abortion laws, considered among the most restrictive in Europe. Critics say that perpetuates an inequitable patchwork of laws across the region.

Regardless of which way the court ultimately rules, its long delay highlights the complexity of what would seem a simple question: Aren't judges supposed to judge?

"So far the court has been very cautious," says Siobhán Mullally, senior lecturer at the University College Cork Faculty of Law and co-director of its Centre for Criminal Justice and Human Rights. "It's a way of stepping back [from the abortion issue]: declining it as inadmissible."

The current case, A.B. and C. v. Ireland, was brought by three Irish women who received abortions in England for health reasons—one had cancer—and suffered medical complications upon their return to Ireland. The women say they were uncomfortable seeking medical treatment, both before and after the abortions, because of Ireland's laws, including a 1995 statute that applies criminal penalties to anyone giving information or assistance that promotes the procedure.

In addition, an abortion ban is written into the Irish constitution, which essentially states that the right to life of the fetus is equal to that of the mother. The Irish Supreme Court ruled in 1992 that abortion is legal if necessary to save a woman's life, but no laws were made to define when an abortion is necessary. The applicants argue that the Irish laws infringed on their rights to life, privacy and freedom from discrimination.

"Of particular significance is the court's view that [the European Convention on Human Rights] 'is intended to guarantee not rights that are theoretical or illusory but rights that are practical and effective,'" says Prof. Aurora Plomer, an expert in bioethics at the University of Sheffield's School of Law, in Britain.

The judges have stepped back from the issue before, using an escape clause that allowed them to decline to hear at least one earlier challenge to Ireland. Under the 1950 Convention for the Protection of Human Rights and Fundamental Freedoms, applicants must exhaust all legal remedies in Ireland before seeking redress in Strasbourg. The Catch-22 in Ireland: how to exhaust those remedies amid vague or conflicting laws while the clock is ticking.

Judges sometimes punt in the face of controversy, arguably including the U.S. Supreme Court, though it is often accused of being too activist. Erwin Chemerinsky, a constitutional scholar and founding dean of the University of California-Irvine School of Law, cites early challenges to the ban on interracial marriage as an example. In a more recent instance, in 2004, the high court used procedural grounds to avoid ruling on a challenge to the "one Nation under God" phrase in the Pledge of Allegiance.

It is a topic of a longstanding debate in U.S. history, including a famous exchange between two constitutional scholars, Alexander Bickel and Gerald Gunther, a half-century ago. Some say it's good for the justices to wait, allowing time for the political process to resolve issues. Others argue that it's the court's job to make the tough calls.

Reasonable people—and democratic states—can disagree on whether abortion is a human right, and by requiring the applicants to exhaust civil remedies in their home countries first, the European justices avoid exceeding their mandate. While 43 of the 47 states have laws allowing abortions for health reasons, four don't, and those bans are strict.

But the court was created, in part, to resolve fundamental conflicts, not shrink from them. Standing pat can create or sustain inequity. A woman could die in one country from complications from a pregnancy, where another state would have protected her life. Wealthy women can more easily jump on a plane to England or the Netherlands for an abortion, while poorer women may not have the means to do so.

The justices "have gone to some length to avoid making a statement on abortion," says Prof. Richard Kay of the University of Connecticut School of Law.

Mr. Kay explains that in a landmark 2004 case, the court noted that there was no European consensus on when life begins. That consensus is critical for the court, Mr. Kay says, because, unlike the U.S. Supreme Court, the European court has no binding authority. Member states rarely resist its decisions, but enforcement is essentially political, not legal.

The European judges are probably only putting off a day of reckoning. Abortion-rights proponents continue to challenge anti-abortion laws in European countries where the practice is largely forbidden, and sooner or later they will find a case that can't be ignored by the Strasbourg court. When that happens, the ruling is bound to draw much of Europe into furious debate.

Landov

The European abortion dither

Pro-abortion-rights groups outside Dublin's High Court, above, protest the D case and other key cases that have reached the European Court of Human Rights. The cases include:

July 2004 Vo v. France	July 2006 D v. Ireland	March 2007 Tsiac v. Poland
The European Court of Human Rights rules that a doctor can't be criminally liable for accidentally causing the death of a fetus. But the court said it's not "desirable" or "feasible" to say whether the unborn child was a person entitled to the right to life.	The Court deems inadmissible a case of an Irish woman with twins who has to travel to England to seek an abortion after she learns of fatal abnormalities in the fetuses. The Court said she failed to exhaust all legal remedies in Ireland.	The Court awards damages of €25,000 to a Polish woman who failed in her attempt to get an abortion for health reasons. The court did not say whether the abortion should be legal– it simply said the state had to provide a procedure for deciding her case.

Source: European Court of Human Rights

U.S. economy well positioned to rebound, WEF says

BY PAULA PARK

GENEVA—The U.S. is well placed to rebound from the current financial crisis because of its inherent competitive advantages, the World Economic Forum said Wednesday.

The WEF, which hosts the annual Davos meeting of business and political leaders in Switzerland, again ranked the U.S. No. 1 in its annual competitiveness survey despite the financial turmoil which has seen Wall Street titans humbled and the government agreeing to spend up to $700 billion to bolster the banking system.

"Despite the financial crisis, the United States continues to be the most competitive economy in the world," the WEF said in its report. "This is because it is endowed with many structural features that make its economy extremely productive and place it on a strong footing to ride out business cycle shifts and economic shocks," it said.

Irene Mia, a senior economist at the WEF, noted that the structure of the U.S. economy encourages innovation—as measured by the number of patents issued each year. Its labor market also makes it relatively easy to hire and fire workers, she said.

"The U.S. is No. 1 because the U.S. is structurally solid, and this will help ease the crisis in the years to come," she said in a telephone interview. "The fact that [the U.S.] has a flexible labor market will ease unemployment once the crisis is passed—and make it easier to generate new jobs."

However, the report did have some harsh words for U.S. economic policies in recent years.

"The United States has built up large macroeconomic imbalances over recent years, with repeated fiscal deficits leading to rising and burgeoning levels of public indebtedness," it said. "This indicates that the country is not preparing financially for its future liabilities and is on the road to making interest payments that will increasingly restrict its fiscal policy freedom going into the future," it added.

Switzerland was ranked second in the competitiveness table, with the WEF praising the small Alpine state's "excellent capacity for innovation" and its "very sophisticated business culture."

The WEF bases its rankings on a survey of more than 12,000 business leaders in 134 countries.

U.S. presidential candidates take on crisis

McCain, Obama tell how they would move to fix the economy

BY LAURA MECKLER AND CHRISTOPHER COOPER

NASHVILLE, Tenn.—Republican Sen. John McCain used the second U.S. presidential debate to call for a $300 billion effort to help financially troubled homeowners stay in their homes, an attempt to counter an economic crisis that has largely benefited his rival, Democratic Sen. Barack Obama.

Under the Arizona lawmaker's plan, the government would buy the mortgages of homeowners who cannot afford their monthly payments to help prop up the troubled U.S. housing market. The campaign said it would be implemented using authority granted in the $700 billion rescue plan just passed by Congress.

The plan would represent a large new federal expenditure from a candidate who has typically railed against big government. "Is it expensive? Yes," Sen. McCain said. "But we all know, my friends, until we stabilize home values in America, we're never going to start turning around and creating jobs and fixing our economy."

Sen. Obama's campaign later said the Illinois senator backed this concept last month, though he has been cautious so far in saying how he might use that authority.

Both men argued their plans would best aid the middle class. Sen. Obama touted his targeted tax cut, as well as help for state and local governments, health-care reform and energy innovations.

"You need somebody working for you," Sen. Obama said. "And you've got to have somebody in Washington who's thinking about the middle class and not just those who can afford to hire lobbyists."

The debate—before an audience of undecided voters who posed many of the questions—included more sharp edges than their first contest last month. Each candidate attacked the policies of the other, saying they led to the financial crisis. During questions on foreign policy, the two men swapped accusations that the other had spoken rashly about perils in the world.

Sen. Obama repeatedly tried to tie his opponent to the unpopular President George W. Bush. Sen. McCain was quick to declare his independence. "It's my proposal," he said after introducing his mortgage-buyback plan. "It's not Sen. Obama's proposal; it's not President Bush's proposal."

Asked by moderator Tom Brokaw of NBC how the candidates would prioritize energy, health care and Social Security reform, Sen. McCain focused on Social Security, which he said wouldn't be hard to fix. Then he mentioned energy. Sen. Obama said his top priorities would be, in order, energy, health care and education.

The candidates were asked to look ahead to their future cabinets and name whom they might pick as Treasury secretary. Sen. McCain mentioned one of his top supporters, Meg Whitman, former chief executive of eBay Inc. He also mentioned investor Warren Buffett. Sen. Obama said he, too, liked Mr. Buffett, an Obama supporter.

The session at Belmont University was the second of three presidential debates and the only one where the candidates took questions from voters. A third debate on domestic policy is scheduled for next Wednesday.

Agence France Presse/Getty Images

Sens. Barack Obama, left, and John McCain at the start of their debate Tuesday in Nashville, Tenn. In the town-hall format, undecided voters asked questions.

Heading into the debate, the heavier burden was on Sen. McCain, who has fallen behind in polls, and in most battleground states. Neither candidate could afford a big mistake—and neither made one—but Sen. McCain, more than Sen. Obama, needs to change the trajectory of the contest. Amid the immediate post-debate analysis, it didn't appear that the Republican candidate had accomplished that goal.

In recent days, Sen. McCain and his running mate, Alaska Gov. Sarah Palin, have tried to shore up their standing by stepping up their attacks on Sen. Obama, trying to portray him as a risky choice. There were few such personal attacks Tuesday night, with the clashes centered on their opposing policies. In one instance, Sen. McCain did raise the eyebrows of television pundits when he referred to Sen. Obama as "that one."

Sen. McCain also steered the subject toward his favorite issues, no matter the question. When asked what he would do about the financial crisis, he said, "I have a plan to fix this problem, and it has got to do with energy independence."

Sen. McCain lashed out at Sen. Obama for being cozy with Washington lobbyists, proposing big spending and seeking budgetary pork for constituents. He blamed "Sen. Obama and his cronies" for U.S. financial troubles. As he did in their first debate, he focused on special-interest spending, chastising Sen. Obama for seeking a $3 million earmark "for an overhead projector at a planetarium in Chicago."

Later, on the subject of taxes, Sen. McCain criticized Sen. Obama for proposing tax increases. Though Sen. Obama insisted that taxes won't rise for people making less than $250,000, Sen. McCain said the Obama plan would punish small businesses. "Nailing down Sen. Obama's various tax proposals is like nailing Jell-O to the wall," Sen. McCain said. "His tax increases will increase taxes on 50% of small-business revenue."

On the whole, Sen. Obama was less combative, often letting Sen. McCain's jabs go unanswered, though he took umbrage at the tax criticism. "The Straight Talk Express lost a wheel on that one," he said.

Instead, Sen. Obama aimed much of his criticism at Mr. Bush. "Look, I understand your frustration and your cynicism," he said to one person who asked why she should trust either man on the economy. "You're right. There is a lot of blame to go around. But I think it's important just to remember a little bit of history. When George Bush came into office, we had a surplus." Now, Sen. Obama said, U.S. debt has nearly doubled.

On foreign affairs, the two clashed sharply, particularly on Pakistan. Sen. Obama, referring to former Pakistan leader Pervez Musharraf, said the time has come to change policy in the region. "We can't coddle, as we did, a dictator, give him billions of dollars, and then he's making peace treaties with the Taliban." He said he would go after Osama bin Laden if the U.S. knew where he was, even if Pakistan was opposed.

Sen. McCain accused Sen. Obama of naively advocating an outright attack on Pakistan. "Sen. Obama likes to talk loudly. In fact, he said he wants to announce that he's going to attack Pakistan," Sen. McCain said.

Sen. Obama pleaded for a rebuttal and won it. "What I said was the same thing that the audience here today heard me say, which is, if Pakistan is unable or unwilling to hunt down bin Laden and take him out, then we should."

Sen. Obama mischaracterized some of Sen. McCain's rhetoric, too, saying his rival had once said, "It wasn't that important to catch bin Laden right now and that we could muddle through" the war in Afghanistan. Sen. McCain did say he thought the U.S. might be able to muddle through the Afghanistan war but was advocating that the effort receive more funding, not less.

—Damian Paletta contributed to this article.

McCain, Palin still targeting big battleground states

BY ELIZABETH HOLMES

Republican presidential nominee John McCain still hopes to flip a handful of traditionally Democratic states in November, even as his campaign has dispatched running mate Sarah Palin to shaky Republican territory to energize the party's conservative base.

With the general election less than four weeks away, Sen. McCain and his Democratic counterpart, Sen. Barack Obama, have prioritized their travel schedules and mapped out strategies aimed at securing the 270 electoral votes needed to win the White House.

The Obama campaign has focused its resources and organizing heft in key battleground states like Ohio, Pennsylvania and Florida, while seeking to expand the electoral map. Sen. Obama has made multiple visits to states like North Carolina, Virginia, Colorado and Nevada, which have voted Republican in recent years.

Wednesday the campaign planned to visit the Republican stronghold of Indiana, which is showing signs of voting Democratic in November. Later this week, Sen. Obama is scheduled to kick off a bus tour focused on the economy, through Ohio. "We're competitive in many states that George Bush won in 2004 and [the McCain camp is] having to defend those states," Obama strategist David Axelrod said.

The pressure is high for the McCain campaign, which has seen a decline in recent national and state polls. The latest Wall Street Journal/NBC News poll, taken last weekend, shows Sen. Obama with a six-point lead over Sen. McCain nationally, 49% to 43%. Sen. Obama also leads Sen. McCain in at least half a dozen battleground states, according to averages of recent polls taken by the nonpartisan Real Clear Politics.

Sen. Obama leads by eight points in New Hampshire and by five points in Wisconsin, according to a CNN/Time poll Tuesday. According to a FOX News/Rasmussen poll Monday, the Illinois senator is up by seven points in Florida and six points in Colorado. That survey also gave Sen. Obama a two-point lead in Virginia, while giving Sen. McCain a one-point lead in Ohio.

The McCain campaign said it remains committed to Pennsylvania and Ohio, which account for a combined 41 electoral votes. Although it has pulled out of Michigan, the McCain campaign holds out hope for Wisconsin, with 10 electoral votes.

Some Republican strategists have quietly expressed concerns that the game plan may be squandering campaign resources sorely needed elsewhere. Areas around the Columbus, Ohio, suburbs, home to working-class Democratic swing voters, remain strong for Sen. Obama. In Pennsylvania, the Philadelphia and Pittsburgh areas are trending Democratic, and there are doubts about Sen. McCain's ability to turn out voters in the middle parts of the state that are more rural. Meanwhile, longtime Republican strongholds like Virginia and North Carolina now appear to be in play.

Sen. McCain's recent travel schedule suggests that the campaign remains committed to trying to win these swing states. The Arizona senator has visited Ohio and Pennsylvania four times each in the past month. This week, he is also set to visit Wisconsin for the fourth time.

The docket of events for the next week further underscores the campaign's priorities. Wednesday and Thursday are focused on Pennsylvania, Ohio and Wisconsin, with Virginia stops planned for early next week.

Sen. McCain and Gov. Palin will focus on areas in central Pennsylvania and the suburbs of Columbus, Ohio, on Wednesday, with joint rallies in Bethlehem, Pa., and Strongsville, Ohio.

Gov. Palin has mostly stuck closely with Sen. McCain since the convention, with the exception of three days last month in New York meeting with foreign leaders and six days preparing for the vice-presidential debate.

This week, the campaign has dispatched the Alaska governor, whose conservative social views are popular with the Republican base, to woo voters in conservative areas of Nebraska, North Carolina and all over Florida. During a Sunday evening rally in Omaha, Neb., Gov. Palin played up Sen. Obama's ties to Bill Ayers, a former radical turned college professor. At the same time, she sought to dismiss suggestions that her appearance was an acknowledgement that the Republicans were in danger of losing the congressional district.

"The [television] pundit was saying, 'The only reason she'd be going there is 'cause they're scared, so they gotta go there and shore up votes,' " she said. "I so wanted to reach into that TV and say, 'No, I'm going to Nebraska because I want to go to Nebraska.' "

Gov. Palin followed with four rallies in Florida in 26 hours, and slammed Sen. Obama at each stop. Before she spoke on Monday, one introductory speaker called Sen. Obama by his full name—"Barack Hussein Obama"—and another accused him of "palling around" with a "domestic terrorist," an apparent reference to Mr. Ayers.

Sen. Obama and Mr. Ayers live in the same Chicago neighborhood, but the Illinois senator has condemned Mr. Ayers's radical actions.

Tuesday evening, just before the second presidential debate, Gov. Palin was scheduled to hold a rally in Greenville, N.C. Although President Bush had won that state by 12 points in each of the past two elections, Sen. Obama has put the state in play.

Sen. Obama has spent the past three days in Asheville, N.C., where he held a rally of 28,000 people on Sunday and stopped at a local barbecue restaurant to meet voters on Monday. His campaign said a flood of newly registered voters and strong support among African-Americans could help the state swing in the Democrat's favor.

The biggest gamble appears to be Pennsylvania, where the Republican nominees plan to hold a rally on Wednesday. Democrats have carried the state in the past two presidential elections and recent polls show Sen. McCain has work to do. Two surveys released this week, a SurveyUSA poll and a Morning Call Tracking poll, have Sen. Obama ahead by double digits.

—Amy Chozick contributed to this article.