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THE WALL STREET JOURNAL.

BofA, Merrill talk as Lehman hopes dim

Megadeal discussed as Wall Street braces for liquidation move

Bank of America Corp. and Merrill Lynch & Co. were in merger discussions Sunday, according to people familiar with the matter.

The talks came amid a Wall Street scramble to sort out a potential liquidation of Lehman Brothers Holdings Inc. BofA had considered buying Lehman, but when those talks failed to result in a deal, BofA turned its attention to Merrill, which is considered a better fit for the bank.

By **Matthew Karnitschnig, Susanne Craig** *and* **Dennis K. Berman** *in New York and* **Carrick Mollenkamp** *in London*

The fate of Lehman, meanwhile, darkened early Sunday afternoon after **Barclays** PLC, the sole remaining bidder for the 158-year-old Wall Street firm, told U.S. federal regulators it too was walking away from a transaction, people familiar with the matter said.

With Barclays ending talks and the U.S. government balking at putting any taxpayer money at risk for Lehman, the likelihood of a Lehman transaction was dimming. That would leave an orderly liquidation as the most likely scenario, a dramatic outcome for a once-powerful firm.

As word that a Barclays deal was off filtered across Wall Street, credit-derivative traders scrambled to unwind their outstanding contracts with Lehman and to shift their positions to other banks. CDS traders at many Wall Street firms were told to come to work immediately.

With many trading desks open, investors rushed to buy credit-default swaps tied to other brokerages and corporations, sending the cost of protection on investment banks such as **Goldman Sachs** and others sharply higher. One senior trader said BofA was offering to face Lehman's counterparties in CDS trades as long as the swaps didn't reference Lehman's own debt.

In a statement Sunday, the International Swaps and Derivatives Association, a trade group whose members include many large dealers, said a "netting trading session" was to be held on Sunday afternoon to allow Lehman's counterparties to offset their positions against each other.

"The purpose of this session is to reduce risk associated with a potential Lehman Brothers Holdings Inc.

Please turn to page 35

A 15-month grind

Major events in Wall Street's credit crunch since June 2007:

- **June 14, 2007:** News that a hedge fund managed by Bear Stearns Cos. is scrambling to sell large amounts of mortgage securities takes the subprime-mortgage problem to another level. The same day, the Dow Jones Industrial Average has its biggest rally of the year, closing at 13482.35.
- **July 24:** Extent of Countrywide Financial Corp.'s mortgage pressures emerge.
- **Oct. 28:** Merrill Lynch, besieged by the subprime pullback, announces retirement of CEO Stan O'Neal.
- **Nov. 4:** Charles Prince resigns as Citigroup CEO.
- **Dec. 10:** UBS announces major write-downs.
- **Jan. 8, 2008:** Bear Stearns CEO James Cayne steps down.
- **Jan. 11:** Bank of America agrees to acquire Countrywide.
- **March 16:** Bear Stearns is sold to J.P. Morgan Chase.

Associated Press

- **April 15:** "The worst of the impact on the financial-services industry is behind us," **Lehman CEO Richard Fuld, above,** says after the Wall Street firm's annual meeting. Despite the firm's record earnings in 2007, investors are nervous about the firm's mortgage exposure.
- **June 2:** Wachovia Corp. forces out CEO G. Kennedy Thompson.
- **Sept. 7:** The U.S. government seizes Fannie Mae and Freddie Mac and replaces their CEOs.
- **Sept. 13-14:** Lehman scrambles for survival in a weekend of negotiations. DJIA stands at 11421.99, about 2,000 points, or 15%, below the level of 15 months earlier.

What's News—

Business & Finance

Bank of America and Merrill Lynch were in merger discussions, as Wall Street scrambled to sort out a potential liquidation of Lehman Brothers, which saw its fate darken when Barclays walked away from a potential takeover. **Pages 1, 2**

■ **Swiss prosecutors probing** Alstom in an international bribery case say new evidence indicates the firm spent more in illicit payments than suspected. **Page 3**

■ **The U.S. auto industry** is seeking at least $25 billion in federal loans to develop battery technology for more fuel-efficient vehicles. **Page 4**

■ **VW Chairman Piëch helped** union representatives snag Porsche's takeover plans by abstaining in a crucial vote of the supervisory board Friday. **Page 5**

■ **Chrysler aims to cut** 4,000 more hourly jobs in the Detroit area. **Page 5**

■ **Europe's airline industry** continued its shakeout as a British package-tour carrier halted operations and Scandinavian carrier SAS explored talks. **Page 6**

■ **A rescue plan** for Alitalia was in peril as the Italian government scrambled to resuscitate talks between Italy's unions and investors. **Page 6**

■ **Deutsche Bank reached** a deal to buy a nearly 30% stake in Deutsche Post's banking unit for $3.89 billion. **Page 23**

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11421.99	-11.72	-0.10
Nasdaq	2261.27	+3.05	+0.14
DJ Stoxx 600	280.41	+4.75	+1.72
FTSE 100	5416.7	+98.3	+1.85
DAX	6234.89	+55.99	+0.91
CAC 40	4332.66	+83.59	+1.97
Euro	$1.4178	+0.0252	+1.81
Nymex crude	$101.18	+0.31	+0.31

Money & Investing > **Page 23**

World-Wide

Rescue crews tried to reach Hurricane Ike survivors along the Texas coast after the powerful storm killed at least seven and left heavy damage and millions of people in Houston and elsewhere without power. But Ike wasn't the catastrophe that officials had predicted. **Page 3**

■ **Russian troops began** a pullback in western Georgia ahead of a deadline in an EU-brokered peace deal and a meeting of EU foreign ministers Monday. **Page 13**

■ **An Aeroflot-Nord jet crashed** while preparing to land in the Ural Mountains city of Perm, killing all 88 people aboard, after an apparent engine failure.

■ **Britain's Labour Party** and government removed several people from their roles after they called for a challenge to Brown's leadership. **Page 11**

Five bomb blasts killed 21 people Saturday in New Delhi, a further sign India's home-grown terrorists have become increasingly sophisticated and deadly. **Page 13**

■ **Pakistani forces killed** at least 16 suspected militants and wounded 25 others in a tribal region bordering Afghanistan.

■ **China tried** to respond to concerns as details emerged about tainted baby formula that has sickened over 400 infants. **Page 9**

■ **A Zimbabwe power-sharing** deal could be delayed as Mugabe and the opposition continued to negotiate its details. **Page 11**

■ **Thailand's state of emergency** was lifted, while ex-Prime Minister Samak's bid to return to the post failed as members of his party and coalition deserted him.

EDITORIAL & OPINION

Dutch courage

The Netherlands pushes Serbia to give up war criminals before getting an EU deal. **Page 19**

Amid distress, bottom eludes U.S. financials

BY ANNELENA LOBB

Things are grim in the U.S. financial sector, with spots of outright disaster. As investors await word on a rescue for **Lehman Brothers Holdings** Inc., it is clear that none of the distress will be vanishing soon.

The Dow Jones Financial Sector index has fallen 30% over the past 12 months, compared with 14% for the Standard & Poor's 500-stock index. Many analysts don't expect a broad recovery in the sector anytime before 2009. Brokerage firms should underperform for several more quarters as they continue to deleverage and as asset prices fall, Meredith Whitney, an analyst for Oppenheimer, wrote in a research note.

Financials "are going to be screaming buys at some point, but it's too soon to be calling a bottom," says Jeff Harte, a managing director who covers banks and brokers for Sandler O'Neill & Partners in Chicago.

Still, there is some glimmer of op-

Please turn to page 35

Energy Report

Green goals

The U.K. wants to use more renewables, but that may not be easy > **Pages 15-16**

Central bankers debate where to draw the line

BY JON HILSENRATH, JOELLEN PERRY AND SUDEEP REDDY

For the Federal Reserve and the U.S. Treasury, this weekend's discussions with Wall Street's top executives over the fate of **Lehman Brothers Holdings** Inc. marked the moment of truth: Could they say no?

In the past 12 months, the Fed has instituted its broadest expansion of lending programs since the Great Depression and expanded its safety net to more of Wall Street. The Treasury has engineered the seizure of the nation's two mortgage giants, Fannie Mae and Freddie Mac.

Now, central bankers around the world are debating the U.S. actions and wrestling with where to draw the line in trying to help struggling markets. If they go too far, they worry, the markets could become conditioned to expect a rescue whenever they wobble. If they don't go far enough, the financial crisis could get even worse.

Fed Chairman Ben Bernanke and Treasury Secretary Henry Paulson want to stop well short of the front doors of Lehman, the fourth-largest investment bank in the U.S., which has 26,000 employees and its fingers in nearly every major financial marketplace. "If I were at the Fed, I would be hoping for an opportunity to show the world that the Fed will not rescue every ailing institution but will let some go," said Douglas Elmendorf, a senior fellow at the Brookings Institution.

It is a high-stakes gamble. Some form of government support could be what is needed to seal a deal and avert a worsening crisis. At midday

Please turn to page 2

oil, gas, coal, biofuels, nuclear, wind, solar...to fuel the future we need them all.

Meeting future demand will take more than just oil. We'll need to tap every practical source of energy: from natural gas and coal to nuclear and renewables. But whatever the source, we'll need technology to help us use it as efficiently and cleanly as possible. The story continues at exxonmobil.com

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LEADING THE NEWS

EU policy makers can't predict end of credit crisis

BY ADAM COHEN

NICE, France—European Union economic policy makers see no end in sight to the credit crisis but believe their banking systems remain sound.

At a two-day meeting on the French Riviera, the bloc's finance ministers and central bankers mulled the impact of **Lehman Brothers Holdings** Inc.'s difficulties and questioned whether their own regulatory regime could prevent the collapse of such a large firm.

Policy makers were nervously watching developments in the U.S., where the Federal Reserve Bank of New York and the U.S. Treasury are guiding efforts to shore up confidence in Lehman, which will likely involve finding a buyer for the firm or its parts.

EU policy makers should have little cause for feeling complacent, having been briefed on the scale of the problems faced by banks around the world by Mario Draghi, the governor of the Bank of Italy who is also chairman of the Financial Stability Forum, which brings together central bankers and regulators from leading economies.

He told them that banks in the U.S., Europe and elsewhere will have to raise $350 billion in new capital if they are to put the losses they have suffered as a result of the credit crisis behind them. But he added that some may not be able to find the investment they need.

Mr. Draghi estimated that banks have suffered losses of around $500 billion as a result of the turmoil that began last year.

He also estimated banks have raised $350 billion in new capital to date, but said further losses will occur, likely triggering consolidation in the sector. *—Gabriele Parussini and Roman Kessler contributed to this article.*

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U.S. conducts high-wire act in Lehman talks

Continued from first page

Sunday, the situation remained highly fluid, but the prospects for a deal seemed to be dimming and it was unclear if officials would blink.

If Lehman goes into liquidation, the ripple effects could be deep and painful. The firm sat on $33 billion of commercial real-estate assets and $13 billion in residential mortgages at the end of August; a liquidation could mean forced sales of those and other assets, which could knock down the value of other firms' holdings.

Lehman is also deeply intertwined in many other markets—most notably the vast market for credit-default swaps, in which it is a top-10 player. Even as they were holding the line about being involved in funding a rescue, Fed staff over the weekend were working with Wall Street credit traders to help sort through their positions with Lehman in this market.

Fed officials have some confidence that they are better prepared to deal with the fallout from a failure than they were when Bear Stearns failed and the Fed arranged a shotgun wedding to J.P. Morgan Chase. The emergency lending facilities it set up after Bear could help cushion the blow to the market if Lehman now fails. But some areas, like swap trading, are still a huge source of uncertainty.

Central banks around the world are also grappling with how to manage dysfunctional markets. The European Central Bank worried that commercial banks were starting to use it as a storehouse for souring assets. So on Sept. 4 the ECB said it would tighten the standards on the collateral it accepts in return for short-term funds.

Policy makers considered taking more drastic steps, but "we didn't want to change the rules of the game while the game was ongoing," said a person familiar with the matter.

The ECB is also warning it won't take drastic measures to save every bank. A survey that the central bank sent to euro-zone supervisors showed many banks have included emergency ECB funding in their crisis-management plans. In a speech last week, ECB President Jean-Claude Trichet said, "I wish to be sure that banks can manage their liquidity risk on their own....Emergency liquidity assistance by central banks should therefore not be relied upon by banks in their contingency planning.

In the U.K., officials are still stinging from the collapse of mortgage lender Northern Rock PLC. But Bank of England Gov. Mervyn King is adamant he won't extend a liquidity plan that began in April and is scheduled to end Oct. 21. The plan, designed to restore confidence in the British economy, currently allows U.K. institutions to swap high-quality collateral for U.K. treasury bills.

"Central banks can't provide indefinite funding," Mr. King has said. He said that the six months that the banks will have had to borrow will have been enough time for them to sort out their problems.

Paramount to Fed officials is the broader health of the financial system. Market conditions now are mixed. The broader stock market so far has been relatively stable through this latest round of turmoil. But short-term lending rates such as the London Interbank Offered Rate are elevated relative to expectations for the Fed's benchmark federal-funds rate, although not severely so. Risk premiums on junk bonds also are back to levels they hit in March.

The resilience of the system remains highly uncertain. Consider the credit-default-swap market, in which firms trade contracts tied to corporate default risks. It's an immense market that trades against $62 trillion worth of debt.

Officials worry that the collapse of an investment bank could send problems cascading through the financial system by way of this market. The Fed has been pushing Wall Street to create a new clearinghouse to diminish that risk, but it isn't in place yet.

Now, traders are being forced to address a Lehman crisis on the fly. On Saturday, the credit-trading heads of major investment banks gathered to discuss how to deal with their swap exposures to Lehman. By Sunday, floors were open for trading in anticipation of a mess in the market, said one trader.

One person familiar with the matter said large dealers contemplated showing each other all of their CDS trades with Lehman. Disclosing their positions may enable dealers to find ways to offset their positions with each other wherever possible. Later in the day, some traders were told Fed officials would help mediate the process. Still, sorting out the CDS positions promises to be difficult and time-consuming, because many of the contracts have different terms and maturity dates.

—Carrick Mollenkamp, Serena Ng and Damian Paletta contributed to this article.

CORRECTIONS & AMPLIFICATIONS

President George W. Bush was first inaugurated in January 2001, and Ohio has lost more that 237,000 manufacturing jobs since then. A U.S. Presidential Election 2008 article in the Friday-Sunday edition incorrectly gave the inauguration date as January 2000, and based on that, the number of jobs as 270,000.

Regan Hofmann is editor in chief of the magazine Poz. A Corporate News article Aug. 25 about **GlaxoSmithKline** PLC's HIV-drug ads misspelled her surname as Hoffman.

Walt Disney Co. owns 80% of sports network ESPN. A Corporate News article in the Friday-Sunday edition on ESPN Star Sports' purchase of commercial rights to a new cricket league incorrectly gave the stake as 88%.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Alstom payments face wider Swiss probe

Prosecutors contend bribes for contracts may top $500 million

By David Crawford

Swiss prosecutors pursuing an international bribery probe of **Alstom** SA say new evidence suggests the French engineering giant spent at least tens of millions of dollars more than previously suspected on illicit payments to win contracts abroad.

The payments were made as recently as June, even after The Wall Street Journal reported in May that French and Swiss investigators were looking into possible Alstom bribes, two investigators familiar with the case said.

In a statement Friday, a prosecution spokeswoman said the amount of suspicious payments is tens or hundreds of millions of euros. People familiar with the matter say European prosecutors are focusing on at least $500 million in alleged bribes Alstom paid through a Swiss slush fund between 2001 and 2008, a period after France made it illegal for businesses to make payoffs to foreign officials.

The investigation illustrates the tougher line European prosecutors are taking against practices multinationals have long employed to win government contracts abroad, including the use of countries like Switzerland to launder money. One of Alstom's chief competitors, **Siemens** AG of Germany, remains under investigation in Germany for an alleged multibillion-dollar bribe scheme.

The laundering of money for bribes via Switzerland has figured in several investigations of Alstom that authorities in individual countries treated as isolated. Now, Swiss prosecutors suspect links between bribery investigations as far apart as Brazil, Zambia and Mexico. In March, two Alstom subsidiaries, including a U.S.-based subsidiary, were convicted of bribery in Italy. The bribe money was transferred via Switzerland, the verdict says.

A Swiss investigation of Alstom payments started in 2004 and focused on the period between 1995 and 2003. In recent months, Swiss investigators have expanded the probe to include payments up to this year. The statute of limitations could protect Alstom from any prosecution in at least some of the earlier payments.

Swiss prosecutors say Alstom's Swiss slush fund was run by Alstom's former corporate compliance executive, who was arrested in Switzerland last month and is being held without bail. In the statement, the Swiss prosecution spokeswoman said the Alstom officials responding to the inquiry aren't cooperating fully. Alstom says it is cooperating.

Alstom is a major maker of power turbines, high-speed trains and subway cars. If prosecutors build a case against it, Alstom could face fines or bans from bidding on public-sector contracts in some fast-growing markets, mostly in Asia and Latin America.

The company has denied any wrongdoing and has consistently portrayed itself as the victim of a small number of rogue current and former employees. In May, Alstom successfully petitioned French prosecutors to join their investigation, a legal maneuver that could give it access to certain evidence in the investigation.

Before the prosecutors' statement was released, Alstom spokesman Patrick Bessy dismissed The Wall Street Journal's inquiries as "rumors," and declined the opportunity to respond to written questions. After the statement, the company declined to comment.

An Alstom lawyer declined to comment in detail, but said: "The company is confident that every-

Associated Press

Prosecutors are focusing on at least $500 million in possible **Alstom** bribes.

thing will work out smoothly."

The Swiss prosecution statement said Alstom has filed motions to block access to evidence seized in raids of Alstom offices in Switzerland. "These files cannot be analyzed at this time," the statement said. Alstom declined to comment on this point.

Until the past decade or so, many European nations not only allowed companies to pay "commissions" to foreign officials, but also let them deduct the payments from their taxes. Germany outlawed the practice in 1999; France did so in 2000.

The new evidence in the Alstom probe centers on Alstom Prom AG, a Swiss subsidiary of Alstom with few employees and millions of euros in annual revenue. In the statement, Swiss prosecutors said the unit appears to have created slush funds to bribe foreign officials and keep those cash payments off the company's books.

Last month, Swiss and French police raided Alstom Prom's office and arrested Alstom's former corporate compliance officer. An Italian prosecutor familiar with the case identified this person as Bruno A. Kaelin.

In addition to being a former Alstom Prom director, Mr. Kaelin is also a former senior vice president and head of corporate compliance at Alstom's headquarters in Paris. A Swiss judge has denied him bail on the grounds he might destroy evidence, said a prosecution spokeswoman.

Mr. Kaelin's lawyer couldn't be reached for comment. Prosecutors declined to make Mr. Kaelin available.

The 67-year-old Mr. Kaelin, a Swiss national, retired from Alstom in late 2005, at around the time he was facing prosecution in a separate corruption case in Italy. Earlier this year, he and three other current or former Alstom officials were convicted in that case of bribing two officials of the Italian electric company Enel SpA over a power-plant equipment contract and given jail sentences of nine months or 11 months.

The March 28 verdict described Alstom Prom as the launderer of the bribe money and an Alstom Power subsidiary in the U.S. as the unit that ordered the bribes paid. Each subsidiary was fined €240,000 and had €597,200 seized. An Enel spokesman said two Enel officials were fired and Alstom paid Enel €4.5 million to settle the case.

Italian law-enforcement officials contacted Swiss prosecutors after the Journal's article in May about the Franco-Swiss probe of Alstom. The investigation has since expanded beyond Europe to include projects and officials in Brazil, Mexico and Zambia.

Investigators are interviewing Mr. Kaelin, whom they accuse of laundering hundreds of millions of euros in funds earmarked for bribes.

People familiar with the Alstom investigation said Mr. Kaelin initially balked at cooperating but has provided some details when confronted with evidence from an investigation in Brazil. Between 2001 and 2007, for example, Alstom Prom funneled more than $50 million to two shell companies in Montevideo, Uruguay, to bribe officials in Brazil, according to Brazilian court records and people familiar with the investigation.

The alleged bribes aided Alstom's successful 2001 bid to supply gas turbo-generators, steam turbines, heat-recovery boilers and all the services needed to build a power plant in Rio de Janeiro state, according to people with knowledge of the inquiry and a Brazilian police report reviewed by The Wall Street Journal.

Hurricane Ike batters Texas, but toll is less than feared

A WSJ News Roundup

Hundreds of rescue workers fanned out across the upper Texas coast Sunday searching for survivors of Hurricane Ike as the massive storm moved inland over the state, leaving flooded communities and heavy damage in its wake, but not the all-out catastrophe officials had predicted.

By midafternoon Sunday, officials said nearly 2,000 people in Texas who refused orders to evacuate before Hurricane Ike had been rescued by land, air and water. A door-by-door search was under way in Galveston, where Ike came ashore early Saturday.

Officials urged Galveston residents to stay away from the barrier island, telling them there was no way to live there right now. It could take as long as a month to restore power there, and roads are still flooded, they said.

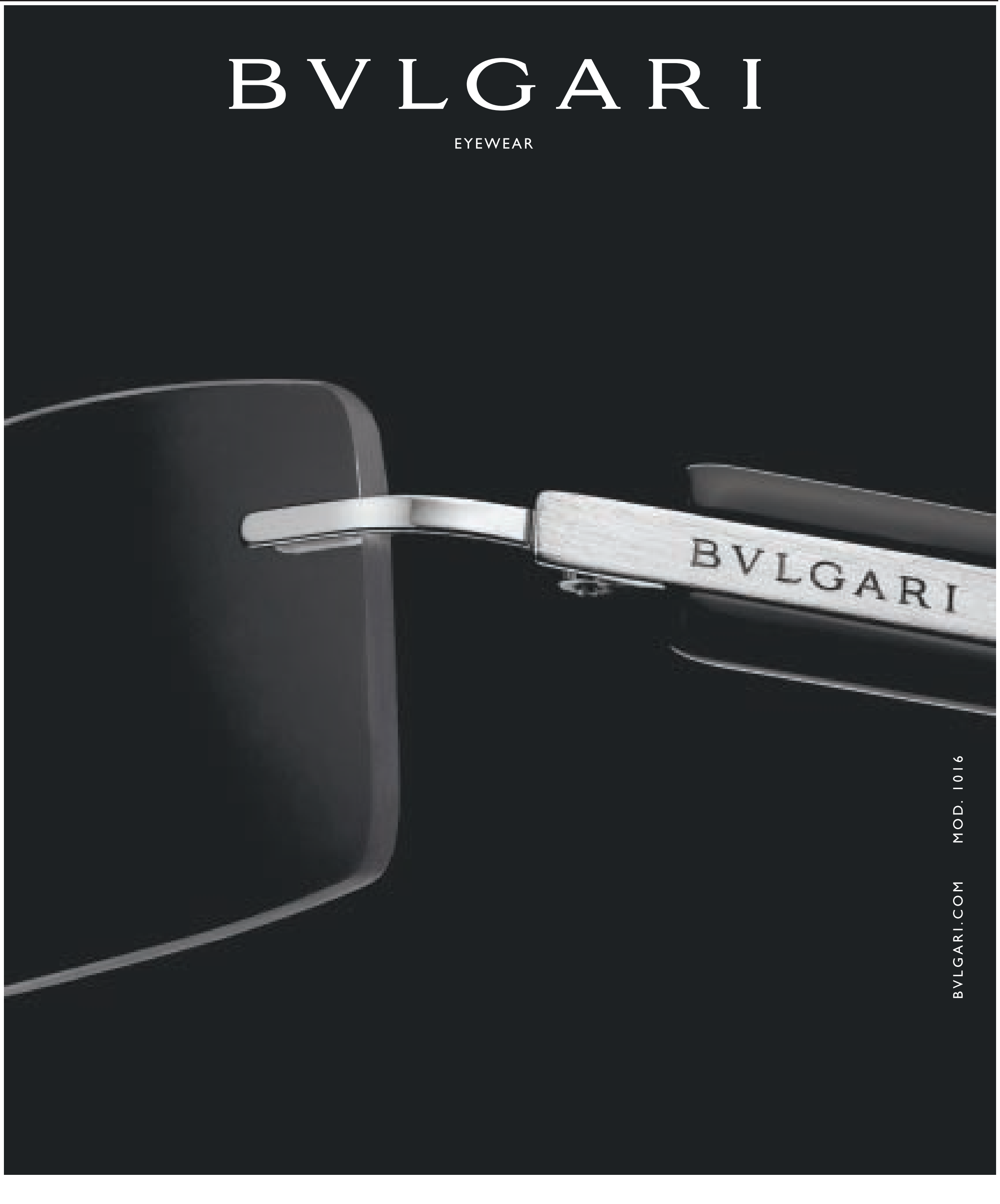
Earlier in the day, Houston officials issued a weeklong curfew for the city as rescue efforts continued there. Officials said the 9 p.m. to 6 a.m. curfew would begin Sunday night and last until Saturday. Most of the city has lost electricity, streets are littered with debris, and police are worried about the safety of residents. Police said residents shouldn't be on the streets during the curfew unless it is an emergency.

Texas Gov. Rick Perry launched what he said was the largest rescue operation in the state's history, dispatching emergency workers in trucks, boats and helicopters to pull people from submerged homes and stranded cars and ferry them to safe dropoff points.

A last-minute jog east as Ike arrived on land spared the Houston and Galveston area from the six-meter storm surge a more westerly path might have brought. But Ike did plenty of damage. Its huge span—more than 800 kilometers wide—pounded a densely populated stretch of Texas coast from Louisiana to Freeport with nearly 24 hours of fierce wind and crushing waves.

Despite mandatory evacuation orders for low-lying areas, and dire warnings from national weather officials that "certain death" loomed for those who stayed behind, tens of thousands of coastal residents decided to weather the storm at home.

As of Sunday afternoon, at least seven deaths had been blamed on Ike.



CORPORATE NEWS

AUTO MAKERS

Fiat's car-electronics unit seals Indian joint venture

Magneti Marelli

FIAT SpA said Friday its Magneti Marelli car-electronics business has signed a joint venture with India's **Unitech Machines** Ltd—a deal that will strengthen the Italian car maker's strategic position in India. The partners will create a new company to produce motor-vehicle electronic systems in India, which will be 51%-owned by Magneti Marelli, with Unitech Machines holding the rest. Financial terms of the venture, which is set to be operational by the end of the first quarter next year, weren't disclosed.

Friday's deal is the fifth joint venture Magneti Marelli has created in India in less than a year.

—Gordon Sorlini

BANKING

Fortis says it has closed three of six hedge funds

Associated Press

FORTIS NV said it has closed three of its six hedge funds this year, as little new inflow from investors and market circumstances resulted in underperformance.

A spokeswoman said the bank wasn't rushed into the closures, saying that the first fund was liquidated about nine months ago. The past few months have been difficult for Fortis. Last month, the Dutch-Belgian bank and insurance company posted a 49% drop in second-quarter net profit. The chief culprits were a decline in the value of its loans and investment portfolio and €362 million ($514.6 million) in write-downs.

—Stefan Kloet

ENERGY

Shell extends force majeure on some Nigerian exports

Reuters

ROYAL DUTCH SHELL PLC said Friday it has extended a *force majeure* until further notice on some of its Nigerian oil exports after discovering new leaks following a recent militant attack on its energy infrastructure.

In late July, militants had attacked the Nembe Creek and Rumuekpe oil pipelines, knocking out a chunk of production.

The force majeure—which protects Shell from not meeting contractual obligations because of factors outside its control—had been expected to end this month. Shell declined to say what volumes are affected, but had previously put the amount at 40,000 barrels a day.

—Spencer Swartz

U.S. auto firms target Japan's battery edge

Industry leaders urge government loans to spur technology

BY JOHN MURPHY

A LENGTHENING lead held by Japanese auto makers in securing advanced vehicle batteries to power electric engines has become a rallying point for the U.S. auto industry in seeking at least $25 billion in government loans.

U.S. auto-industry leaders pressed Friday for federal loans to develop homegrown technology for more fuel-efficient vehicles. **General Motors** Corp. Chairman and Chief Executive Rick Wagoner, appearing on Capitol Hill, called on Congress to support advanced battery development in the U.S., which he said lagged far behind government-supported efforts in Japan and South Korea.

Mr. Wagoner told lawmakers that the seizing-up of credit markets has left auto makers struggling to raise capital, and cautioned them that Detroit might have to start cutting capital spending if loans aren't provided soon.

The White House, however, signaled concerns about providing such a government-sponsored boost to the private sector. "We want to be very, very careful about the government's role with private enterprise," White House spokesman Tony Fratto said. "There are lots of industries that are dealing with challenging economic conditions, and it's always important to be cautious about the federal government's role."

This year the U.S. government has stepped in to help mortgage companies **Fannie Mae** and **Freddie Mac**, and Wall Street investment bank Bear Stearns Cos., while dealing with a series of bank failures.

In addition to bolstering the U.S. auto industry, Detroit executives say a federal-loan package would further U.S. energy security by narrowing the lead held by foreign makers of vehicle batteries. The executives argue that failure to develop a competitive battery industry domestically could create a new dependency for the U.S. by leaving it reliant on foreign-made batteries, even if the country reduces its reliance on imported oil.

"Moving from imported oil to imported batteries" wouldn't address the nation's energy-security concerns, says Mark Fields, head of **Ford Motor** Co. operations in the Americas, speaking recently in Washington. "Bold and dramatic incentives are needed to accelerate the commercial development of high-energy power batteries right here in the U.S."

Over the past decade, Japanese auto companies have been teaming up with Japanese electronics companies that have dominated battery manufacturing for laptop computers, mobile phones and other products. Most Japanese battery makers—even those allied with Japanese auto makers—say they are willing to supply other car makers.

But securing an adequate supply of batteries over the next few years has become a growing concern for all auto makers. The U.S. industry is leery of depending too heavily on foreign battery makers allied to Japanese auto makers, for fear those suppliers would assign first priority to filling the orders of their Japanese partners.

In addition, over the past several months, a number of Japanese auto makers and Japan's top battery makers have reached a flurry of new agreements to work together on vehicle batteries. At least five battery factories are under construction in Japan, including a $115 million facility announced in May by **Nissan Motor** Co. and electronics giant **NEC** Corp.

The accords promise to put U.S. auto makers even farther behind their Japanese rivals in manufacturing capacity and technological know-how on the battery front, analysts say. The market for advanced automotive batteries is now expected to grow to $30 billion to $40 billion by 2020, up from today's $900 million market for hybrid batteries, according to Deutsche Bank Securities Inc.

Meanwhile, higher oil prices have pushed consumers to hybrids at a much faster pace than anyone had imagined, accelerating car makers' need for access to good batteries. Even **Toyota Motor** Corp., which has the largest supply of batteries, encountered a shortage this year of the batteries used to power the electric motor in its popular Prius gasoline-electric hybrid. As a result, it was forced to put some customers on three-month waiting lists for the Prius.

For the moment, some U.S. auto makers are seeking supplies from Japanese battery makers. GM recently announced plans to buy lithium-ion batteries for 100,000 hybrids from Japan's **Hitachi** Ltd. **Sanyo Electric** Co. supplies batteries for Ford hybrids.

But Japanese companies continue to invest in their own facilities. Nissan and partner NEC announced in May that they will build a factory that has capacity to make 65,000 lithium-ion batteries a year by 2011, as the car maker aims to become the world's largest producer of electric vehicles.

In July, Toyota opened a battery-research center, which it plans to double in size in the next two years to include 100 scientists and support staff, working to make a supercharged battery more powerful than those now on the market. A slew of smaller companies are ramping up production of cathodes, electrodes and other essential battery-making materials.

Unlike the U.S., Japan has made energy a top priority for years. And while Detroit has focused on highly profitable large trucks and sport-utility vehicles in recent years, Japanese auto makers continued to concentrate on smaller, fuel-sipping vehicles, including hybrids

Toyota and **Matsushita Electric Industrial** Co. formed a joint venture in 1996 called Panasonic EV Energy to produce batteries for Toyota hybrids. With two plants running and a third in construction, the venture aims to produce enough nickel-metal-hydride batteries to power one million hybrid vehicles a year soon after 2010, more than double its plans for this year. In addition, the company plans to start making lithium-ion batteries, a more-powerful kind of battery that will be used in Toyota's plug-in hybrids scheduled for release late next year.

Panasonic EV Energy runs what is now Japan's most advanced battery-making facility. Rising above the rice fields and rows of greenhouses in the sleepy farming town of Kosai in central Japan, the factory operates around the clock.

Japan's **GS Yuasa**, a Kyoto battery maker that has teamed up with **Mitsubishi Motors** Corp. and **Mitsubishi** Corp. to make lithium-ion batteries, has been perfecting its battery-making expertise for two decades, creating batteries for a wide range of uses, including satellites, submarines and power tools.

The company's production facility is a warren of sealed, air-tight rooms. Employees wear face masks, and the floors are lined with sticky mats to collect dust and other particles that could ruin a battery's performance.

"Mass production of batteries is very difficult," says Ken Sawai, a manager at GS Yuasa. "There are many secrets."

Still, there is ample opportunity for development of better batteries. "Whoever can make a safe, long-life and low-cost battery will be the winner," says Khalil Amine, a battery researcher at the U.S. Department of Energy's Argonne National Laboratory.

Those trying to do that include start-ups like **A123 Systems** Inc., a small company founded by a group of scientists from the Massachusetts Institute of Technology. A123 is a contender for the battery design that will power GM's planned Chevy Volt.

Another battery player in the U.S. is **Johnson Controls** Inc., which last month was awarded an $8.2 million contract by the U.S. Department of Energy to develop lithium-ion batteries for plug-in hybrid vehicles. The company also will provide lithium-ion batteries for the Mercedes-Benz S-Class hybrid vehicle, scheduled to be on the market in early 2009.

But much more needs to be done, says Mary Ann Wright, vice president and general manager for Johnson Controls' hybrid-battery business. She has been lobbying Washington for a national effort to establish research labs and manufacturing technology to make the U.S. a battery-manufacturing leader.

It would be more of rebirth of an industry than one started from scratch. Key components needed in hybrid and electric vehicles—including the battery, electric motor and specialized electronics—were originally developed in the U.S., she says. Now nearly all of them come from Asia.

"It's our punishment for inventing this stuff and allowing manufacturing to go somewhere else," she says.

—Joseph White, Akane Ichikawa, Miho Inada and Corey Boles contributed to this article.

Associated Press

Deals like **Nissan and NEC's agreement** to build a $115 million battery factory may put U.S. auto makers farther behind Japanese rivals on the battery front.

FOCUS ON AUTOMOBILES

Piëch frustrates Porsche

VW chairman aids unions' bid to block rival's takeover plan

By Edward Taylor

Volkswagen AG Chairman Ferdinand Piëch abstained from a crucial vote Friday, allowing labor representatives to drive through a measure that may hinder sports-car maker Porsche's takeover plans, according to people familiar with the matter.

Ferdinand Piëch

The move by Mr. Piëch, himself a member of the Porsche family, exposed a deep split within Porsche's owners and suggests a prolonged power struggle for control of VW to come. Had Mr. Piëch voted against Friday's proposal, it would have failed, these people said.

"I am appalled with the voting behavior of the supervisory board chairman," Wolfgang Porsche said in a statement, referring to his cousin, Mr. Piëch. Mr. Porsche is chairman of **Porsche Automobil Holding** SE and serves on VW's supervisory board.

Porsche, which is controlled by members of the Porsche and Piëch families, owns a 30.6% stake in Volkswagen and has pledged to raise it to a majority before year end. A spokesman for Mr. Piëch didn't respond to a request to comment on the decision to abstain.

At Friday's meeting of the 20-member VW supervisory board, the equivalent of a U.S. board of directors, Mr. Piëch abstained on a proposal by the board labor representatives demanding that Porsche seek board approval for any cooperation project between Porsche and VW's premium unit, Audi AG.

Audi, based in Ingolstadt, Germany, is home to one of the most important research-and-development centers at Volkswagen. The unit has a particular expertise in lightweight construction methods, including aluminum, to which Porsche wants access as it tries to meet fuel emission rules for its own fleet of sports cars.

Labor unions are working on several fronts to curtail Porsche's growing influence at VW. Union leaders fear that once Porsche has full control of the company, it will seek to cut jobs at VW's German plants. About 40,000 VW employees protested in favor of workers' rights at the company's Wolfsburg headquarters Friday.

Mr. Piëch, a former Volkswagen CEO and grandson of VW Beetle creator Ferdinand Porsche, has a long record of surprise moves at VW that have secured him wide-ranging influence at the company, often with the help of the company's labor representatives. Ten of the supervisory board members are labor representatives.

In April, Mr. Piëch and Mr. Porsche gave a joint interview in which they pledged unity as a way to make the takeover of VW succeed.

—Christoph Rauwald contributed to this article.

Chrysler offers new buyouts to cut 4,000 more workers

By Jeff Bennett

DETROIT—**Chrysler** LLC will begin offering new buyout packages to its hourly workers in the Detroit area in a bid to cut an additional 4,000 workers from its payroll amid a downturn in the U.S. auto market.

Jim Press

About 17,600 workers have already taken previous buyout offers. New offers will begin going out to workers by early this week in an effort to increase the number leaving the company to 22,000 hourly employees by the start of 2009, a company spokesman said Friday. Chrysler has 45,000 hourly workers world-wide, with the majority employed in the U.S.

Chrysler's latest buyout effort comes as **Ford Motor** Co. and **General Motors** Corp. are trimming their payrolls, mainly through buyouts, early retirements and attrition.

Top Ford executives told union leaders last week the company aims to cut about 4,000 more jobs in the U.S. through buyouts.

In separate news Friday, Ford's Volvo unit said it may have to cut 900 more jobs in Sweden in 2009 and will move forward the announced cancellation of the third shift at its plant in Goteborg, involving around 700 employees, to October from December. The shift closure was part of a broader layoff of some 1,200 staff announced in June.

The Big Three and their rivals are suffering through one of the worst downturns in the U.S. market in decades. Housing woes and the sluggish economy have damped overall auto sales, while high gasoline prices have hurt demand for trucks and sport-utility vehicles, which account for a big chunk of Detroit's sales.

At a ceremony to mark the start of production of a new Dodge Ram pickup truck, Chrysler Vice Chairman Jim Press said the U.S. slump is likely to drag on well into next year.

CORPORATE NEWS

SAS reviewing options

Carrier is engaged in talks on structure; U.K.'s XL collapses

By David Pearson

The shakeout of Europe's airline industry gathered pace as a British package-tour carrier halted operations and Scandinavian carrier **SAS** AB said it is "evaluating various structural possibilities" and that it is in talks about a "possible solution."

The collapse of **XL Leisure Group** PLC on Friday left tens of thousands of travelers stranded across Europe, and followed on the heels of the insolvency of Anglo-Canadian low-cost carrier **Zoom Airlines**. More than 30 airlines worldwide have gone out of business this year in the face of soaring fuel costs and weak demand.

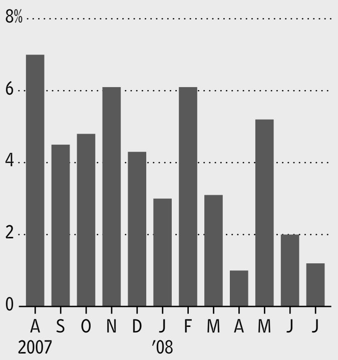
"XL is symptomatic of more problems to come," said John Strickland of JLS Consulting, who predicted there will be falling passenger numbers, fewer flights available and less choice and higher prices for customers in the future.

Separately, London-based **K&S Travel** collapsed Saturday, according to U.K. Civil Aviation Authority press officer James Hotson. K&S specialized in travel to Turkey. About 400 people with reservations will have their vacations canceled and receive full refunds.

The International Air Transport Association is projecting that the world's airlines will together lose $5.2 billion this year, and a further $4.1 billion next year as a result of what spokesman Anthony Concil calls the "perfect storm" of rising fuel costs and falling demand.

In descent

Growth in European air traffic has slowed sharply over the past year



Note: the chart shows the percent change from year-earlier in revenue-passenger kilometers

Source: Association of European Airlines

Nick van den Brul, aviation analyst at Exane BNP, predicted that the coming months will see more airlines falling by the wayside.

"It's going to be a tricky winter season, because even if the price of oil goes below $100 a barrel, it still puts extraordinary strains on cash in a period when typically the airlines are cash-negative."

That may encourage the airline industry to consolidate, either because airlines go broke or are bought by competitors.

"Consolidation is a trend that's just going to continue to accelerate. And you have to assume that as we go into the winter there will be more, rather than less, bankruptcies," said Stephen Furlong, aerospace analyst at Davy Stockbrokers in Dublin.

"Clearly, there are too many airlines. That doesn't mean there isn't room for other airlines, but it does mean there's going to be fewer of them," said Mr. Furlong.

Industry participants expect that, in Europe, the airline industry will continue to gravitate around **Air France-KLM**, **Deutsche Lufthansa** AG and **British Airways** PLC, which have strong enough balance sheets to carry them through this cyclical downturn and to make acquisitions.

Among the low-cost carriers, **Ryanair Holdings** PLC and **easyJet** PLC are seen riding out the storm, while smaller start-ups are seen as the most vulnerable.

Many carriers are in play, or rumored to be. Lufthansa was reported to be preparing a bid for SAS, shares of which rose 15% to 55.25 Swedish kronor ($8.26), in Stockholm Friday. In its statement about evaluating possible solutions, SAS didn't mention Lufthansa and stressed that no decision had been made on the company's future. Lufthansa declined to comment.

Meanwhile, Air France-KLM has said it is interested in being a minority shareholder in **Alitalia** SpA, whose investor group also is talking to Lufthansa. At the same time, Lufthansa, easyJet and Ryanair are said to be preparing moves on the Italian domestic market to be ready if Alitalia's rescue plan falls through.

Air France-KLM, Lufthansa, British Airways and Russia's **S7** all are said to have expressed interest in **Austrian Airlines** AG. And British Airways is lining up to merge with Spain's **Iberia Líneas Aéreas de España** SA.

U.S. touts new air-traffic system

By Andy Pasztor And Christopher Conkey

U.S. Federal aviation officials showcased new procedures for controlling the flow of air traffic into and around airports, steps that are designed to please environmental groups and cost-conscious airlines.

With funding plans for long-term navigation upgrades stalled in Congress, the moves are meant to demonstrate progress in improving the air-traffic-control system. Such interim efforts to save fuel and reduce emissions are becoming increasingly important to carriers world-wide. Acting Federal Aviation Administrator Robert Sturgell on Friday showcased the new procedures by highlighting a demonstration flight operated by **Air New Zealand** from Auckland to San Francisco International Airport. "From taxi to touchdown, it's just flat-out green," he said.

Boeing Co. and U.S. aerospace suppliers have been stepping up pressure on the FAA to expand new techniques for airport approaches, which often don't require major additional investments in onboard or ground equipment. But they do require a different mind-set by controllers and carriers.

Already in limited use in parts of the U.S. and in high-traffic regions over the Pacific and Atlantic Oceans, the procedures include allowing long-distance flights to climb more quickly to cruise altitude, where aircraft consume less fuel than flying through lower, more dense air. At San Francisco, the FAA also highlighted new patterns allowing planes to make long, gradual descents toward an airport with engines set on or close to idle power.

In addition to burning less fuel and producing less pollution than normal approaches which involve a succession of step-like descents, the new routes could help alleviate nagging environmental concerns from businesses and residents around main big airports. By some estimates, for example, widespread use of so-called continuous descent approaches could reduce noise by 30% around Los Angeles International Airport.

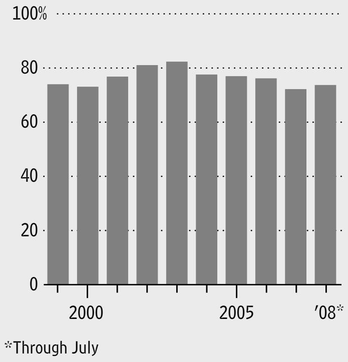
The FAA is looking to expand the new approaches to handle eventual traffic growth at Chicago, Miami, Tampa, Los Angeles and other cities. On a typical Pacific widebody flight to a West Coast destination, Air New Zealand estimates the new landing procedures—coupled with better international coordination enroute—could reduce total carbon-dioxide emissions by several tons.

Tailoring approaches to specific airplane models, weather and traffic fluctuations, according to FAA and industry officials, could further reduce fuel burn and increase airport efficiency. The FAA is working with its counterparts in Asia and Europe to develop complementary solutions.

While the FAA struggles to fund its Next Generation Air Transportation System, or NextGen, the agency is cooperating with regulators and airlines to develop more-efficient traffic flows over both oceans.

Waiting game

On-time arrivals, all U.S. airlines



*Through July

Source: Transportation Department

Conceived as a gradual upgrade of surveillance and navigation capabilities, NextGen is touted as the best way to reduce delays and accommodate an expected surge in the growth of air travel. But the new system is at least 15 years from complete implementation. So the FAA is eager to start phasing in some aspects of NextGen, with certain regions serving as test beds for later nationwide deployment.

"We're encouraged by the progress that's being made," said Victoria Cox, the FAA's senior vice president for NextGen and Operations Planning, in testimony before the House science committee Thursday.

The complex transition to NextGen one expert on Thursday told lawmakers could cost the FAA and the aviation industry as much as $100 billion.

Italy scrambles to revive Alitalia rescue talks

By Stacy Meichtry

Associated Press

The Italian government has had to prop up struggling **Alitalia** with state funds.

A rescue plan for **Alitalia** SpA was hanging by a thread as the Italian government scrambled to resuscitate talks between Italy's unions and a group of Italian investors that are proposing to take over the state-controlled airline.

Negotiations over job cuts and contract changes at the struggling carrier fell apart Friday after unions balked at a government-backed plan to sell parts of Alitalia to **Cia. Aerea Italiana**, or CAI, a new company formed by Italian entrepreneur Roberto Colaninno and a group of investors.

CAI's decision to formally pull out of the talks spurred the Italian government to make a last-ditch attempt over the weekend to mediate between the two sides.

As government officials met with union leaders late Sunday night, there were subtle signs that the negotiations might be rekindled. A major obstacle to reaching a deal has been CAI's demand that Alitalia's nine unions accept a single contract for all Alitalia employees, a move aimed at curtailing strikes by small but powerful unions representing flight crews and pilots.

However, by Sunday evening Alitalia's pilots unions, which had previously bucked the negotiations, were showing "greater openness" to joining talks over a single contract, according to a person familiar with the discussions. CAI was also weighing possible perks for pilots, such as new titles, the person said.

Alitalia has been in a financial tailspin for years, crippled by rising fuel prices, an aging fleet and a strike-prone staff, which has forced successive governments to prop up the carrier with state funds.

After more than a week of talks, laced with warnings that the latest rescue couldn't proceed without union backing, CAI said Friday that "the conditions to continue negotiations do not exist." CAI accused the unions of "not recognizing the dramatic nature of Alitalia's situation and of the need for the profound break with the past that the rescue plan calls for."

CAI is proposing to cut between 5,000 and 7,000 jobs at the airline—a move that has generated strong protests from the carrier's staff.

Prime Minister Silvio Berlusconi, who was elected on a pledge to save the carrier from a meltdown, rewrote Italy's bankruptcy laws last month, paving the way for Alitalia to file for bankruptcy and receive protection from creditors.

The insolvent airline, which has between €30 million and €50 million ($43 million to $71 million) in cash on hand, is burning through €1 million to €2 million a day.

Augusto Fantozzi, Alitalia's government-appointed bankruptcy commissioner, told union officials some flights may not take off Monday because of difficulties in guaranteeing fuel supplies, Alitalia said following a meeting Saturday.

—Liam Moloney contributed to this article.

Sacyr considers alternatives for its 20% stake in Repsol

By Bernd Radowitz And Santiago Perez

MADRID—Heavily indebted Spanish construction company **Sacyr-Vallehermoso** SA said it is considering various options for its 20% stake in oil company **Repsol** YPF SA, including a sale.

Sacyr, which has been hit hard by the slowdown in the Spanish housing market, said in a filing with regulators that it is considering alternatives for its Repsol stake, as well as other assets.

The company purchased its stake in the Spanish-Argentine oil company in 2006 for about €6.55 billion ($9.3 billion at today's exchange rate), seeking to diversify out of Spain's slowing real-estate market. However, Repsol shares have fallen since then—they are down nearly 17% this year—and the stake currently has a market value of €4.9 billion.

"All assets are subject to valuation," said a Sacyr spokesman, declining to provide details. The company has sold some properties recently to cut down its debt load and was also forced to cancel a share offering in toll-road unit Itinere amid waning investor interest.

Repsol officials declined to comment on the possibility that Sacyr might sell its stake.

Sacyr shares jumped 9.7% to €13.56 Friday, while Repsol stock was up 5.6% at €20.14. Sacyr's share price has fallen by half this year amid investor concerns about the company's ability to service its debt, which now totals €18.26 billion. The company's market value is much lower, about €3.82 billion.

The construction company used Repsol shares as collateral for a €5.17 billion syndicated loan to finance the stake acquisition. It also agreed to provide additional collateral if Repsol shares were to fall below certain loan-to-value ratios. In January, Sacyr provided 21.2% of rental-property unit Testa Inmuebles en Renta SA as additional collateral.

—Christopher Bjork contributed to this article.

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CORPORATE NEWS

MGA to seek Bratz deal

Toymaker is liable for a hefty payout after Mattel lawsuit

BY NICHOLAS CASEY

Associated Press

The Bratz line of dolls went on the market in 2001. The brand is expected to produce **$350 million** in revenue this year.

MGA Entertainment Inc. is prepared to seek a settlement with rival **Mattel** Inc. in order to resolve an intellectual-property dispute over the Bratz doll franchise, MGA's chief executive said.

"It's in the interest of MGA employees and Mattel shareholders that we reach a settlement on the issue," MGA Chief Executive Isaac Larian said in an interview. "I prefer to move on and compete" in the toy market.

A U.S. federal jury in Riverside, Calif., last month found MGA liable for as much as $100 million to compensate Mattel for lost revenue from the Bratz doll. Mattel says the doll was designed by one of its employees and secretly transferred to MGA.

Isaac Larian

Before the trial, Mr. Larian had indicated that he wouldn't settle with Mattel under any terms. Mr. Larian in another lawsuit accuses Mattel of infringing on MGA's toys.

Mr. Larian said in an interview Thursday afternoon that he would consider an agreement that would give Mattel a still-to-be-determined portion of royalties earned from the first generation of Bratz dolls. The line went on the market in 2001. The brand is expected to generate $350 million in revenue this year.

Mr. Larian earlier Thursday had suggested that he would be willing to entertain a settlement in which MGA shared a portion of future Bratz royalties. But Mr. Larian later said his company wasn't willing to discuss sharing future revenue in a settlement, just revenue from the earlier sales.

After the jury's verdict in the Bratz case, which fell short of the $1 billion Mattel had sought, Mr. Larian declared victory. He says he is pursuing a settlement because he is eager to halt mounting litigation costs, which have already reached about $70 million. "I'm open to all different options," he said. But he said a full transfer of Bratz rights to Mattel or a joint venture with the company would be "unreasonable."

Mattel said Thursday that it "has been open to good faith settlement discussions, and we are continuing to participate in this process as directed by the court."

Pelosi sets integrity plan for U.S. minerals agency

BY STEPHEN POWER

WASHINGTON—House Democrats said they will demand tougher rules against unethical conduct at the Interior Department bureau that manages the nation's offshore oil and gas reserves, a day after reports of ethical failures at the agency.

House Speaker Nancy Pelosi (D., Calif.) said proposed energy legislation, which would expand offshore drilling, subject to certain conditions, would include "a very strong integrity piece" to deter future misconduct at the Minerals Management Service.

In reports issued Wednesday, the Interior Department's inspector general, Earl Devaney, detailed accusations that Minerals Management Service employees had engaged in sexual relationships with energy-industry representatives and accepted gifts from them, along with other misconduct, including drug use. The agency's responsibilities include drawing up leases for drilling in offshore waters and assessing and collecting royalties from oil and gas companies.

Ms. Pelosi, speaking to reporters at a news conference, didn't elaborate on the provision. A vote on the legislation is expected early this week.

Separately, Democratic Rep. Jackie Speier of California said she would seek to include what she described as "an integrity clause" in the energy legislation "barring or severely restricting" companies from bidding on new oil and gas leases if they are refusing to cooperate with government investigations.

In a written statement, Rep. Speier noted that Mr. Devaney, in a memorandum summarizing his findings, had expressed frustration with what he characterized as "the ultimate refusal of one major oil company—Chevron—to cooperate with our investigation."

In a written statement Thursday, **Chevron** Corp., of San Ramon, Calif., said that it "fully participated in" the inspector general's investigation, and provided more than 13,000 pages of "detailed reports, including the expense records and emails" of some current and former Chevron employees. The company said it also took steps to facilitate interviews that the government had requested with a small number of Chevron employees, but those employees "chose to exercise their individual rights in refusing to be interviewed by investigators."

The reports by Mr. Devaney described a "culture of ethical failure" at the Minerals Management Service. In response to those findings, the Interior Department announced late Thursday that the Minerals Management Service "will begin taking appropriate disciplinary actions" against individuals who engaged in misconduct, and the MMS also might implement a random drug-testing program.

African platinum firms in talks

BY ROBB M. STEWART

JOHANNESBURG—**Impala Platinum Holdings** Ltd., the world's second-largest producer of the metal, said it is in talks with two smaller South African companies about a deal that would create a "platinum champion."

The Johannesburg-based company, known as Implats, said it is in talks with **Mvelaphanda Resources** Ltd. and **Northam Platinum** Ltd. about a potential combination.

Implats has a market capitalization of about $16 billion. The combined value of the two smaller companies is more than $3.5 billion.

Northam and Mvela, majority owner of Northam, said separately that they have been approached by "interested parties" that may make an offer to buy the pair.

Mvela spokesman James Wellsted said the companies were trading under a so-called cautionary statement to the Johannesburg securities exchange and were unable to give further details on the talks.

A spokesman for Implats wasn't available for comment.

Implats stock jumped 5.2% Friday to close at 204.02 rand ($25.35), against a modest rise in the wider Johannesburg market. Mvela shares rose 28% to 49.95 rand, giving it a market value of roughly $1.3 billion, while Northam climbed 19% to 54.03 rand, for a market value of $2.4 billion.

The announcement could herald the latest step in the consolidation of the platinum industry, which has focused on smaller companies.

Still, bigger companies have been takeover targets too. The world's No. 3 platinum producer, **Lonmin** PLC, last month rejected a hostile £5 billion ($8.97 billion) bid from Switzerland-based **Xstrata** PLC.

For Implats, the deal would mean access to South Africa's Booysendal project, a prime platinum deposit with 103.4 million ounces of platinum-group metals and gold.

Northam took control of Booysendal from **Anglo Platinum** Ltd., the world's biggest producer of the metal, earlier this year as part of a wider deal. As part of that transaction, Mvela bought Angloplat's stake in Northam to bring its interest in the smaller miner to almost 63% from 22%.

"Without knowing the details, this is probably a good move for all of them," said Peter Major, a fund manager with Cadiz Specialised Asset Management in Cape Town. Mr. Major said Implats would get its hands on a good prospective mine with Booysendal, while Mvela, which lacks the financing to develop the huge project, would be "off the hook" in terms of having to fund its development.

Northam makes up roughly 88% of Mvela's net asset value. Mvela also owns a 15% deferred interest in the South African assets of **Gold Fields** Ltd. and a nearly 21% stake in diamond producer **Trans Hex Group** Ltd. Implats produced 1.91 million ounces of platinum from operations in South Africa and Zimbabwe, the two primary sources of the metal globally, in the year ended June 30.

King lifts its Alpharma bid, will take it to shareholders

BY MIKE BARRIS

King Pharmaceuticals Inc. increased by 12% its bid for fellow U.S. drug maker and reluctant takeover target **Alpharma** Inc. and is taking the $1.6 billion offer directly to shareholders.

The company warned it could start a proxy battle if the latest offer is rejected, moving to replace Alpharma's board with its own nominees. The $37-a-share offer, up from $33, represents a 67% premium to the closing price of Alpharma shares Aug. 4, the date of King's initial proposal.

Alpharma urged its shareholders to take no action in response to King's revised bid, adding it will make a recommendation within 10 business days of the tender offer's launch.

Alpharma said it has begun exploring alternatives,which could include a sale of the company to King or another party, in light of the revised offer and "expressions of interest" from other parties.

"King communicated its revised proposal to Alpharma last week, and we invited them to enter into a process designed to ensure Alpharma shareholders receive full and fair value for their investment in our company," Alpharma Chief Executive Dean Mitchell said. "We continue to welcome and encourage King's participation in that process."

Late last month, King made public Alpharma's rejection of its $33-a-share, or $1.43 billion offer. Alpharma had said the offer was too low. King said it was open to negotiating and confident a deal would be worked out.

"We have determined it is necessary to take our enhanced offer directly to Alpharma stockholders in order to deliver significant value to them as expeditiously as possible," said King Chairman and Chief Executive Brian A. Markison. "We are committed to completing this transaction and remain willing to work cooperatively with Alpharma."

Sinosteel wins Australian iron miner

BY ALEX WILSON AND JENNY STRASBURG

Sinosteel Corp. on Friday appeared to have sealed its full takeover of Australian iron-ore company **Midwest** Corp., securing the acceptances of two large stakeholders.

Sinosteel gained total control when former Midwest director David Law accepted its takeover offer for his holding of about 13.1%, a person familiar with the situation said. That gave Sinosteel more than 83% of the shares outstanding.

All eyes then turned to New York investor **Harbinger Capital Partners**, which retains a 15.2% stake. That stake is crucial to Sinosteel getting beyond the 90% mark, which would allow the Chinese group to compulsorily acquire the remaining shares.

Harbinger executives early in the day hadn't decided what to do, but by late Friday a decision had been reached to accept the offer, according to a person familiar with the situation. Sinosteel's offer is set to end Monday.

Previously, another major shareholder, **Murchison Metals** Ltd., had agreed to tender. Murchison itself had launched a failed proposal for a merger with rival Midwest. Harbinger originally had favored a Murchison-Midwest deal over a Sinosteel-Midwest deal.

Mr. Law, who resigned as a director of Midwest on Wednesday, accepted the Chinese group's offer of 6.38 Australian dollars ($5.11) a share for his 13.1%, according to the person familiar with the situation. Prior to Mr. Law's acceptance, Sinosteel had a holding of 70.2% in Midwest.

Mazda, Mitsubishi to raise prices

BY YOSHIO TAKAHASHI

TOKYO—**Mazda Motor** Corp. and **Mitsubishi Motors** Corp. said they will raise the prices of some of their vehicles in Japan, despite sluggish domestic sales.

Mazda will raise the prices on four commercial models by 2.8% to 3% beginning Oct. 1, citing costs of raw materials. Mitsubishi will increase prices by 2.9%, on average, for three commercial vehicles that Mazda produces for the company. Toyota Motor Corp. and Nissan Motor Co. have also raised prices.

Japanese car makers raised prices in some overseas markets this year as higher prices of steel and other raw materials needed to build cars are squeezing their profitability.

AFP

A worker removes **tins of Sanlu milk powder** from shelves at a supermarket in Changsha city, Hunan province.

Chinese babies sickened by tainted milk powder

By Loretta Chao

BEIJING—China's government sought to respond to troubling questions about its food-safety system as new details emerged about tainted baby formula that officials say has sickened more than 400 infants. The scope of China's latest product-quality scandal has widened since it gained national attention last week. Officials said over the weekend that they have now learned of 432 babies who fell ill with kidney problems after ingesting milk powder tainted with the industrial chemical melamine.

The government said Sunday it is dispatching inspectors to examine milk-production facilities across the country. At a news conference a day earlier, Gao Qiang, head of China's Ministry of Health, said officials now suspect that melamine might have been added to milk by dealers before it reached Shijiazhuang Sanlu Group Co., whose milk powder the government has tied to the illnesses. Mr. Gao, who is the health ministry's Communist Party secretary, said dealers might have been diluting the milk with water to increase the volume, then adding melamine, a nitrogen-rich chemical used to make plastics and fertilizers, to fool tests for protein, which measure nitrogen levels.

The case is spotlighting not only continued flaws in food production in China, but also persistent holes in the government's ability to detect and respond to problems in a timely manor. Officials say they have detained 19 people and are questioning 78 others in a sweeping investigation announced Thursday—more than a month after officials say Sanlu first discovered that its milk powder was tainted with melamine, and several months after initial signs of problems emerged.

Complaints surfaced as early as March that infants were getting sick as a result of ingesting milk powder from Sanlu, a major Chinese milk-powder producer that is 43%-owned by **Fonterra Co-operative Group** Ltd. of New Zealand. Mr. Gao, the health official, said the company investigated the matter and began quietly recalling some of its product but didn't immediately inform the government.

Then in June, a consumer complained to China's General Administration of Quality Supervision, Inspection and Quarantine but gave no detailed information, so the agency didn't investigate the matter. Sanlu discovered melamine in its milk in early August, but provincial authorities didn't learn of it until Sept. 8, Mr. Gao said. The government announced that Sanlu was recalling the remainder of its milk powder on Thursday.

Mr. Gao said that experts will be dispatched to treat sick infants, who live in several provinces around China, and that the Chinese government will pay for the infants' care.

State-run media say Sanlu has already withdrawn more than 8,000 tons of its milk powder and is now trying to pull an additional 700 tons off store shelves. Sanlu officials haven't responded to requests for comment since the government's announcement Thursday. In a statement Sunday, Fonterra said it learned of the melamine contamination in August and called for a public recall of the affected product. "We have continued to push for this all along," the statement said. Officials say the tainted milk powder was exported to only one overseas market, Taiwan, where a shipment of 25 tons was received in June. The milk powder in Taiwan has been used to make adult products like instant coffee, milk tea and baked goods, and no illnesses have been reported there. As of Sunday, Taiwan's Department of Health said it had traced 70% of the imported powder.

The recall by Sanlu could be one of China's biggest since the government began putting in place mechanisms for food-product recalls last year after a series of other product-safety scandals. While governments and companies in many developed countries have long had systems in place to regulate and enforce product liability, China first issued such rules—for recalling faulty automobiles—in 2004. Consumers who are hurt by defective or contaminated products also have little recourse against companies that don't comply with safety regulations. Sanlu was China's seventh-largest milk formula brand by revenue as of last year, with 6.2% of the market, according to market researcher Euromonitor International.

China's health ministry said Thursday it is inspecting baby-formula supplies across the country and that the government has dispatched inspectors to Sanlu's factories to determine what went wrong. It isn't clear if all the affected babies consumed formula made by Sanlu.

—Gao Sen and Kersten Zhang in Beijing, Ting-I Tsai in Taipei and Marc Champion in Brussels contributed to this article.

Japan iPhone sales slow

High price of device, tough competition are impeding growth

By Yukari Iwatani Kane

Two months after its launch, the latest version of **Apple** Inc.'s iPhone is showing strong sales around the world—except in Japan.

Apple's partnership with Japan's third-largest mobile operator, **Softbank** Corp., to sell the iPhone 3G certainly created a buzz. Like elsewhere, Japanese consumers lined up at stores in advance of the phone's release on July 11, and many locations sold out almost immediately. But now analysts estimate that demand in Japan has fallen to a third of what it was initially and analysts are now expecting fewer iPhone sales. There is no supply shortage: The device is readily available in Apple and Softbank stores and other outlets. Major electronics retailer Yodobashi Camera's megastore in the western city of Osaka, for example, recently had more than 100 of them stacked up in open view.

A spokesman for Softbank, which has 19.5 million wireless subscribers, said the iPhone continues to be popular, but declined to provide details. A spokesman for Apple Japan declined to comment. Sales have been slowed by the iPhone's relatively high price and the fact that Japan is already home to some of the world's most advanced cellphones. The iPhone's limited success so far shows how tough it continues to be for foreign manufacturers to crack the Japanese cellphone market.

More than 10 domestic handset manufacturers compete for a slice of Japan's cellphone market, one of the world's largest with annual sales of 50 million phones. **Nokia** Corp., the industry leader in global shipments, has less than 1% share in Japan. Instead, **Sharp** Corp. leads the Japanese market, with about 25% of shipments. The global market is more than one billion phones.

Still, expectations had been high that if anyone could break into such an insular market, Apple would with the iPhone 3G because of its strong brand name and popularity of its iPod players and Macintosh computers. The original iPhone wasn't sold in Japan.

According to market-research firm MM Research Institute, Apple sold about 200,000 phones in Japan in the first two months. Since then, however, demand has been falling steadily, and analysts now widely believe sales are unlikely to reach a total of 500,000 units. That is half the one million units that they previously thought Apple could sell. One big challenge is that Japanese users already have access to some of the most advanced mobile-phone technologies in the world. Models currently sold by Japanese cellphone makers typically contain a high-end color display, digital TV-viewing capability, satellite navigation service, music player and digital camera. Many models also include chips that let owners use their phones as debit cards or train passes. Noriko Tanaka, a 34-year-old Softbank customer in Tokyo, said she likes the iPhone's touch screen, but would prefer a phone with digital television capability.

Another challenge for Softbank is that Apple's marketing for the new iPhone has touted the devices compatibility with 3G wireless networks, which give users faster access to the Internet. While this is a relatively new service in the U.S., 3G access has been a standard feature on Japanese phones for years.

"The iPhone is a difficult phone to use for the Japanese market because there are so many features it doesn't have," says Eimei Yokota, an analyst with MM Research. He said one small but must-have feature that is often cited as a deficiency in the iPhone is the lack of "emoji," clip art that can be inserted in sentences to jazz up emails. Japanese consumers have also shied away from the phone because of its high price. Through a complex discount equation, Softbank makes a 16-gigabyte phone available for about 58,560 yen, or around $540, for current Softbank customers or 34,560 yen, or around $320, for new customers, both prices require a two-year contract. That compares with a U.S. price of $299 with AT&T Inc. under similar conditions. *—Miho Inada contributed to this article.*

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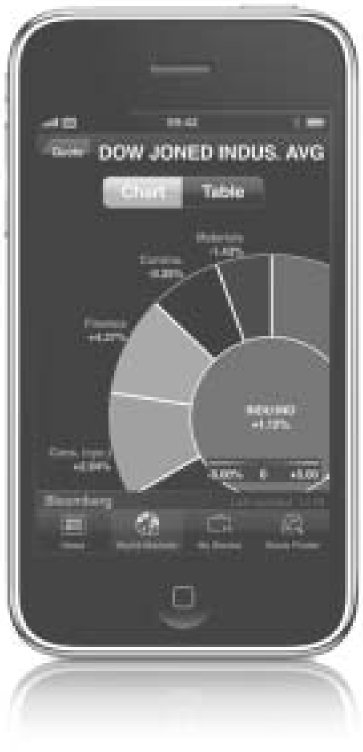

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GLOBAL BUSINESS BRIEFS

NXP Semiconductors BV

Restructuring to eliminate 4,500 jobs in four plants

NXP Semiconductors BV said it will close or sell four plants and cut 4,500 jobs, or about 13% of its work force. NXP, the former chip-making arm of Philips Electronics NV, was bought by a group of private-equity investors in 2006. It said the cuts result from a tough economy, a weak dollar and its decision to sell most of its operations manufacturing wireless chips to STMicroelectronics NV in April. The cuts will cost about $800 million but lead to annual savings of $550 million, it said. NXP said it would close or sell factories in Fishkill, New York; Nijmegen, the Netherlands; Hamburg, Germany and Caen, France. "The changes will make NXP a strong, profitable and growing company," Chief Executive Frans van Houten said.

Continental Airlines Inc.

Continental Airlines Inc.'s board elected President Jeff Smisek as chief operating officer, according to a regulatory filing. The Houston company also said Chairman and Chief Executive Larry Kellner will assume oversight of marketing and technology. Mr. Smisek remains responsible for government affairs, human resources and labor relations, global real estate, security and environmental affairs, and corporate communications. Mark Moran, executive vice president-operations, will remain the company's principal operating officer, and will report to Mr. Smisek. Continental announced in June that it would slash about 3,000 jobs and significantly reduce domestic flights in its battle against soaring fuel prices. Mr. Smisek joined the airline in March 1995 as senior vice president and general counsel and became president in December 2004.

Johnson & Johnson

Christine Poon, vice chairman of **Johnson & Johnson**'s board and the head of its struggling pharmaceuticals group, will retire on March 1 after more than eight years with the company. A successor hasn't been named. Ms. Poon, J&J's highest-ranking woman and one of the top female executives in the pharmaceutical industry, had been charged with turning around J&J's drug business. She was given additional hands-on responsibilities as recently as 10 months ago, following a J&J restructuring in November. Ms. Poon, 56 years old, said in a note circulated to employees that she had "mixed feelings" about leaving J&J, feeling the pull of the "irresistible force of family," while still wanting to stay involved in advancing science and health. Ms. Poon joined J&J in November 2000.

Delphi Corp.

General Motors Corp. would contribute an additional $4.6 billion to help **Delphi** Corp. emerge from bankruptcy under a plan the auto supplier will submit to the bankruptcy court this month, bringing its total support to about $10.6 billion. GM would assume responsibility for the pensions of some of Delphi's hourly retirement-plan participants. The cost to GM would be increased to about $3.4 billion from $1.5 billion. The plan requires consent from unions. Delphi filed for bankruptcy protection in 2005 but hasn't been able to exit Chapter 11 as planned after investors backed out of a deal to pump $2.55 billion into the company. GM has taken $11 billion in charges related to Delphi since 2005. GM previously agreed to provide debt financing that Delphi needed to exit bankruptcy protection.

Continental AG

German auto supplier and tire maker **Continental** AG lowered its outlook for 2008 due to a "substantial worsening of the economic environment" in North America and Europe amid high prices for raw material. Continental expects its margin on earnings before interest and tax will be about 8.5% in 2008. Continental had aimed for more than 9.3%. Sluggish demand for cars in major markets such as the U.S. and Western Europe and high costs for raw materials such as steel have been eroding the earnings of auto makers and their suppliers in recent months and have forced some to lower their targets or even issue profit warnings for 2008. A comprehensive interim reporting with more detailed statements will be provided along with the third-quarter earnings on Oct. 30, Continental said.

Merck & Co.

Merck & Co.'s cervical-cancer vaccine, Gardasil, received regulatory approval for the prevention of vulvar and vaginal cancer, the U.S. Food and Drug Administration said Friday. Gardasil was approved in 2006 to prevent a virus called the human papillomavirus, which is responsible for about 70% of cervical cancers. The vaccine has brought in billions of dollars of revenue for Merck, but recently sales have slowed due to lower-than-expected use of the vaccine among women 19 to 26 years of age. The FDA's expanded approval is the first piece of good news related to the drug in recent months. In June, the FDA denied Merck's request to approve the drug for women ages 27 to 45. "We now have two additional cancers we can claim are prevented by the administration of Gardasil," said Rick Haupt, program leader for Gardasil.

PCCW Ltd.

PCCW Ltd. wants to maximize the price it gets for its telecommunications and media assets by giving the buyer priority over other shareholders on future dividend payments. PCCW, which is selling up to a 45% stake in its HKT Group Holdings Ltd. unit, said it will seek to maintain its dividend payment at or above the current level but the buyer of the HKT stake would get first priority. People familiar with the situation have said the stake could fetch as much as US$2.5 billion. The telecommunications company declared a first-half dividend of seven Hong Kong cents (one U.S. cent) last month. Analysts said the new proposed dividend structure will reassure the buyer, who will probably use high leverage to finance the purchase. They said the arrangement isn't likely to prop up buyers' bid price because of weak credit markets.

—Compiled from staff and wire service reports.

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