THE WALL STREET JOURNAL.
WSJ.com
DOW JONES Newswires
EUROPE
DOW JONES A News Corporation Company
VOL. XXVI NO. 165
TUESDAY, SEPTEMBER 23, 2008

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Business & Finance

Japanese financial firms have returned to the M&A scene, with Nomura buying Lehman's Asian operations and MUFG making plans to acquire 20% of Morgan Stanley. Page 1

■ **The U.S. Federal Reserve** agreed to convert Morgan Stanley and Goldman Sachs Group into traditional bank holding companies. Page 1

■ **U.S. Democrats** are looking to add provisions to the plan to save financial markets, but there is no sign yet the proposal will be delayed or derailed. Page 19

■ **Russia's financial crisis** is showing signs that it is likely to spur consolidation and a slew of bankruptcies. Page 1

■ **Investors fled** from U.S. financial stocks and airlines tumbled as oil soared. European shares fell amid concerns over the U.S. rescue plan. Page 20

■ **European insurers** such as AXA and Generali are likely to benefit from the U.S. home-loan crisis. Page 2

■ **European banks**, after pushing to be included in the U.S. $700 billion financial-sector bailout plan, might not reap much of a benefit. Page 2

■ **Siemens's scandal** returns to court as Johannes Feldmayer, the most-senior former executive yet, stands trial. Page 6

■ **IBM plans to review** its membership in technical standards-setting bodies and may quit some. Page 6

■ **Sanofi-Aventis will acquire** Czech generic-drug maker Zentiva in a deal that values the Prague-listed company at about $2.6 billion. Page 21

■ **U.K. interest rates** may need to be set at a relatively high level amid globalization, the central bank said. Page 11

■ **Microsoft and H-P** won authorization to buy back billions of dollars of their stock, highlighting the strength of the technology sector. Page 19

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	11015.69	-372.75	-3.27
Nasdaq	2178.98	-94.92	-4.17
DJ Stoxx 600	272.35	-5.83	-2.10
FTSE 100	5236.3	-75.0	-1.41
DAX	6107.75	-81.78	-1.32
CAC 40	4223.51	-101.36	-2.34
Euro	$1.4650	+0.0227	+1.57
Nymex crude	$120.92	+16.37	+15.66

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World-Wide

Pakistani leaders, including President Zardari, were to dine at the Islamabad hotel devastated by Saturday's truck bombing but changed plans at the last minute. Gunmen kidnapped Afghanistan's ambassador-designate to Pakistan and killed his driver. Page 12

■ **A suicide car bomber killed** nine Pakistani troops in the country's volatile northwest.

■ **Bandits abducted** 11 European tourists and their local guides in southwest Egypt near the border with Sudan. Page 11

■ **Israeli Foreign Minister** Tzipi Livni received the formal nod to attempt to form a new coalition government.

■ **Slovenia's opposition** Social Democrats maneuvered to wrest control of the government from Premier Janez Jansa's center-right party after Sunday's parliamentary election.

■ **A car bomb killed** an army officer and wounded six in northern Spain, in a suspected attack by Basque separatist group ETA.

■ **The U.N. Security Council** voted to extend the NATO-led force in Afghanistan.

■ **Militants kidnapped** 155 laborers working on constructing a military base in Afghanistan after stopping three buses.

■ **China's dairy scandal** continued to reverberate as Beijing's quality regulator resigned. Page 9

■ **South Africa's ruling party** will pick an interim successor to President Thabo Mbeki on Thursday. The country's markets took his resignation in stride. Page 10

■ **North Korea asked** the IAEA to remove seals and surveillance gear from its Yongbyon reactor, heightening concerns Pyongyang may be preparing to restart its nuclear program.

■ **Racial prejudice could cost** Obama up to six percentage points in the U.S. presidential election against McCain, an AP-Yahoo News poll suggests.

■ **A Russian navy squadron set** off for Venezuela, in a Western Hemisphere deployment unprecedented since the Cold War.

■ **The U.S. defeated** Europe to win golf's Ryder Cup Sunday for the first time since 1999.

EDITORIAL & OPINION

Grounded
Alitalia's suicidal unions shoot down their own jobs.
Review & Outlook. Page 13

Japanese suitors swoop in on U.S. investment banks

Nomura and MUFG nab parts of Lehman and Morgan Stanley

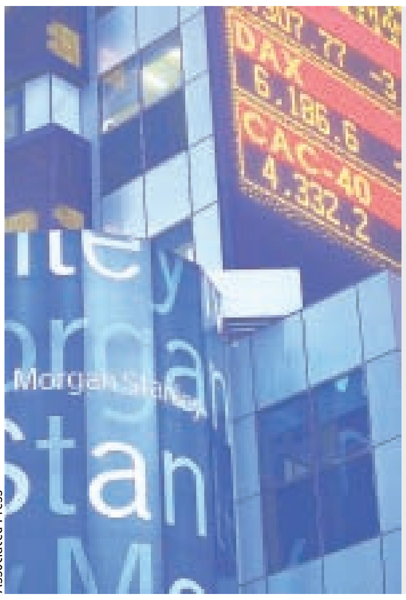
By Alison Tudor

TOKYO—Japanese financial companies are back on the global stage as acquirers, seizing opportunities arising from the U.S. financial crisis to expand their presence overseas.

On Monday, Japan's largest banking group by market capitalization, **Mitsubishi UFJ Financial Group** Inc., said it plans to buy 20% of **Morgan Stanley**. The two firms are still talking about the price, but based on the U.S. investment bank's book value at the end of August, the deal would be valued at about 900 billion yen, or about $8.39 billion.

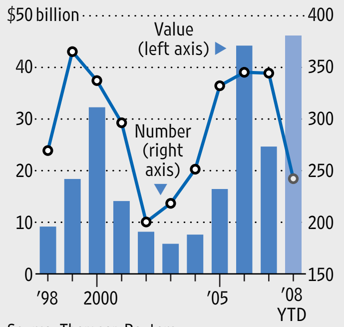
Also Monday, **Nomura Holdings** Inc., Japan's largest brokerage house, won an auction for the Asian operations of Wall Street firm **Lehman Brothers Holdings** Inc. Nomura is paying $225 million for the equities, fixed-income and investment-banking operations of Lehman across the region, including in Japan and Australia, according to a person familiar with the situation.

The moves show how the U.S. financial crisis has opened up opportunities for cash-rich foreign companies
Please turn to page 4



Associated Press

Outbound
Overseas M&A deals by Japanese companies, value and total number



Source: Thomson Reuters

Japan's **Mitsubishi UFJ Financial Group** said it has agreed to buy a stake of between 10% and 20% in Morgan Stanley

Goldman, Morgan moves end an era on Wall Street

By Damian Paletta And Aaron Lucchetti

The U.S. Federal Reserve's extraordinary move of agreeing to convert investment banks **Morgan Stanley** and **Goldman Sachs Group** Inc. into traditional bank holding companies aims to prevent the financial crisis from infecting Wall Street's two premier institutions.

With the move Sunday night, Wall Street as it has long been known—a coterie of independent brokerage firms that buy and sell securities, advise clients and are less regulated than old-fashioned banks—will cease to exist. Wall Street's two most prestigious institutions will come under the close supervision of national bank regulators, subjecting them to new capital requirements, additional oversight and far less profitability than they have historically enjoyed.

Already, the biggest rivals of Goldman Sachs and Morgan Stanley—**Merrill Lynch** & Co., Lehman Brothers and Bear Stearns—have merged into larger banks or sought bankruptcy protection.

"This fundamentally alters the landscape," a Goldman Sachs spokesman said. "By becoming a bank holding company and being regulated by the Federal Reserve, we have directly addressed issues that have become of mounting concern to market participants in recent weeks."

The rapid pace of change in recent weeks highlights the severity of the financial crisis and suggests it is deeper than many on Wall Street were willing to admit. Some investors may view the move as a negative signal, for it suggests that Goldman and Morgan Stanley, two institutions who were once considered
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Russian crisis may fuel wave of acquisitions

By Andrew Osborn

MOSCOW—Days after the Kremlin unveiled a $120 billion rescue package that steadied Russian financial markets, signs that the crisis is set to spur consolidation and a slew of bankruptcies emerged. On Monday, a billionaire businessman bought a 50% stake in one of Russia's largest investment banks in what he said was a sign of things to come.

Metals magnate Mikhail Prokhorov paid $500 million for new equity equal to a 50% stake in Renaissance Capital, the investment-banking business of Moscow-based **Renaissance Group.** Analysts said Mr. Prokhorov got a bargain, since Renaissance had been estimated to be worth at least several billion dollars before the crisis.

The deal came as the Kremlin announced fresh measures to ease liquidity, suggesting it believes the banking system remains fragile. State-controlled banks have begun to throw lifelines to smaller private rivals that have run into trouble, in some cases with a view to acquiring them. Leading retailers have also begun to change hands or strike emer-
Please turn to page 4

LEADING THE NEWS

Insurers gain as AIG falls

AXA and Generali find room to grow in financial crisis

By Goran Mijuk

ZURICH—European insurers are emerging as unlikely beneficiaries of the continuing U.S. home-loan crisis.

Backed by sound balance sheets, ample cash and comparatively healthy insurance markets, big players such as France's **AXA** SA and Italy's **Assicurazioni Generali** SpA are expected to gain market share as their largest rival, **American International Group** Inc., and many banks that compete in long-term savings products struggle to keep investment losses in check.

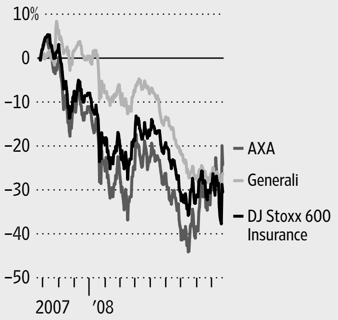
The crisis could also lead to consolidation as companies snap up weaker rivals.

Many analysts say European insurers could wrest business from AIG, which posted massive write-downs and was only able to stay in business after last week's $85 billion bailout by the U.S. government. Insurance brokers say clients in Europe have started to shun AIG products, concerned about the U.S. company's viability. At the same time, insurers have started to push brokers to move business away from AIG, a person familiar with the industry says. Likewise, banks that offer savings products may now have a more difficult time selling them as customer trust is eroded, analysts say.

Allianz SE of Germany and AXA expect to profit from the financial meltdown as neither has had substantial write-downs linked to the U.S. mortgage market. "This should give us additional momentum for the future in the competition for customers' goodwill," said Allianz Chief Economist Michael Heise.

Insurance sector

52-week performance of Dow Jones Stoxx 600 Insurance index vs. AXA and Generali



Source: Thomson Reuters Datastream

The overall exposure of European insurers to AIG and Lehman Brothers Holdings Inc. is about €3.2 billion ($4.63 billion), according to Keefe, Bruyette & Woods.

AXA Chief Executive Henri de Castries has said the current crisis could create takeover opportunities. Although large deals aren't likely until the current financial crisis settles, investors with a long-term view could reap profits from the European insurance industry down the road, analysts say, given that sector shares have been hit along with the rest of the market since last year's outbreak of the U.S. mortgage crisis.

"With the sector close to historic lows and offering unprecedented value, we remain positive," says Citi Investment Research analyst Andrew Crean, singling out Allianz, AXA and **Zurich Financial Services** AG among preferred stocks.

"The sector shows 40% upside from [current] levels," says Deutsche Bank analyst Spencer Horgan, although "near term, at least, volatility is likely to remain high."

The Dow Jones Stoxx 600 Insurance Index was down 2% midday Monday. The index has fallen 30% in the past 12 months—the corresponding banking index fell 38%—amid concerns the crisis could broaden to other segments that could affect insurers, which invest the bulk of their premium income in corporate and government bonds.

Seeking new business opportunities, Zurich Financial on Monday said it will roll out a global branding campaign for its Zurich HelpPoint franchise. The franchise's broadened services, which include consulting and claims handling, in the first phase will be offered in the U.S., Canada and Europe, markets where AIG has so far been among the leaders.

Italy's Generali on Sunday pushed ahead with its expansion in fast-growing Central and Eastern Europe as it received a license to operate in Belarus. It will start operations later this year in the former Soviet country which, although outside the European Union and governed by strongman Alexander Lukashenko, posted 10% growth in gross domestic product last year and has low penetration rates for insurance.

Insurers can now spend more lavishly in times of crisis thanks to lessons learned from the market collapse in 2001, when many players were hurt by crumbling stock markets.

Bailout may not do much to help European banks

By Sara Schaefer Muñoz

LONDON—After pushing to be included in the U.S. Treasury's $700 billion financial-sector bailout plan, European banks might not reap much of a benefit.

Over the weekend, amid pressure from bank lobbyists, the U.S. Treasury agreed to allow U.K. and other European banks with "significant operations" in the U.S. to be eligible for its massive buyback plan for troubled assets. Bankers in Europe were watching closely as details of the plan unfolded Monday, hoping it would unfreeze lending markets and inject confidence into the afflicted market for mortgage-backed securities.

Yet analysts see various reasons why the plan won't solve some of European banks' biggest problems. For one, Europe's banks may prefer to keep soured assets on their books, as they have been inclined to do throughout the financial turmoil of the past year, rather then sell them at a low price and be forced to take more write-downs. Beyond that, it isn't clear whether European governments will come up with their own plans to buy up troubled assets such as U.K. and Spanish mortgages, which the U.S. Treasury plan doesn't cover.

In one sign investors might be having second thoughts, European bank stocks edged downward Monday after logging huge gains Friday. The Dow Jones Euro Stoxx banks index fell 2.9%, compared with the broader index's 2.1% fall. Britain's **HSBC Holdings** PLC fell 5.8%. **Barclays** PLC closed down 4.1%. Swiss banking titan **UBS** AG's American depositary receipts were down 8.2% in late-afternoon trading on the New York Stock Exchange.

A spokesman for HSBC, which holds a large portfolio of subprime mortgage assets in its U.S. unit, called the plan a "positive development" and said HSBC would explore the details as they emerge. Thomas Sutter, spokesman for the Swiss Bankers Association in Basel, said while there is a risk the U.S. plan may trigger more write-downs, "We think [the U.S. plan] is a good thing because it will bring back confidence and stability to the system."

The big question for European banks, as for banks everywhere, will be the prices that the U.S. Treasury will offer for the toxic assets. If the prices are much lower than the values in the banks' books, selling the assets will spur new losses, and write-downs, for the banks.

"The devil will be in the details," says Simon Adamson, a European bank analyst at the research firm CreditSights Inc. in London. "If terms are attractive enough they would see an advantage to getting them off their balance sheet."

Both the German and French governments indicated Monday that they see no need to set up U.S.-style rescue packages.

—Neil Shah, Natasha Brereton and Andrea Thomas contributed to this article.

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.

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 FAX: Business: 32 2 732 1102
News: 32 2 741 1600 Editorial Page: 32 2 735 7562
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799 Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

INDEX TO PEOPLE

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

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THE FINANCIAL CRISIS

Rescue's key goal is halting slide in home prices

By Justin Lahart And Ruth Simon

The success or failure of the U.S. Treasury's plan to spend up to $700 billion on soured mortgages may come down to one main question: Can it stem the slide in housing?

Declining home prices have been at the root of the crisis gripping the financial market. Overextended borrowers who would have been able to sell their homes and pay off their debts had prices continued to rise have instead seen the value of their homes fall below what they owe. The number of homes going into foreclosure has risen, adding to a glut of unoccupied homes that has helped further depress home prices.

Compounding the problem, many of the now-toxic mortgage-based securities financial institutions hold were, in essence, little more than bets that home prices wouldn't fall nationally—something that began happening two years ago. The more prices have fallen, the more of those bets have gone sour, adding to financial firms' losses. That has cut into their ability to make loans and, in some cases, their ability to survive. At its most-recent reading, in June, the S&P/Case-Shiller index of housing prices was 19% below its July 2006 peak.

One way the Treasury plan could help ease the economic pain would be to help limit the number of homes going into foreclosure by offering mortgage relief and working out payment plans to troubled lenders, said UBS Securities economist Maury Harris. Home prices have been particularly weak for foreclosed homes, so reducing the number of homes going into foreclosure could help support prices.

That would be easier to do if the government buys whole loans, in which case it would have control over what happens to those mortgages, said Mark Zandi, chief economist of Moody's Economy.com. But the process becomes more complicated, said Mr. Zandi, if the government buys mortgage-backed securities, which have been created by slicing up pools of mortgages. "Then they don't acquire the underlying loan, and aren't able to modify the loan to make it more likely that the person will be able to stay in the home," he said.

By allowing lenders to get bad loans off their books, the bailout "keeps the banks in the game and means they can lend tomorrow," said Susan Wachter, a professor of real estate at the University of Pennsylvania's Wharton School. "If done right, it keeps the banks' doors open to new borrowers." More than one million new households—who could be potential home buyers—form each year, and new-home purchases would help reduce the inventory of homes on the market, which is depressing home prices, she said.

But for the government's action to be broadly successful, other steps would almost surely be needed. These include an infusion of capital that would allow banks to step up their lending activity, Ms. Wachter said, and a restructuring of troubled mortgages in order to reduce the number of foreclosed homes flooding the market. If banks expect home prices to continue to tumble, they will be reluctant to lend, even if they have the capital to do so, and the number of people willing to buy a home will remain low.

Keeping track of the quest for a cleanup

A lay person's guide to the main elements of Treasury proposal

By Deborah Solomon

Treasury Secretary Henry Paulson is asking Congress for unprecedented authority to buy the troubled assets at the root of the worst financial crisis since the 1930s. While details remain unresolved, here's how things stand.

Why is Treasury asking for authority to do this?

With credit markets frozen, the engines of the U.S. economy are essentially stuck. Companies are having trouble financing operations and lending has slowed. Treasury argues the root of the problem is rotten assets sitting on the balance sheets of financial institutions. Buying these assets will help jump-start the economy by allowing financial institutions to raise more capital and begin lending and investing.

Who will manage the assets?

Treasury plans to hire financial intermediaries who will buy and sell loans and securities.

Will the government own individual mortgages?

Possibly. Treasury has asked for authority to buy residential and commercial mortgages, along with mortgage-backed securities.

How long will the government hold the assets?

The government can hold the assets until maturity, meaning they could hold a 30-year mortgage for the entire 30 years or they can sell the assets at their discretion.

What will Treasury pay?

This is one of the biggest and thorniest questions. For the plan to succeed, financial institutions must be able to get these assets off their books at a high enough price so that their balance sheets aren't further pinched. One reason financial institutions are in trouble is because they keep having to write down the value of the assets as they fall in price. For the program to work, Treasury needs to pay enough that the institutions are able to record a price that doesn't exacerbate their woes. One option is a reverse auction. In that case, Treasury could determine a class of assets it wants to buy and would then purchase securities from financial institutions that offer to sell at the lowest price.

THE FINANCIAL CRISIS

Japanese financial firms pursue U.S. investment banks

Continued from first page

nies from Asia to the Middle East. But while many had expected Chinese banks to become more prominent players, it is the Japanese financial companies, which have been relatively unscathed by the financial crisis so far, that are acting aggressively.

Officials of MUFG, as the Japanese bank is known, in the past few months have repeatedly said they were talking to several companies overseas to find investment opportunities that would help their bank expand its presence in strategic areas such as investment banking. The first such deal was announced in August. MUFG agreed to pay a little more than $10 billion for the 35% of UnionBanCal Corp. that it didn't already have, making the San Francisco bank holding company a wholly owned subsidiary.

On Monday, an MUFG spokesman said that the company has an option to acquire between 10% and 20% of Morgan Stanley, depending on the results of due diligence, but that MUFG is aiming for 20%. He added that the company wants to partner with Morgan Stanley across a wide range of investing activities. Upon the deal's closing, a representative of MUFG will join the Morgan Stanley board.

Morgan Stanley needs the capital infusion because it and other investment banks found that they didn't have enough balance-sheet strength to support leveraged bets on markets from U.S. mortgages to international stocks. Late last year, Morgan Stanley secured an investment from **China Investment Corp.** after it announced that a wrong-way bet on the mortgage market led to a $3.6 billion quarterly loss.

In a statement, Morgan Stanley Chairman and Chief Executive John J. Mack said a strategic alliance with Mitsubishi UFJ "can put Morgan Stanley in an even stronger position as we look to realize the opportunities we see in the rapidly changing financial marketplace."

Other financial companies have also invested in Western banks recently. **Sumitomo Mitsui Financial Group** Inc., Japan's No. 2 bank by market cap, in June struck an agreement to inject nearly $1 billion into **Barclays** PLC of the U.K. **Mizuho Financial Group** Inc. in January set a deal to provide $1.2 billion to **Merrill Lynch** & Co. through the purchase of preferred shares.

The deals mark the latest evidence of the reversal of fortunes between the financial sectors in Japan and the U.S. A decade ago, Japanese banks were damaged from their own bad-loan problems, requiring the government to spend nearly $440 billion to strengthen them. Many financial companies have consolidated and restructured since then and have regained their health recently. Many have been eager to expand overseas to keep their businesses growing at a time when Japan's domestic market is shrinking because of a declining population.

But it also raises the question: Will they be burned again? During the country's boom years in the 1980s, Japan's companies went on shopping sprees, helped by soaring Japanese land and stock prices, only to be forced to sell these assets later to raise money to write down their mounting bad debts.

For example, Fuji Bank owned Heller Financial Inc., a U.S. commercial-finance company, for seven years—but sold it to General Electric Co.'s GE Capital unit in 2001. Dai-Ichi Kangyo bought another commercial lender, CIT Group, in 1989, only to unload it to Tyco International Ltd. in 2001. Both banks have since merged to become Mizuho.

Even during the current acquisition boom, Japanese companies still tend to pay top dollar, paying larger premiums over the market value than investment bankers would have expected looking at similar deals. **Tokio Marine Holdings** Inc. has been criticized by analysts for paying too much when it offered in July to pay $4.7 billion for **Philadelphia Consolidated Holding** Corp., a midsize U.S. nonlife insurance company.

Still, some Japanese companies, including MUFG, have shown signs of increased aggressiveness. Last month, MUFG made its unsolicited offer for UnionBanCal, surprising analysts. It later sweetened the bid to clinch the deal. Some analysts were surprised that Nomura was able to beat its competitors in the fast-paced auction for Lehman Brothers' Asian assets.

At MUFG, deposits have grown steadily over the past several years, as Japanese people, with their risk-averse attitudes, continued to plow their money into banks rather than investing in stocks or in real estate.

Meanwhile, lending to corporations, the main source of revenue for Japanese banks in the past, hasn't been growing much even as the Japanese economy expanded moderately over the past several years. Many Japanese companies, particularly large corporations, dipped into their cash reserves to make investments. If not, they turned to bonds and other instruments to raise funds.

At the end of March, MUFG boasted 121.3 trillion yen in deposits, up 2.2% from a year earlier. But only 88.8 trillion yen of that amount was lent out, forcing the bank to manage the rest of the money in the financial market. In this environment, MUFG wanted to use more of its cash on investments that would help the bank expand its business in the future. Within Japan, MUFG said earlier this month that it would spend more than $1.4 billion to raise its stake in **Acom** Co., a large consumer-finance company.

For Nomura, an acquisition of Lehman Brothers' Asian assets allows the company to strengthen its role as trusted adviser to Japan's blue-chip firms as they have gone on a record shopping spree overseas this year. Nomura, which scaled back its overseas presence in the 1990s and early 2000s, has watched lucrative merger-and-acquisition advisory contracts on some of the biggest deals go to U.S. investment banks, which had deeper knowledge of markets outside Japan and greater experience in more sophisticated M&A markets such as the U.S.

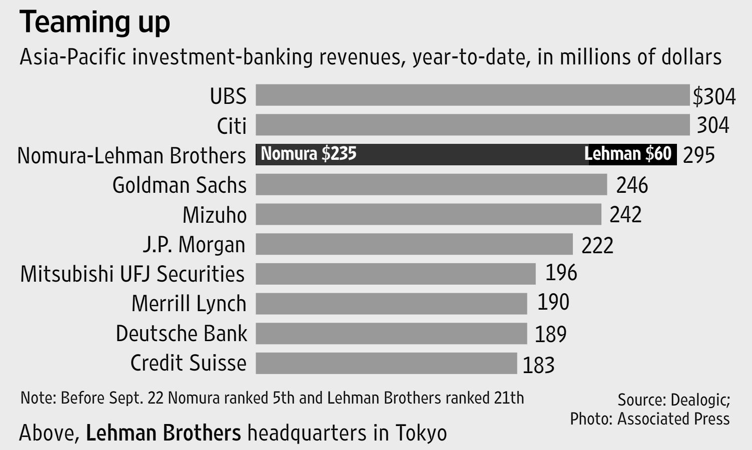
Lehman's Asian operations have won it a reputation as a scrappy player in key business areas like China deals and M&A work. So far in 2008, Lehman was ranked ninth in the M&A advisory tables for Asia outside Japan and including Australia, ahead of Nomura, which was No. 21, according to data provided by Thomson Reuters.

Nomura has plenty of cash. It has raised about 600 billion yen since April to shore up its balance sheet and prepare to make acquisitions. While it pulled out of the U.S. residential mortgage-backed securities business and laid off a quarter of its U.S. work force as a result of the subprime-mortgage crisis, its $3.4 billion in write-downs and credit losses are dwarfed by others in an industry that has lost $516 billion over the past year.

In the past, Nomura has tried to become a global player but without success. In the wake of the 1998 stock-market crash, Nomura lost $1 billion, mostly from trading U.S. commercial mortgage-backed securities. After scaling back its overseas operations, it only recently started expanding again, paying $1.2 billion in 2006 for electronic stockbroker Instinet Inc.

Nomura and MUFG face a tough task working with the U.S. bankers they are acquiring. For a start, the aggressive mentality of many bankers on Wall Street is anathema within Japanese organizations, where teamwork is prized. Also, Japanese banks are still driven to some degree by relationships with core clients, unlike many of their U.S. peers, which since the 1990s have been placing more emphasis on winning the next deal.

—Aaron Lucchetti in New York and Rick Carew in Hong Kong contributed to this article.



Above, **Lehman Brothers** headquarters in Tokyo

In bailout deal, some want curbs on executive pay

By Phred Dvorak

The U.S. government's massive intervention in the financial industry may also bring new limits on executive pay.

As the U.S. Treasury asks Congress for about $700 billion to bail out troubled financial firms, key Democratic lawmakers say they want the bill to include curbs on what executives can earn.

The bailout puts a spotlight on the millions of dollars earned by the leaders of failed firms such as Fannie Mae and American International Group Inc.—and fuels long-running calls to temper those paydays. Last week, housing regulators said the former CEOs of Fannie Mae and Freddie Mac wouldn't be paid millions of dollars in severance owed them under their contracts.

The compensation curbs could provoke a political dispute. Treasury Secretary Henry Paulson said Sunday that he didn't want the compensation curbs added to the bailout bill, which could delay its passage. Appearing on Fox News Sunday, Mr. Paulson said there had been "excesses" of executive pay, adding, "Pay should be for performance, not for failure." But Mr. Paulson said such changes should be considered separate from, and after, the bailout bill.

Russian consolidation may get a push from turmoil

Continued from first page

gency refinancing deals. Cellphone retailer OAO **Euroset**, one of the country's biggest, got a new owner Monday, while closely held electronics retailer, **Eldorado**, accepted a loan that its creditor says may be converted into an ownership stake.

"The strongest companies will survive, and others will cease to exist," predicted Mr. Prokhorov, regularly listed as one of Russia's wealthiest individuals. The crisis was a "peak time" for acquisitions, he added, singling out banks, real estate and construction firms as particularly vulnerable.

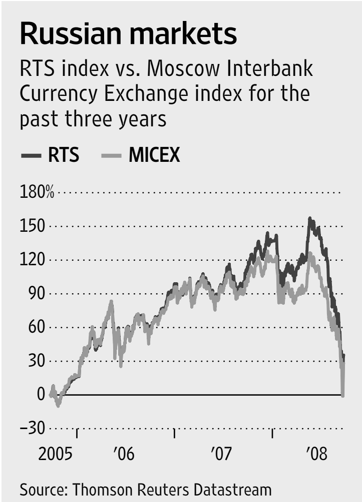
Mr. Prokhorov and Renaissance Group said they had been discussing the deal for "several months," but that market turmoil last week—when Russian markets suffered their biggest drop in a decade—had "accelerated" the process.

"The rules for investment banking have been totally rewritten," said Stephen Jennings, chief executive of Renaissance Group. He said he was keen to share risk, access fresh capital and gain strong local partners. Alexander Pertsovsky, CEO of the banking business, said the freshly refinanced entity would occupy a "unique niche," possibly boasting more capital than any other investment bank in the world because of global restructuring.

The banking sector had already begun to feel the pinch. Last week, the pension-fund arm of energy giant OAO **Gazprom** agreed to buy brokerage business **KIT Finance** after it failed to meet some of its obligations. Moody's Investor Services on Monday cut debt ratings for **Svyaz-Bank**, saying the bank had defaulted on its obligations and that its capital had been "significantly damaged." It added that it understood the bank was in talks with "publicly undisclosed parties with regard to possible mechanisms for further support." A Svyaz-Bank representative declined to comment.

Renaissance's Mr. Jennings said the crisis was spurring "long overdue" consolidation. "Russia doesn't need 900 banks," he said in an interview. "It needs about 10 big banks."

Analysts said the crisis might also affect a fierce shareholder conflict at OAO **Norilsk Nickel**, where two wealthy businessmen are vying for control. The company's share price has fallen so low that it could be a great chance for either of the businessmen to snap up shares at bargain prices. "It could change things tactically," said Steven Dashevsky, head of equities at Unicredit Aton brokerage in Moscow.



Meanwhile, Russian stocks inched higher Monday after bouncing back on Friday after a week of heavy losses. The ruble-denominated MICEX exchange finished 0.62% higher, while the dollar-denominated RTS exchange was up 1.05%.

Analysts said markets would likely start making solid gains though only when the situation in the U.S. became more stable. "Russia cannot detach itself from the global economy," said Mr. Dashevsky.

Last week, the government assembled a rescue package valued at $120 billion to shore up the banking system. On Monday, it offered greater relief, suggesting that liquidity levels haven't been fully restored. The government extended a deadline for value-added-tax payments by three months to ease liquidity. Prime Minister Vladimir Putin ordered the Finance Ministry to consider raising the size of bank deposits covered by government guarantees.

Mr. Putin told a cabinet meeting that the Kremlin's anticrisis measures were working. "The market situation has stabilized," he said.

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CORPORATE NEWS

METALS

United Co. Rusal, Libya plan energy, metals plant

UC Rusal

RUSSIAN aluminum producer **United Co. Rusal** said it signed a memorandum of understanding with the Libyan State Economic and Social Development Fund to create a joint venture to develop an energy and metals complex in Libya.

Rusal will hold a 60% stake in the joint venture, while its Libyan partner will hold the rest.

The aim is to develop an aluminum smelter with a capacity of 600,000 metric tons a year and a 1,500 megawatt natural-gas power station. The natural gas for the complex will be supplied by Libya's **National Oil** Co. under a 30-year contract.

—Jacob Gronholt-Pedersen

AIRPORTS

An old plan to land planes on the Thames is revived

Associated Press

LONDON Mayor Boris Johnson, left, is looking to put his stamp on London by resurrecting the idea of building an international airport on landfill in the Thames River estuary east of London.

A feasibility study is under way to determine if the "island" airport concept, which has been tossed around since the 1970s, would solve southeast England's air-transport woes, caused primarily by overcrowding at London's Heathrow Airport.

However, the plan is unlikely to succeed, observers say, as airlines are dead-set against it and would prefer to add another runway to Heathrow.

—Associated Press

BANKS

Qatar sheik purchases stake in Kaupthing Bank

Kaupthing

QATAR'S Sheik Mohammed Bin Khalifa Al-Thani bought a substantial stake in **Kaupthing Bank** hf, which Kaupthing Chief Executive Hreidar Mar Sigurdsson said should ease the Icelandic bank's plans for Middle Eastern expansion.

Mr. Sigurdsson said Kaupthing, which was the first Nordic bank to be granted an operating license in Qatar in 2007, had only six employees in the Middle East by the end of the year. Kaupthing wants to ramp up in the Middle East, and Mr. Sigurdsson said Sheik Mohammed, who is the Qatari emir's brother, can help develop strategy as well as personal relations.

Siemens trial could lead to new revelations

Ex-board member charged on payouts of $43.9 million

BY MIKE ESTERL AND DAVID CRAWFORD

FAR-RANGING corruption probes at German engineering giant **Siemens** AG could gain momentum this week, when former board member Johannes Feldmayer becomes the highest-ranking executive to stand trial.

In a summary of charges made public Monday by a Nuremberg court, German prosecutors accuse Mr. Feldmayer of breach of trust in allegedly helping to funnel €30.3 million ($43.9 million) in Siemens funds earlier this decade to the former head of AUB, an employer-friendly labor organization.

Under German law, Mr. Feldmayer doesn't have to enter a plea of guilty or not guilty. A lawyer for Mr. Feldmayer, whose trial starts Wednesday, declined to give details of how he plans to argue the case in defense of Mr. Feldmayer.

Mr. Feldmayer, a onetime candidate for the chief executive spot at the Munich-based conglomerate, left Siemens last year after he was jailed and released on bail in connection with the case.

Johannes Feldmayer

In the official indictment released Monday, prosecutors allege that the 51-year-old Mr. Feldmayer agreed in January 2001 to make quarterly payments to a company owned by Wilhelm Schelsky, the longtime head of AUB. Prosecutors allege the money was earmarked for strengthening the labor group and secretly influencing elections to Siemens's work councils, which would be against German labor law.

Mr. Schelsky was arrested in early 2007 and has remained in jail. He faces tax-evasion charges and also goes on trial Wednesday. His lawyer Monday said his client will admit to tax offenses but deny the money from Siemens was used for illegal purposes.

Both Messrs. Feldmayer and Schelsky will be taking the stand in the trial.

A court spokesman said Siemens itself isn't currently under investigation in the Nuremberg case, but prosecutors have said they are looking into whether other individuals played a role.

Any new revelations could worsen relations with IG Metall, Germany's largest union by number of members, which filed a criminal complaint last year alleging that Siemens bankrolled AUB in an effort to weaken worker rights. The trial coincides with efforts by IG Metall to secure a pay increase of 7% to 8% for industrial workers in sectorwide negotiations.

The Nuremberg case is separate from criminal investigations in several countries—including the U.S.—into whether Siemens bribed foreign customers earlier this decade to win big infrastructure contracts. Siemens says it is cooperating with prosecutors and has flagged €1.3 billion in suspicious transactions. Last year, a Munich court fined Siemens €201 million for bribes paid by its telecommunications-equipment unit in Nigeria, Russia and Libya. The company didn't appeal the ruling nor the fine.

The various corruption probes have triggered a massive shake-up at Siemens, Europe's largest engineering company by sales. The trains-to-light-bulbs conglomerate has replaced all but one of its management board members since a raid by German police in late 2006.

According to the indictment released Monday, invoices allegedly were sent to Mr. Feldmayer's personal address from 2001 to early 2005. Payments were processed automatically by Siemens after mid-2005 without Mr. Feldmayer's direct intervention, prosecutors say. Payments continued until November 2006, when German police raided Siemens's offices, they allege. Prosecutors also allege that Mr. Schelsky directed proceeds to personal projects that didn't benefit Siemens. He spent €2.5 million in 2006 to "promote sports," including the sponsorship of a women's handball team, according to the indictment.

They also allege that funds from Siemens went to Mr. Schelsky to build up AUB "in the years" before 2001, including 3.8 million German marks, or about €1.9 million, in 2000.

Messrs. Feldmayer and Schelsky each face maximum sentences of 15 years in prison and fines if found guilty, according to a court spokesman.

Mr. Feldmayer began working for Siemens in 1977. He oversaw finances at the company's large automation-and-drives unit before joining the management board in 2003.

IBM may quit standards bodies

BY CHARLES FORELLE

BRUSSELS—**International Business Machines** Corp. will review its membership in the bodies that set common standards for the technology industry and may withdraw from some, potentially undermining the system that makes electronic equipment and software interoperable world-wide.

The Armonk, N.Y.-based computer maker is expected to announce the review Tuesday, according to company officials. IBM has become frustrated by what it considers opaque processes and poor decision-making at some of the hundreds of bodies that set technical standards for everything from data-storage systems to programming languages, those officials said.

A recent battle over the selection as an international standard of the file format used in **Microsoft** Corp.'s Office software suite appears to have influenced IBM's decision. Microsoft, of Redmond, Wash., won that contest in April when its Open XML format was approved by the Geneva-based International Organization for Standardization, or ISO.

Standards are key to the tech industry, where they provide a common foundation for products from different manufacturers. Internet standards allow millions of computers to display a Web page the same way. IBM controls a vast cache of intellectual property in the high-tech field. As a result, its contributions and agreement are often critical to forming a standard.

IBM and open-source groups that support collaborative software development said Microsoft had stacked the national committees that make up the ISO with employees and sympathetic voters to get the result it wanted. They also said Open XML is so complicated and obscure that only Microsoft could fully exploit it, cementing the software company's already-considerable lead in office-document software. IBM backed a rival format called Open Document that was already certified as an ISO standard and argued against approving Microsoft's Open XML as an additional standard.

A Microsoft spokesman said standards bodies are "invaluable" because they provide "an even and predictable playing field" to the industry. Their decisions reflect the views of a preponderance of members, "not the interests of any single party," he said.

"There are lots of issues" with standards groups beyond the office-documents arena, said Bob Sutor, an IBM vice president who is the company's top standards official. He cited high membership fees that deter small players, complicated intellectual-property policies and opaque procedures.

Getting a company-backed product approved as a standard can be a boon: In Microsoft's case, Open XML's certification eased hesitations by some government purchasing agents, who were reluctant to buy nonstandard software.

Associated Press

IBM controls **a vast cache of intellectual property** in the high-tech field, so its agreement is often critical to forming a new technology standard.

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FINANCIAL NEWS EVENTS

CORPORATE NEWS

Honda's flexible model

Dexterity of plants to make different cars becomes key strategy

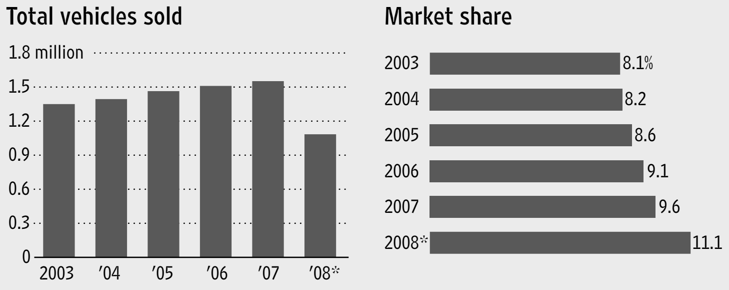
By Kate Linebaugh

Honda

Honda workers assemble both SUVs and sedans at the same time at a production line at the East Liberty, Ohio, plant.

Growing its share

Honda Motor Co.'s U.S. sales and market share



*Through August

Source: Autodata Corp.

EAST LIBERTY, Ohio—One recent morning, the **Honda Motor** Co. plant here churned out 120 Civic compacts. Then the production line came to a halt and workers in white uniforms swept in to install new hand-like parts on the giant gray robots that weld steel into the cars' frames.

About five minutes later, the line roared back to life, and the robots began zapping together a longer, taller vehicle, the CR-V crossover.

In the automotive world, this is considered quite a feat. Until a few years ago, most auto plants in North America could make only one vehicle. Now, other manufacturers have a few flexible plants. A **Ford Motor** Co. plant near Chicago, for example, makes three different vehicles, and many plants can produce slight variations on one basic car or truck.

But switching from one model to a completely different one can still take weeks and millions of dollars. Ford will spend at least $75 million to overhaul a sport-utility-vehicle plant in Michigan to make small cars, and the work will take 13 months. **General Motors** Corp. is retooling its Lordstown, Ohio, plant to produce a new model at a cost of $350 million.

The manufacturing dexterity of Honda's plants, now the most flexible in North America, is emerging as a key strategic advantage for the company. In an era of volatile gasoline prices, Honda can adjust production to inventory levels faster than its competitors. Earlier this year, when gasoline prices shot up to $4 a gallon, the company slowed down production of its Ridgeline pickup truck at its Canada plant and increased output of better-selling vehicles.

In recent weeks, fuel prices have eased. If they continue to fall and demand for larger vehicles improves, Honda has the ability to adjust faster than its competitors, says Ron Harbour, a partner at Oliver Wyman, a global consulting firm that publishes the Harbour Report on auto production.

Auto makers used to design a new manufacturing process each time they designed a new car, and older assembly plants reflect that.

It has been a tough year for most auto makers in the U.S. Housing woes and the slumping economy have depressed overall vehicle sales, and high gasoline prices have spurred American consumers to buy small cars instead of the pickup trucks and SUVs that were so popular in years past. In the first eight months of the year, sales were down 24% at **Chrysler** LLC, 18% at GM and 15% at Ford. Even mighty **Toyota Motor** Corp. has seen its U.S. sales fall 7.8%

But U.S. sales at Honda, Japan's No.2 auto maker, were up 1.7% in the period, and its U.S. market share has vaulted to a record, hitting 11.1% in August. It is now the No. 4 auto maker in the U.S., behind GM, Toyota and Ford but ahead of Chrysler, and it sold only 3,600 fewer vehicles than Ford in August.

Honda faces plenty of challenges. Sales of its pickup truck have been disappointing. Its upscale brand, Acura, struggles to stand out in a segment dominated by Toyota's Lexus unit, **BMW** AG and **Daimler** AG's Mercedes-Benz unit. And while Honda is known for fuel efficiency, it will have to race to catch up to Toyota in gasoline-electric hybrids.

Honda's most obvious strength is a model line of mainly small and fuel-efficient vehicles. It avoided making the kind of big pickups and SUVs that have heavy steel frames beneath their sheet metal. The Ridgeline and Honda's SUV-like vehicles use lighter, car-like underpinnings. Both Toyota and **Nissan Motor** Co. pushed into body-on-frame trucks, and they are suffering as sales of those gas-guzzling vehicles decline. Toyota has even stopped producing its Tundra pickup truck for three months.

In contrast, just as demand for small cars is rising, Honda is about to expand its ability to churn out Civics. A new plant in Greensburg, Ind., is set to start production in the next couple of weeks. By next year, it will make about 16,000 Civics a month.

But Honda's manufacturing flexibility is almost as key to its success as its product lineup. To respond to changes in economic conditions, Honda is able to shuffle production among different plants as well as make different models in one plant.

A decade ago, the company invested $400 million in its three facilities in Ohio to make the plants flexible. That allowed it to stop importing the CR-V from a plant in Britain when the weak dollar was hurting margins on imports. In 2006, Honda started making CR-Vs in East Liberty, reducing its exposure to unfavorable exchange rates. Later this year, production of the Ridgeline pickup will be switched from Alliston, Ontario, to Lincoln, Ala., to allow the Canadian plant to expand Civic capacity.

Auto makers used to design a new manufacturing process each time they designed a new car, and older assembly plants reflect that. At Honda, a variety of models can be assembled efficiently because almost all of its vehicles are designed to be put together the same way, even if their parts are slightly different. Here in East Liberty, for example, the doors are installed on the Civic and CR-V at the same stage of the process, and their side panels are joined to their roofs at the same point in the production line.

Another key is the gray robots. They use a Honda-engineered device much like a hand to hold the parts during the welding process. Workers simply put different "hands" on the robots to handle the parts for different vehicles. At less flexible plants, the machinery is specifically designed to produce one model, or a few variants of one basic car.

Honda's plants are also set up to produce a fast-selling product like the Accord as well as several slower-selling models like the Element and the Acura RDX. That way Honda can quickly trim production of vehicles that fall out of favor and boost output of those that are selling more briskly.

The new plant in Indiana will start off making Civics but has the ability to make any of Honda's vehicles, says Larry Jutte, a senior manufacturing executive for Honda in Ohio. "We have the flexibility to do what is necessary," he says.

CORPORATE NEWS

Nestlé recalls bad milk

China fallout widens as minister quits, farmers feel losses

BY LORETTA CHAO AND JASON LEOW

HOHHOT, China—China's dairy scandal continued to reverberate as **Nestlé** SA was forced to recall a type of milk it sells in Hong Kong, China's top quality regulator resigned and New Zealand's prime minister criticized her country's top dairy company for not speaking out sooner about contaminated formula.

Meanwhile, financial pressure is growing on dairy farmers who have had to dump their milk and say they may have to slaughter their cows rather than pay to feed them.

Li Changjiang, 63 years old, minister of China's General Administration of Quality Supervision, Inspection and Quarantine since 2001, resigned Monday, "taking the blame for supervision default," according to China's official Xinhua news agency.

Mr. Li, who often defended the quality of Chinese products despite growing reports of tainted goods, is the highest-ranking official to leave his post since the dairy scandal broke on Sept. 11 with reports that Chinese children had been made ill by contaminated formula.

Others to resign include the mayor of Shijiazhuang, home of **Shijiazhuang Sanlu Group** Co., the company whose baby formula, contaminated with high levels of the industrial chemical melamine, sparked the crisis. Complications from melamine in baby formula have been linked to the deaths of at least three children and sickening of more than 50,000.

Sanlu and New Zealand's **Fonterra Co-operative Group** Ltd., which owns 43% of the company, have been criticized for not immediately notifying the public when the contamination was confirmed in early August.

New Zealand Prime Minister Helen Clark said in a radio interview Monday she felt there was an unsatisfactorily "long period of time before Fonterra spoke" out, according to the Associated Press.

Associated Press

Li Changjiang resigned from his post as head of China's food-safety watchdog.

Fonterra's chief executive said last week that company officials tried to "encourage" the Chinese company to go public with the problems.

Chinese consumers have been flocking to buy foreign brands, particularly after regulators announced that traces of melamine were linked to liquid milk produced by China's biggest dairy companies, **Inner Mongolia Yili Industrial Group** and **Mengniu Dairy** Co.

On Monday, Swiss foods giant Nestlé issued a recall of one brand of its milk sold only in Hong Kong to caterers and other commercial customers, after health authorities in the city found traces of melamine in a sample of the product.

In a statement Monday, Nestlé said it was issuing the recall of the product in Hong Kong to comply with orders from the Hong Kong Centre for food safety. The company said the product was never shipped to customers and that the trace amounts of melamine in the product in Hong Kong don't pose a health risk.

Nestlé added that its other products have been tested extensively and cleared by regulators in Hong Kong and Beijing.

A separate statement from the Hong Kong government said it is researching the threshold at which melamine becomes harmful for human ingestion and suggested that the chemical may sometimes make its way into food naturally.

Meanwhile, countries in Asia and Europe and Africa issued recalls of all Chinese-made dairy products, and warned authorities to watch out for any trace of them in other products. China's dairy exports are small in comparison to its domestic consumption.

Tensions are high in milk-producing centers in Shijiazhuang, Sanlu's home base, and the sprawling farmland around Hohhot, the city in Inner Mongolia where Mengniu and Yili employ thousands. Dairy farmers say they are shouldering the brunt of the fallout, as companies return their milk, citing poor quality, or stop buying it altogether.

Mr. Liu, a 52-year-old dairy farmer in Hohhot, said he is watching his savings dwindle as his family's milk, which is no longer being bought by the companies, is poured out day after day. He earned 4.6 yuan, or 68 cents, per kilogram of milk from milk dealers, who sold it to dairy companies for negotiated prices that aren't disclosed to him. "This life really is hard," he says.

At one milk station, where milk was rejected for three days in a row, Li Sixi, a 52-year-old sanitation worker, said the situation was making farmers uneasy. "If this kept going for longer...farmers would have had to kill their cows," he said.

Mr. Liu said he is close to paying off the $2,900 he borrowed in 2001 to begin raising milking cows. He spends about 1,000 yuan ($146) on feeding seven cows every month, and earns a monthly profit of 500 yuan.

Mr. Liu said the business was more profitable for him than farming corn and potatoes, and he's hoping he'll be able to sell his milk again once the scandal dies down.

Many farmers in Shijiazhuang who relied on Sanlu said they doubt the company will survive. A 26-year-old dairy farm owner there says he has been pouring more than ten tons of milk into a river near his home every day for over a week, with no end in sight.

—Kersten Zhang and Gao Sen in Beijing contributed to this article.

Efforts to curtail emissions gain

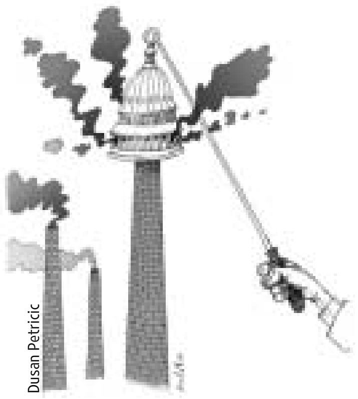
BY JEFFREY BALL

How Washington might crack down on global-warming emissions won't be clear until after the fall election. But this week will bring two signs that U.S companies believe change is on the way.

Monday, the nonprofit Carbon Disclosure Project will report that more multinational corporations believe emitting carbon dioxide and other greenhouse gases in the U.S. will soon start costing money.

On Thursday, the first program to slap a mandatory cap on greenhouse-gas emissions in the U.S. will swing into motion. Ten Northeastern states have joined together to limit emissions from power plants within their borders.

Each year, those states will issue a limited number of permits allowing the power plants to emit carbon dioxide. The power plants will have to buy permits at a price determined by an auction. The first auction for the permits will take place this week.



Dusan Petricic

If U.S. companies are starting to see climate change as a serious business issue, though, they aren't sure how to respond. Of the 321 companies in the Standard & Poor's 500-stock index that responded to the Carbon Disclosure Project's questionnaire this year, 81% said they see global warming as a risk, but 33% said they have come up with targets to curb their emissions.

Consider the lack of clarity in the Northeast emissions cap. For now, it lacks much bite. The number of permits the 10 states plan to auction off for next year would allow more emissions—not fewer—than the plants are expected to emit. Planners assumed when they set the cap that emissions would have risen above it by the time it took effect. In fact, emissions have been dropping, in part because falling natural-gas prices have induced power plants to shift to that less-emitting fuel. So analysts expect low permit prices at this week's auction.

Even a small energy tax, however, could hurt Northeast power producers whose competitors in other states face no cap at all.

"We need to remove the imbalance as quickly as we can," said Donald McCloskey, director of environmental strategy and policy for Public Service Enterprise Group Inc., a New Jersey power company that will be hit by the cap. He added, "We need to transition quickly to a national program" to cap greenhouse-gas emissions. Why? To spread the pain.

GLOBAL BUSINESS BRIEFS

Google Inc.

Advertising group expresses worry over Yahoo deal plan

The World Federation of Advertisers sent a letter to the European Commission laying out concerns about harm to competition that might be caused by a planned advertising agreement between **Google** Inc. and **Yahoo** Inc. The Brussels-based group, which represents companies such as Coca-Cola Co., InBev SA and Nokia Corp., said it is asking the commission to block the deal as its members fear it will result in higher prices and reduce the options available to advertisers worldwide. The commission opened a preliminary investigation into the deal in mid-July, a spokesman said. The U.S. Justice Department is also examining the deal. Google defended it, saying it would preserve Yahoo and Google as competitors while providing advertisers and publishers with better, more relevant ads.

Alitalia SpA

Alitalia SpA's bankruptcy commissioner said the airline would be forced to ground its planes by Sept. 30 unless it gets bids in a new public tender that began Monday. In a last-ditch attempt to prevent the liquidation of the company, Augusto Fantozzi said interested parties have until noon local time Sept. 30 to present bids in the auction. After that, Alitalia would run out of cash, Mr. Fantozzi said after meeting with the chief of Italy's civil aviation authority. The latest auction marks the third attempt by the Italian government to sell the flag carrier in nearly two years. Liquidation would severely disrupt travel in Italy and leave Alitalia's nearly 20,000 employees without jobs.

Continental AG

Closely held German engineering company and auto-parts maker **Schaeffler Group** said Monday that 82.41% of **Continental** AG's shares have been tendered within the offer period, which ended Sept. 16. Schaeffler, which already holds a 7.78% stake in the German auto supplier and tire maker, in August won Continental management's approval for its unsolicited bid, ending what had been weeks of negotiations on the offer between the two companies. To win over Continental's management, Schaeffler made substantial concessions, including raising its offer to €75 ($108.55) a share, or €12.1 billion, and guaranteeing it won't take a majority stake before 2012. Schaeffler is now poised to sell excess shares back to banks in order to limit its stake in the Hannover-based company to just below 50%.

Coca-Cola Co.

Coca-Cola Co. filed its application to acquire **China Huiyuan Juice Group** Ltd. with Chinese antitrust officials, beginning a process that will pose the first test of China's new antimonopoly laws. The Atlanta beverage company said Monday that it filed the application with the antimonopoly office of China's Ministry of Commerce. A Coca-Cola spokesman said the company is cooperating with regulators. If completed, the $2.4 billion deal would be the largest foreign takeover of a domestic company. Foreign companies have said they are watching to see whether China will permit a major foreign takeover when Chinese companies are themselves increasingly active in acquiring businesses in other countries.Coca-Cola has faced some public opposition to the deal.

BAE Systems PLC

BAE Systems PLC was awarded a $742 million U.S. Army deal to refit more than 300 Bradley vehicles with additional armor to protect soldiers. The U.K. defense and aerospace company said it will refit an additional 189 M2A3 vehicles, 115 M3A3 vehicles and 22 M3A3 Bradley fire support team vehicles in conjunction with the Red River Army Depot through a public-private partnership. The process involves disassembly and structural modifications, including equipping vehicles with improvised explosive device armor and Bradley urban survivability kits and making several engineering changes designed to increase soldiers' chances of surviving attacks. BAE said work will begin immediately, with last deliveries expected in February 2011.

Sigma Pharmaceuticals Ltd.

Sigma Pharmaceuticals Ltd. said its net profit for the six months ended July 31 rose 1.2% to 30.7 million Australian dollars (US$25.6 million), from A$30.3 million a year earlier, as a result of cost cutting. The company's first-half revenue rose 2.2% to A$1.47 billion, from A$1.43 billion a year before, Sigma said. After taking a hit from regulatory changes and lower product prices last year, Melbourne-based Sigma, Australia's largest contract drug maker, is facing increased competition in the generic drug market and its distribution business from reinvigorated rivals and new entrants. Sigma Chief Executive Elmo de Alwis reiterated the company's forecast of full-year net profit in the range of A$83 million to A$88 million.

AutoZone Inc.

Big U.S. auto-parts retailer **AutoZone** Inc. posted a 12% rise in profit amid increased sales for its fiscal fourth quarter, which had one more week than the year-earlier period. The largest U.S. auto-parts retailer by sales reported net income of $243.7 million, or $3.88 a share, for the quarter ended Aug. 30, up from $217.2 million, or $3.23 a share, a year earlier. The extra week added 25 cents a share to earnings. Net sales rose 10% to $2.21 billion. Excluding the extra week, the increase would have been 4.1%. Sales at U.S. outlets open at least a year rose 0.6%, while gross margins edged up to 50.3% from 50.1%. Auto-parts retailers are often considered countercyclical, bucking economic weakness as consumers choose to fix their cars rather than buy new ones.

CarMax Inc.

CarMax Inc.'s fiscal second-quarter net income tumbled 78% to $14 million amid weak sales and continuing woes at the used-car retailer's finance operations. CarMax Chief Executive Tom Folliard said U.S. consumers' reduced spending power "continued to create a difficult environment for our business." For the quarter ended Aug. 31, revenue dropped 13% to $1.84 billion. The company said it had made some progress in paring inventories during the quarter. CarMax's finance operations posted a $7.1 million pretax loss for the quarter, compared with a year-earlier profit of $33.4 million. In prepared remarks, Mr. Folliard said the company still isn't making a full-year earnings projection because of "the unprecedented near-term declines in traffic and sales and the current volatility in the asset-backed credit markets."

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

SLOVAKIA

Trichet stresses prudence, vigilance on inflation

Associated Press

SLOVAKIA should continue to pursue prudent economic policies and strive to sustain low rates of consumer-price inflation when it joins the euro zone Jan. 1, European Central Bank President Jean-Claude Trichet, above, said Monday.

"Our main concern is that Slovakia, being a catching-up economy, is likely to face inflationary pressures that could derail the economy from a sustainable convergence path after euro adoption," he cautioned at a conference in Bratislava dedicated to Slovakia's adoption of the euro. It is crucial that Slovakia further improves the functioning of its labor market and eliminates wage rigidities, he said.

UNITED NATIONS

Australian succeeds Idris as world's patent chief

Associated Press

THE WORLD Intellectual Property Organization appointed Australian Francis Gurry as its new director-general. Mr. Gurry, left, succeeds Kamil Idris, who left during his second term as the United Nations patent chief. Mr. Idris, a Sudanese national, was pressured into cutting his term short over allegations he misled WIPO about his age more than 20 years ago, thus speeding his promotion.

Western governments had blocked agency funding talks until Mr. Idris resigned. Mr. Gurry is credited with setting up its Internet-domain-name mediation service aimed at resolving disputes over "cyber squatting." —*Roundup*

EUROPEAN UNION

Observers to be in Georgia by Oct. 1, Haber pledges

AFP

MILITARY observers from the European Union will be deployed in Georgia by Oct. 1, despite Moscow's insistence that they won't be allowed into two breakaway regions occupied by Russian troops, the head of the EU mission pledged.

Russia has refused to let observers into the provinces of Abkhazia and South Ossetia, which Moscow has recognized as independent, and said it will keep nearly 8,000 troops there in the wake of last month's war with Georgia.

Hans Jorg Haber, above left, said 200 unarmed observers will deploy in several areas in Georgia as provided by an EU-brokered deal. —*Associated Press*

Privatization loses luster

Turmoil undermines some of Republicans' trademark goals

BY LAURA MECKLER AND NICK TIMIRAOS

FINANCIAL TURMOIL may not just boost government's role in markets. It could undermine a push in recent years by conservatives in the U.S., including John McCain, to inject more market forces into government-run and heavily regulated programs.

On the presidential campaign trail, Democrat Barack Obama is seizing on the recent turbulence to lambast proposals by Sen. McCain on Social Security and health care, two areas on which the Republican presidential nominee has embraced market-oriented solutions.

These proposals—particularly private accounts carved out of Social Security—were controversial to begin with, and the new crisis only heightens the concerns. The accounts are designed to generate greater returns than the government gets holding onto the money. But if workers invest their Social Security taxes in the stock market, what happens if the market is down when it comes time to retire?

Those are potent questions for voters, and the unfolding financial crisis could kill any chance this proposal had of becoming law when Congress eventually works out a solution to the retirement program's financial problems.

It is a "particularly perilous" time to favor any sort of privatization, said Neil Newhouse, a Republican pollster. Even if the policy is good, he said, it is a hazardous moment to advocate it.

Overall, the economic turmoil is working to swing the race toward Sen. Obama, said Matthew Dowd, a former strategist for President George W. Bush. He said the Social Security argument makes Sen. McCain's problems more acute.

"It makes him feel like a traditional Republican: 'Let the market handle it,' " he said. And for Democrats, "it has the added benefit of tying him to Bush."

Mr. Bush campaigned for private accounts in 2000 and pushed hard for them in 2005, only to see the proposal die in a Republican-led Congress.

"Social Security has never been more important," an announcer says in a new Obama ad. "But John McCain's voted three times in favor of privatizing Social Security." It says the plan would amount to "risking Social Security on the stock market."

Sen. Obama is also attacking Sen. McCain on health care, pointing to a piece he wrote in a health-care magazine called Contingencies. In it, he calls for opening health care to "more vigorous nationwide competition, as we have done over the last decade in banking."

Sen. McCain is a supporter of private accounts, in which younger workers could divert a portion of their payroll taxes into personal accounts that would be invested in the market, ideally creating a nest egg that would be at least as big as what they would have received from the government—especially as the program runs out of money.

But that idea can seem scary after a week when a large portion of the financial sector appeared at risk of collapse.

"If my opponent had his way, the millions of Floridians who rely on it would've had their Social Security tied up in the stock market this week," Sen. Obama told supporters on Saturday. He warned that "millions would've watched as the market tumbled and their nest egg disappeared before their eyes."

None of the proposals to create private retirement accounts would affect current seniors, despite Sen. Obama's implication. "This is a desperate attempt to gain political advantage using scare tactics and deceit," said Tucker Bounds, a McCain spokesman.

Sen. McCain hasn't campaigned on private accounts, but he hasn't walked away from them either. Sunday, he said his views haven't changed. "I still believe that young Americans ought to ... be able to, in a voluntary fashion...put some of their money into accounts with their name on it," he said on CNBC.

Associated Press

Democratic presidential nominee Barack Obama is a critic of proposals by Republican nominee John McCain to create **private accounts for Social Security**.

Douglas Holtz-Eakin, Sen. McCain's chief economic adviser, said Sunday that Sen. Obama's decision to stoke fears about market risk suggests that he thinks the financial problems the nation sees today are likely to persist.

"If they want to run on a position that says we're going to have financial markets this bad for eight years under Barack Obama, let them," Mr. Holtz-Eakin said."We will never remove all investment risk and we shouldn't pretend otherwise, but we better remove what people are seeing now."

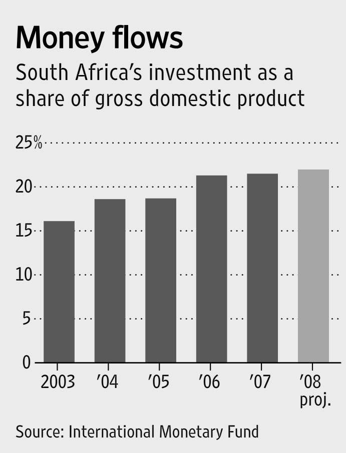
South Africa's ANC hints at Mbeki successor

BY ROBB M. STEWART

JOHANNESBURG—South Africa's ruling party said it will choose an interim successor to President Thabo Mbeki on Thursday, while the country's financial markets took his surprise weekend resignation in stride.

An African National Congress spokesman said the party would nominate its deputy president, Kgalema Motlanthe, to head a caretaker government until presidential elections early next year. But the party didn't formally announce its nominee, leaving questions about whether a final decision had been made.

Mr. Motlanthe is seen as a left-leaning intellectual who has shunned the limelight. He is also a supporter of Jacob Zuma, who is the ANC party chief and the man most likely to be elected president when elections are held early next year. No significant policy changes are expected until the election, and many economists expect the interim president to keep the cabinet intact.



Mr. Zuma defeated Mr. Mbeki in a bitter party-leadership contest in late 2007, setting up an awkward and public power struggle between the two men. Now that Mr. Mbeki is sidelined, Mr. Zuma is expected to be more closely scrutinized for signals about how he intends to steer the economy if he wins presidential elections, which he is expected to do easily. Until then, the market is braced for a period of uncertainty.

Kgalema Motlanthe

Mr. Zuma isn't eligible to serve as interim president because he isn't a member of parliament or the cabinet.

On Monday, the South African rand softened initially against the dollar, but later recovered. Johannesburg's broad FTSE/JSE All Share index ended up 1.9%, paring earlier gains but up strongly on gains in mining stocks.

South Africa is the continent's biggest economy, but growth has moderated recently. The state power company has struggled to meet nationwide demand, dealing a blow to the country's biggest industries. Amid a commodities boom, the disparity between rich and poor has widened, sowing bitterness.

Mr. Zuma drew much of his early support from left-leaning factions inside and outside the ANC. While he was deputy president of the country, until he was pushed out in 2005, his populist style rattled some investors who worried he would tinker with Mr. Mbeki's generally business-friendly economic policies.

At a news conference, Mr. Zuma tried to allay fears. The leadership transition "will be managed with care and precision," he said, according to the Associated Press.