THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

Sales woes imperil U.S. recovery

Analysts say cost-cutting, which helped companies beat forecasts, can't keep boosting profits

By Tom Lauricella

A record number of U.S. companies beat earnings expectations in the third quarter, but a big portion of their profits came from cost-cutting, disappointing investors who were hoping for boosts in revenue.

With nearly all of the companies in the Standard & Poor's 500-stock index reporting their numbers, 80% did better than Wall Street analysts anticipated, according to Thomson Reuters. That is up from 73% last quarter, which tied the previous record.

Revenue is on track to fall 10%, but that is what analysts were expecting. The worry is that without a meaningful upturn in U.S. sales, cost-cutting can only boost profits for so long.

"It goes to the heart of the question about the recovery," said David Kostin, equity market strategist at Goldman Sachs. "Are we going to get some end-demand picking up that is more than just inventory rebuilding?"

The good news is that companies are running so lean that should revenue pick up in coming months, operating margins would likely surge, giving a powerful boost to profits. Companies with a strong presence in emerging markets are particularly poised to benefit, because faster economic growth there could drive higher sales.

The falling dollar also could help profits rise. A weaker dollar, which raises the value of profits earned outside the U.S., has yet to be felt on corporate bottom lines.

No one doubts that profits will look good next quarter, if only because last year's fourth quarter was so terrible. After nine straight quarters of earnings declines, analysts expect fourth-quarter earnings to more than triple.

Even without good news on the revenue front, the Dow Jones Industrial Average

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Obama confronts limits of engagement at Singapore talks

Agence France-Presse/Getty Images

The U.S. and Russia now appear unlikely to complete a nuclear-arms-reduction accord by Dec. 5, when the current Strategic Arms Reduction Treaty expires. The U.S. president, left, met for closed-door consultations with Russian President Dmitry Medvedev, but U.S. National Security Council Russia specialist Michael McFaul said major issues remain. **Page 10.**

Companies scramble to tap bond market

By Kate Haywood

Companies around the world are racing into the bond market while investor demand remains hot, concerned that the window may slam shut at any moment.

While a rush to sell before markets wind down for the holidays is typical, this year the sense of urgency is greater. Central banks are preparing to stem the flow of easy credit that helped fuel this year's spectacular corporate-debt rally and some worry that the slowdown, if it comes too soon or too sharply, could cause a hitch in credit markets.

There is real concern about what will happen when governments around the world start peeling back the layers of stimulus, said Brian Hessel, managing director at Global Credit Advisers LLC, which invests in high-yield and distressed debt.

"If the ending of government programs is done rapidly without a lot of replacement stimulus it'll be a difficult situation for the markets," he said. "But the people running the financial watchdogs are very aware that the markets need to have some preview of the punch bowl being taken away."

For now, investors are still snapping up corporate debt, and companies are taking advantage. Last week, U.K. satellite communications com-

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Airbus and Boeing, at the Dubai air show, said their market had hit bottom. Airbus said Ethiopian Airlines was buying 12 A350 XWB planes in a deal valued at about $3 billion. **Page 4**

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■ **The EU's push** for an overhaul of financial regulation is going too fast, a British Treasury committee said. **Page 3**

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■ **Palestinian officials said** they are considering appealing to the U.N. Security Council to recognize an independent state. **Page 12**

■ **A British think tank said** prison policies are failing to stop Muslim inmates being radicalized and called for a center to "deprogram" extremists.

■ **The bankruptcy boom** is going bust—for now. Corporate failures in the U.S. have slowed as companies refinance their debt. **Page 29**

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4 p.m. ET

MARKET	CLOSE	PCT CHG
DJIA	10270.47	+0.72
Nasdaq	2167.88	+0.88
DJ Stoxx 600	247.80	+0.48
FTSE 100	5296.38	+0.38
DAX	5686.83	+0.40
CAC 40	3806.01	-0.05
Euro	$1.4888	+0.03
Nymex crude	$76.35	-0.77

LEADING THE NEWS

Bankers' salaries, schools in U.K.'s sights

Government to unveil its legislative agenda this week via queen

By Alistair MacDonald

The U.K. government this week will unveil its last legislative program before next year's general election, looking to sway voters with proposals giving the government more power to intervene in badly performing schools and to rip up bankers' contracts if they lead to excessive pay.

The initiatives will be outlined Wednesday in the queen's speech, written by the government and delivered by the monarch to set out Britain's legislative agenda for the next parliamentary session.

Though many of the measures have been previewed, the list of bills offers an important opportunity for U.K. Prime Minister Gordon Brown's government to portray itself as tackling the country's problems ahead of an election that must be called by June.

In his weekly podcast, Mr. Brown said that one of these pieces of legislation, the Financial Services Bill, will lead to "a transformation of the way the financial sector is policed."

Included will be legislation to authorize the Financial Services Authority, the country's regulator, to terminate the remuneration contracts at British banks and to fine them when payments are considered too high or have rewarded undue risk taking, a Treasury spokesman said.

The FSA already has said that, starting in January, its own new rules will allow it to act when it thinks banks' remuneration policies aren't consistent with effective risk management. The FSA, though, has typically said policing individual contracts isn't its role.

Other proposals will include a measure barring financial institutions from encouraging customers to borrow more than they can afford, by sending out unrequested credit-card checks, and one allowing bank customers to join forces in U.S.-style class-action suits "to get redress when many people feel that they have been badly treated," Mr. Brown said.

Among other legislative initiatives will be an education bill giving the government more power to intervene when schools perform badly, proposals designed to tackle antisocial behavior and laws to give people rights to demand quicker health treatment in areas such as tests for cancer.

Getty Images

British Prime Minister Gordon Brown makes a speech to party members at Ealing Town Hall on Friday in London.

As political parties draw battle lines ahead of the election, Mr. Brown is keen to show that his government will keep putting money into public services, such as health. He wants to contrast that with the opposition Conservative Party's talk of a period of belt tightening to tackle national debt.

Still, his proposals will likely draw many questions—primarily over where the money will come from to pay for them amid the U.K.'s record national debt. The proposals for the FSA to tear up bankers' contracts likely will face pushback from British banks, arguing that such measures create an unfair advantage for foreign competitors.

Mr. Brown also will try in a speech on foreign policy on Monday night to sharpen the contrast between his agenda and what he says is a more negative Conservative Party outlook. According to extracts of that speech, Mr. Brown will say the U.K. needs to "look outward" by "advancing in international co-operation," a call that will come at a time of increasingly voiced cynicism in the U.K. over its role in international conflicts such as the war in Afghanistan and in international bodies like the European Union.

"When Britain is bold, when Britain is engaged, when Britain is confident and outward-looking, we have shown time and again that Britain has a power and an energy that far exceeds the limits of our geography, our population and our means," he will say in the speech, which will also defend the U.K.'s role in Afghanistan as one protecting the country from terrorists.

British surveys show business confidence is falling again

By Ilona Billington

LONDON—The British economy's path to recovery is likely to be bumpy, with surveys showing that business confidence fell for a second straight month in October as access to credit remained tight, while house prices dipped in the first half of November.

The Bank of England Wednesday said that while the U.K. economy has begun its recovery, activity won't return to its 2007 level until 2011 at the earliest. The central bank once again highlighted weak bank lending as a significant drag on growth.

That was borne out in a survey conducted by the British Chambers of Commerce, which found that 33% of companies said it was more difficult to access bank finance in the three months to October, up from 20% in the three months to June.

"It is clear that the huge sums that have been injected into the financial system by quantitative easing are still not reaching small and medium-sized businesses in anything like the scale required for business to invest for future success," said David Frost, director-general of the BCC.

The central bank has a special program for injecting more liquidity into the economy by purchasing bonds, which it calls quantitative easing. Last week, that program was expanded to a total of £200 billion.

A separate survey by Lloyds TSB found that optimism over future business activity fell for the second straight month to reach its lowest level since June. Despite the fall, confidence remains much stronger than it was at the start of 2009.

There were also signs of fragility in the housing market, which has been one of the U.K. economy's few bright spots in recent months. Property Web site Rightmove reported that U.K. house prices fell 1.6% in November from the previous month, although it said that reflected a seasonal slowdown in demand ahead of the Christmas holiday period.

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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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CORRECTIONS & AMPLIFICATIONS

Humana Inc.'s interest in advertising in a special section on Medicare open enrollment in the Detroit Free Press sparked the idea to publish a special section on the topic, which the news department would have covered anyway. A Nov. 3 Marketplace article on the newspaper incorrectly suggested that the idea for the specific articles came from Humana. In addition, with the approval of Free Press editors, advertising representatives told **Target** Corp. that the paper was planning to publish articles on education, but the content of the individual stories wasn't shared by the editors with the ad staff or Target. The Journal article incorrectly implied that the specific topics of the articles were given to Target.

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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LEADING THE NEWS

Repsol considers its options for Brazil

Spanish oil company weighs stock listing for unit as it seeks financial assistance to develop discoveries

BY BERND RADOWITZ

RIO DE JANEIRO—Spain's **Repsol YPF** SA is considering listing part of its Brazilian unit or seeking a partner to develop a series of new oil discoveries in a promising oil region in Brazil, Repsol Chairman Antonio Brufau said over the weekend.

Speaking during a news conference in Rio de Janeiro, Mr. Brufau said Repsol is studying "whether it needs to search for an ally" to finance the investment needed to move from the discovery to the production stage at these oil finds.

Other than a stock-market listing, another option is asset swaps with other oil companies, Mr. Brufau said, though he didn't specify potential partners.

Once considered a sleepy Spanish oil company with no oil, Repsol over the past few years has announced a series of new discoveries.

Today, it holds significant stakes in oil blocks in the subsalt region of Brazil's Santos Basin, where several of the world's largest oil and gas discoveries have been made in recent years.

Brazil's subsalt reserves are buried under a thick layer of salt miles below the ocean floor that shifts under geological pressure, making the reserves expensive to develop.

Other private oil companies would be "very, very interested" in getting hold of any acreage in the region, according to Jason Kenney, an oil analyst at ING Bank, of the Netherlands.

Reuters

Repsol Chairman Antonio Brufau, here in Madrid in May, says the company is considering a search for a financial ally.

One of Repsol's recent discoveries is the giant Guara discovery, which Repsol and its partners **Petroleo Brasileiro** SA, or Petrobras, and **BG Group** PLC estimate hold as many as two billion barrels of oil equivalent in recoverable hydrocarbon reserves.

Another, the nearby Carioca find, holds an estimated 765 million barrels of oil equivalent, Repsol Exploration and Production Director Nemesio Cuesta said this weekend.

Currently, most of the stakes in exploration and production blocks of the subsalt area are in the hands of Brazil's state-run oil company Petrobras.

Until 2007, only a few foreign oil companies—including Repsol—had bid in government auctions for shares in exploration areas containing the subsalt area.

The area was considered a frontier region where there was a high risk of incurring losses during exploration.

After Petrobras in late 2007 said estimated recoverable reserves at its Tupi subsalt discovery could reach eight billion barrels of oil equivalent, the enormous potential of the new oil region became clear. But the Brazilian government stopped the licensing of any further areas in the region.

Brazil's Congress is currently debating government proposals that would revise the regulatory framework for the oil and gas sector, and allow foreign companies into new, yet-unlicensed parts of the subsalt only in production-sharing contracts and not as owners of those resources.

Repsol says the cost of developing its Brazilian subsalt fields will depend on long-term production tests that still need to be carried out.

The cost is likely to surpass $10 billion within the next 10 to 12 years, Mr. Brufau said.

"Whether it will be $14 billion, or $10 billion, or $18 billion, is premature" to tell, he added.

Another option for Repsol would be to finance its stake in the subsalt developments by reaching a deal with Petrobras, which is Repsol's partner in most of the recent oil finds, Mr. Brufau said. He didn't specify what form such an agreement could take.

Petrobras Chief Executive Sergio Gabrielli this weekend didn't comment on any possible deal.

U.K. tells EU: Slow down on finance-sector reforms

BY ADAM BRADBERY

LONDON—The European Union's push into a regulatory overhaul is going too quickly and the current deadline of Dec. 2 should be pushed back, a **U.K. Treasury Committee** said.

In a report, the committee said the government should veto the plan if crucial changes aren't made.

"While the intention of the European proposals is widely welcomed, there is a great deal of unease about the details, both within our committee and from the evidence we received from outside," said John McFall, chairman of the Treasury Committee. "There is still more unease about the timetable for agreement."

The European Commission issued legislative proposals for a revamp of the EU's regulatory structure in September. The shakeup would create a European Systemic Risk Board to monitor threats to financial stability. It would also create three European supervisory authorities to better coordinate national regulations.

The Swedish government, which holds the EU presidency, is pushing for agreement on this package at a meeting of European finance ministers in Brussels on Dec. 2. But the Treasury Committee report says there are so many important changes needed the deadline should be extended.

"We consider that is far too fast: the proposals will set in place a framework which should last for many decades and there should be proper time for consideration, otherwise this could end up as a recipe for a muddle," Mr. McFall said.

The committee called on the government to veto the commission's proposals if they aren't changed to better protect the fiscal powers of countries in the region, . The report also cited a need to alter the commission's sole power to declare an economic emergency and remove other legal uncertainties. It also said there should be a veto if attempts are made to separate the proposals for the ESRB and the supervisory authorities.

The U.K. Treasury's financial-services secretary, Paul Myners, said in an appearance before the committee last week that the government would be prepared to veto the commission's proposals if necessary to protect the country's fiscal position.

The government is concerned that it could be forced by the ESRB to commit taxpayer funds to bail out a bank in a future financial crisis.

The committee's report said the current provisions protecting EU countries' fiscal powers "need to be far stronger," even though European finance ministers agreed in June that the new supervisory structure shouldn't impinge on national governments.

The report said another troubling feature of the proposals is the power they give the commission to declare a national emergency when the orderly functions of markets are threatened, which would allow it to demand action from regulators or regulated firms.

The committee said it agrees with Lord Myners that the EU's executive body isn't the right organization to make this decision.

Rules veto

A U.K. Treasury committee wants the government to scupper proposed European Commission financial regulations unless:

- Legal uncertainties around the regulations are satisfactorily resolved
- Fiscal safeguards are strengthened to protect the independence of individual countries' regulators
- Provisions are removed that would give the European Commission unilateral power to declare a financial emergency

Source: U.K. Treasury Committee

Citigroup rejects Terra Firma's proposal to save music unit EMI

BY TOBY LEWIS AND DANA CIMILLUCA

Citigroup Inc. has rejected **Terra Firma Capital Partners** Ltd.'s latest bid to restructure EMI Group Ltd., as the music company's lender and its owner continue to haggle over how to address its debt burden.

Citigroup in the past few weeks rebuffed a proposal from the buyout firm in which Terra Firma would inject about £1 billion, or $1.67 billion, into EMI in exchange for Citigroup forgiving a similar proportion of its £2.6 billion of EMI loans, according to people familiar with the matter. The proposal would have required Citigroup to write off more debt than it was comfortable with, one of the people said. It is unclear if and when Terra Firma intends to make a new offer.

Either way, the proposal shows the lengths Terra Firma is willing to go to rescue EMI, a big bet it made at the height of the private-equity boom that has soured dramatically. About 80% of Terra Firma's investors voted in favor of allowing the firm to invest the additional £1 billion, even though this would have raised Terra Firma funds' EMI exposure to about 40%, one person familiar with the buyout firm said. Typical private-equity-fund exposure to a single deal is 10% to 20%.

Terra Firma earlier this year offered to inject £300 million into EMI, an offer that Citigroup also rebuffed, a person familiar with the matter has said.

Citigroup became Terra Firma's sole lender after the credit crunch made it difficult to syndicate the debt when the £2.4 billion deal was agreed to in 2007.

Yet even as Terra Firma attempts to rescue its investment, it is sharply reducing its managerial involvement in the company.

The U.K.-based firm is withdrawing about 10 of its executives who help run EMI on a day-to-day basis, one person said.

Terra Firma had close to 40 executives at EMI at the height of its involvement. Since then, Terra Firma Chairman Guy Hands has stepped away from day-to-day control of the music division, which is at the heart of EMI's troubles.

Music companies, like other traditional media, have been ravaged by the circulation of their content for free on the Internet. EMI's problems have been compounded by a loss of market share and of some of its key talent since the takeover. Terra Firma already has written down a large portion of its EMI investment, and been forced to inject extra cash into the company to avoid default on the Citigroup loan.

Since September of last year, EMI's music division has failed at least three so-called covenant tests that force it to keep its cash flow at a certain level relative to its debt. EMI passed the latest test, in September, a person familiar with the matter said, which could give Terra Firma some breathing room in the Citigroup discussions.

—James Mawson contributed to this article.

LEADING THE NEWS

GE puts faith in China aerospace industry

U.S. company forms avionics venture with AVIC, setting up possible challenge to Boeing and Airbus

By Norihiko Shirouzu

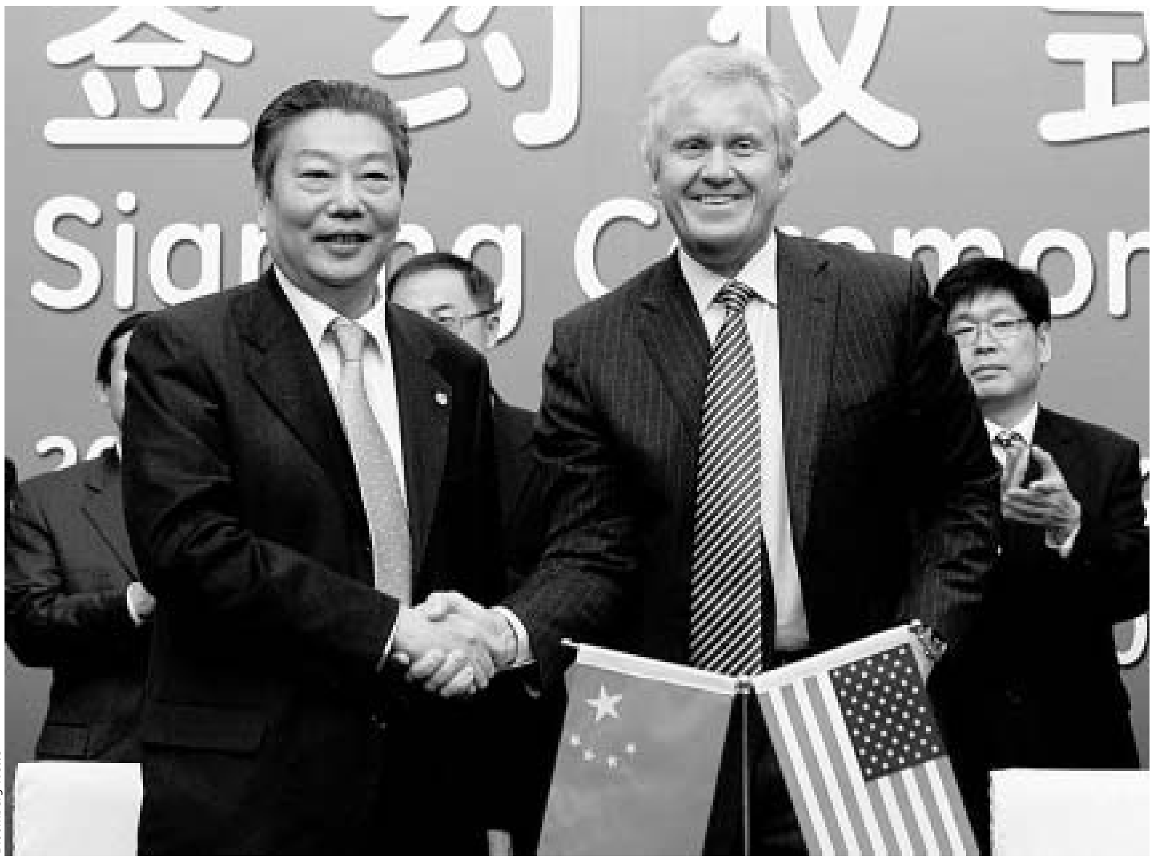
BEIJING—**General Electric** Co. made a big and potentially risky bet Sunday on China's aerospace industry as it struck an agreement with leading Chinese aircraft company **Aviation Industry Corp. of China** to jointly supply avionics systems for jetliner makers globally.

GE is essentially moving its avionics platform to China, angling in part to grab business for a planned aircraft China hopes will compete with jets from **Boeing** Co. and **European Aeronautic Defence & Space** Co.'s Airbus.

At the heart of GE's decision is the growth in China's appetite for planes, but the U.S. company also is betting that a China-made jetliner eventually could challenge Boeing and Airbus outside China—a notion seen with skepticism in the industry

GE and AVIC agreed to establish a 50-50 joint venture in China that GE said would be its main platform to develop and market avionics systems for global commercial-aircraft manufacturers. No financial details were given, but GE called it "a substantial investment."

GE defines its avionics systems as the "brains" of the aircraft, helping pilots navigate and operate the plane. The business is is part of its aviation-systems division, which has annual revenue of about $2.5 billion, roughly 13% of GE's total aviation revenue of $19.2 billion in 2008.



Bloomberg News

Lin Zuoming, president of China's AVIC, left, shook hands with GE Chief Executive Jeffery Immelt at a ceremony Sunday.

The agreement highlights increasing competition among Western aircraft-engine makers and others to supply technology for a large passenger jet China's main state-owned commercial-aircraft maker, an AVIC offshoot called **Commercial Aircraft Corp. of China** Ltd., or Comac, is trying to launch by 2016. The aim for that aircraft, the C919, is to compete with Boeing's B737 and Airbus's A320.

The GE-AVIC joint venture, which requires Chinese regulatory approval and is expected to launch in mid-2010, will be "GE's only way to go to market with avionics systems around the world," a senior GE executive said Sunday in Beijing. Thus, he said, GE will make advanced commercial-avionics technology available for the venture and will do so with the understanding of regulators in Washington.

"This market is huge, and the Chinese aviation industry likely over the coming decades will be one of the biggest, if not the biggest, of the world," said GE Chief Executive Jeffrey Immelt in a speech before signing the agreement with Lin Zuoming, president of state-owned AVIC.

"This joint venture also opens the door for us to serve customers in every corner of the world," said Mr. Immelt, whose presence at the signing further underlined the importance GE attaches to the venture.

Boeing and Airbus are expected to come up with next-generation narrow-body jets to replace their aging jetliners, but by some projections, those replacements won't enter service until the early 2020s. Comac is aiming for a crucial edge by launching the C919 by 2016. Comac, based in Shanghai, has told suppliers it plans to sell 2,500 C919 planes over a period of 20 years.

A top executive at a major U.S. aerospace supplier calls this "overly optimistic," saying it would be a feat if Comac were able to sell 600 to 800 C919s over 20 years. The C919, even if successfully developed and marketed, might lose its luster once Boeing and Airbus produce new aircraft to replace the B737 and the A320, respectively, he says.

Lorraine Bolsinger, head of GE Aviation Systems, said that while GE's immediate focus is to compete for C919 business, its venture with AVIC also is being established with an eye toward supplying technology for the next-generation narrow-body jets being planned by Boeing and Airbus, as well as business jets and other aircraft in the pipeline.

She said world-wide demand for narrow-body jetliners might amount to 20,000 aircraft over the next few decades. GE expects Comac to take a "fair share" of that demand. Such high expectations help explain GE's willingness to share the latest technology to help Comac come up with a competitive passenger jet.

"The whole premise of this joint venture is to bring [to market] advanced technology," Ms. Bolsinger said. Asked how GE would treat technology the U.S. government might consider too sensitive to transfer to China, she said GE wouldn't jeopardize its relationship with the U.S. military but noted that there is a lot of expertise outside the military realm on which AVIC and GE could cooperate. "The joint venture creates approximately 200 jobs in the U.S., in addition to creating bilateral industrial cooperation with China," said Ms. Bolsinger.

For Comac, the C919 follows last year's launch of its first passenger jet, a 70-seat regional plane called the ARJ-21. The two aircraft represent significant steps by China to try to cut into the global aerospace market dominated by Boeing and Airbus and a handful of other aircraft makers. GE provided engines for the ARJ-21 and last year signed a deal with Comac to purchase five ARJ-21 jets, with an option to buy 20 more. GE said it planned to lease the regional jets to Chinese airlines to operate within China.

A major unknown for the C919 is acceptance by consumers, especially in key markets such as North America. Brazil's Empresa Brasileira de Aeronutica SA, or Embraer, which has aimed to compete with Boeing and Airbus for decades, has only been able to break into the smaller, so-called regional-jet business.

Still, a senior executive of a major Western aircraft manufacturer in Beijing said it would be a mistake to dismiss an effort by Comac to compete with Boeing and Airbus in the big-passenger-jet business. China has the "willpower" and the "financial resources" to put up a good fight, and Comac also has China's huge and still-growing market for commercial airliners to fall back on.

While some Western aviation executives believe consumers in advanced markets would never accept Chinese-designed aircraft, GE's Ms. Bolsinger sounded a positive note Sunday. "I do believe we will see the C919 fly in North America, and we look forward to that day."

Airbus and Boeing strike optimistic tone at air show in Dubai

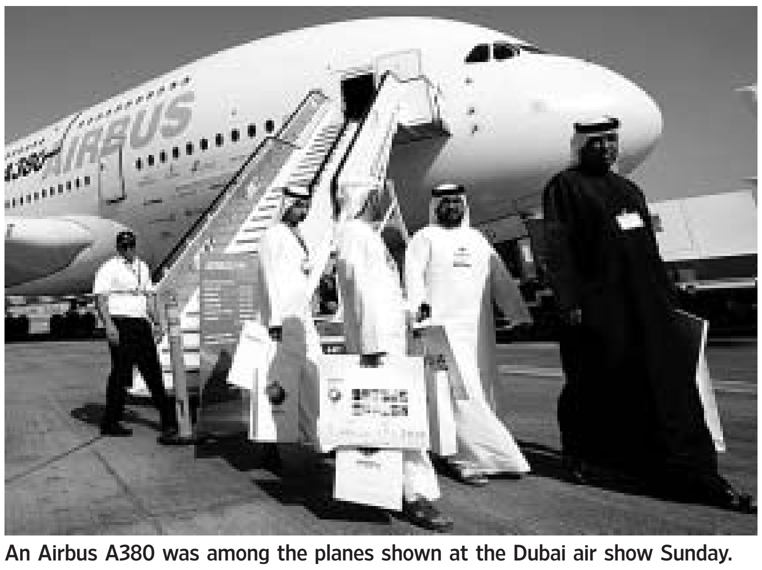
By Stefania Bianchi, Nour Malas and Alex Delmar-Morgan

DUBAI—The world's top two civil aircraft makers said Sunday at the air show here that their market had hit bottom and would start to improve.

John Leahy, Airbus's chief operating officer for customers, told reporters that "we see the market improving, not deteriorating," and "six to nine months ago, people were talking about delaying or canceling. I'm not hearing any of that at this air show."

Randy Tinseth, Boeing's commercial-airplane marketing vice president, was less bullish but still positive, telling Zawya Dow Jones in an interview that "In 2010, you should see a continued increase in traffic levels. In 2011 you should see airlines returning to profitability and in 2012 we expect to see a demand for new airplanes."

The Dubai Airshow is usually a jamboree of huge aircraft orders by the Gulf region's leading airlines, such as Emirates Airline, Etihad Airways and Qatar Airways, whose orders have been a key to the two plane makers' profitability in recent years.



Reuters

An Airbus A380 was among the planes shown at the Dubai air show Sunday.

However, this year's event is much quieter as carriers in the oil-rich region face falling passenger numbers amid the global financial crisis.

Both companies are to give formal briefings about their market outlook on Monday.

Globally, passenger demand as tracked by the International Air Transport Association has risen 5% from its low point of March 2009 but the recovery has stalled and it remains 6% below the peak level of early 2008. The two plane makers' customers are grappling with rising oil prices.

Airbus, a unit of **European Aeronautic Defence & Space** Co., announced a deal with Ethiopian Airlines for 12 A350 XWB aircraft. The deal is a confirmation of an earlier memorandum of understanding signed in July that was a breakthrough for Airbus, as the airline has historically been loyal to Boeing.

The list price for the Ethiopian jet order would be about $3 billion; Airbus said it had given a discount but didn't say how much.

On Friday, before the air show started, the European plane maker also signed a $1.8 billion agreement in principle with Vietnam Airlines for four A380 superjumbos and two A350 XWBs.

Airbus badly needs a flow of orders from current-generation jets such as the ones ordered by these two airlines to make up for its problem-plagued A400M military plane and heavy investment in new models.

Although Boeing and Airbus are hunting for new deals, their biggest problem is airlines trying to push back deliveries of the aircraft they have already ordered in a bid to preserve cash. Cancellations cause expensive disruptions rippling back into the supply chain.

Mr. Leahy, however, said Airbus will this year deliver as many aircraft as in 2008 amid improving market conditions.

"This year, we can confirm that our deliveries will be at least the same as last year," he said. In 2008, Airbus delivered 483 aircraft to airlines.

Mr. Tinseth of Boeing said the Gulf region's aviation market has proved resilient in the face of the global financial downturn, and the fact that Middle East economies will be some of the first to emerge from recession bodes well for airlines.

"I know that a lot of capacity has been added. Yields have been hurt but the airlines continue to grow," he said.

Boeing didn't make any commercial announcements Sunday, saying it is using the air show to "deepen relations" with existing customers.

CORPORATE NEWS

Ahold is ready to burn its cash pile

Supermarket-holding company, sitting on $3.7 billion, says board members are focused on expansion

By Anna Marij van der Meulen

AMSTERDAM—International supermarket chain operator **Ahold** NV says it is ready to use its €2.6 billion ($3.7 billion) cash pile to make targeted acquisitions, a move analysts say is meant to boost a lagging share price and ward off would-be buyers.

Ahold said Nov. 5 it was appointing operational managers for the Europe and U.S., where it runs Stop & Shop and Giant Landover, freeing up the board members responsible for those areas to spend more time on expansion projects.

An Ahold spokesperson said that the company will look at growing in its existing continents, and that a combination of acquisitions and organic growth is possible in markets where it is already active, or adjacent new markets. He declined to comment on whether the company is currently in takeover talks.

The move was seen by analysts as a first step to end several years in which Ahold has underperformed its European and U.S. peers, such as Carrefour SA, J. Sainsbury PLC, Supervalu Inc. or Safeway Inc.

While Ahold has been battling to regain investor confidence since an accounting scandal six years ago, it has built up a cash pile of about €2.6 billion. Its net debt, meanwhile, dropped to €1.16 billion at the end of July from €1.37 billion in April.

Ahold's Chief Executive John Rishton, appointed in 2007, has repeatedly said he feels comfortable with the company's cash buffer in the current economic climate, which has made some analysts skeptical whether Ahold is really ready for an aggressive buying spree.

In Europe and the U.S., the economic downturn has seen bitter fighting between grocery stores as they compete for market share.

For Ahold, the U.S, where it generates around 60% of its sales, could offer tempting takeover opportunities. ING analyst John David Roeg says the U.S would be the most obvious hunting ground for Ahold because of its fragmented market containing a large number of smaller regional players.

With operating profits evaporating in the current environment, there should be interest among family- and private equity-owned medium-sized chains in selling out to a bigger entity such as Ahold, he said.

Ahold spokesman Jochem van de Laarschot said the U.S. is a tough environment where you can expect the strong companies to become stronger and the weak to become weaker.

"As the US market continues to be fragmented, further consolidation is inevitable and Ahold is well positioned to go after opportunities that will arise," he said.

Ahold is currently active on the U.S. East Coast through stores such as Stop & Shop, Giant Carlisle and Giant Landover. It generated almost $22 billion of sales in the U.S. in 2008.

In Europe, a merger with Belgian supermarket operator **Delhaize Group** has been the subject of speculation for two years, ever since Delhaize CEO Pierre Olivier Beckers said in 2007 that Ahold and Delhaize could be a good fit, were Ahold to sell its U.S. food distribution services U.S. Foodservice, which it in fact sold later that year.

Delhaize declined to comment.

In the U.S. the combined activities of Ahold and Delhaize would create a food retailer with $40 billion in annual sales and a strong market position covering the entire East Coast. In Europe the combination would produce a strong market position in the Benelux countries, with activities also in Sweden and Greece.

As Ahold said growth in adjacent markets is also a possibility, this could mean expanding its presence in Central and Eastern Europe where it's already active in the Czech Republic. But it has yet to turn a profit on its Czech operations.

The same factors that are pushing Ahold to make acquisitions also make it an attractive target. Earlier this month, ING Wholesale Banking analysts said in a report that U.K.-based **Tesco** PLC could be a possible buyer.

Tesco declined to comment on market rumors.

Ahold's takeover drive "may be a step by management to protect the group from becoming a potential target itself, due to its low valuation and lack of defined growth strategy," said Standard & Poor's analyst James Monro.

Ahold, however, could also prevent a hostile takeover by issuing cumulative preferred shares, a type of "poison pill" common among Dutch companies. This gives the receiver, the Stichting Continuiteit Ahold, up to 50% of the voting rights.

Ahold will present its third quarter earnings results on Nov. 18.

Reuters
An Albert Heijn supermarket owned by Ahold, in Utrecht, the Netherlands

Macau resort to woo foreigners

By Jonathan Cheng

HONG KONG—**Las Vegas Sands** Corp. said it hopes to generate 30% of its Macau revenues from non-Chinese customers after 2011, when it opens a new casino-and-resort complex in Macau's Cotai area.

Currently, revenue from non-China visitors makes up about 8% of Las Vegas Sands' business in Macau, according to the company's Macau president, Steve Jacobs.

While visitors from neighboring Hong Kong and mainland China make up the bulk of visitors and revenue in Macau and at Las Vegas Sands' properties there, Chairman Sheldon Adelson said Sunday that those visitors tend to be day-trippers focused on gambling.

"When people fly in, they bring a much bigger budget than does a day-tripper," Mr. Adelson said, highlighting efforts to drive business from Japan, South Korea, Thailand, Indonesia and India.

He said business from day-trippers, many of whom cross the border to Macau from Hong Kong or the neighboring southern Chinese province of Guangdong for gambling runs, "can be taken care of by the casino-only guys," most of whom are clustered in Macau's traditional downtown peninsula.

Work on that project is scheduled to resume in January after a year-long hiatus, with a mid-2011 launch date for the project, which sits adjacent to the Venetian Macao and includes Shangri-La,

Las Vegas Sands aims to raise as much as US$3.83 billion in a Hong Kong listing of its Macau assets. The listing will be open to retail subscribers Monday, with trading set to begin on Nov. 30.

China gives lift to GM turnaround effort

Government incentives increase auto maker's sales, boosting its global business

By John D. Stoll

General Motors Co.'s turnaround effort will come under new scrutiny Monday as the company reports financial results. But one part of the strategy appears to be working: China.

GM's sales are expected to have doubled in China in the third quarter from a year earlier and are now running neck and neck with the Detroit auto maker's sales in the U.S. The company's 478,000 vehicle sales in China helped GM remain a relevant player on the global auto stage, and—more importantly—provided much-needed profit for GM's international operation, according to a person familiar with the results.

Although not expected to be exhaustive, the auto maker's third-quarter results will provide the most comprehensive look at the company's financial health since it filed for bankruptcy-court protection in June. The company is to update its cash position, indicate how close it is to earning money in North America, and update its progress on restructuring the Adam Opel GmbH unit in Europe.

But for GM Chief Executive Frederick "Fritz" Henderson, the most positive story lies in China, where government-sponsored sales incentives and the popularity of the Wuling microvan venture GM partially owns lifted the company's auto sales 34% in the first nine months of this year compared with a year earlier. GM's share of the China market has increased as well, climbing to 13.4% in the third quarter from 12% a year earlier and cushioning the company's lead over its rivals.

GM's China business, which wasn't included in bankruptcy proceedings in the U.S., is actually composed of a web of joint ventures with Chinese auto makers. Profit is spread across those partnerships and to other parts of GM's organization, such as GM-Daewoo in South Korea. The auto maker doesn't include Chinese vehicle sales in its revenue line, and the business isn't a source of cash needed to rebuild operations elsewhere in the world.

Associated Press

Buick cars lure shoppers to a GM dealership in Shenyang, in northeast China's Liaoning province, earlier this month.

But Shanghai has become a spiritual and physical second home for GM. The company in July decided to base its international unit there, and an increasing number of GM's global purchasing and development duties are being sent to Shanghai.

The China joint ventures are a critical platform for GM's growth in several emerging markets. For instance, the company will team with **SAIC Motor** Corp. to expand in India. It also plans to ship Wuling vehicles, including a coming sedan, to a variety of developing nations.

The auto maker doesn't break out specific results for the China unit and it plans to consolidate all operations outside the U.S. into the international operations.

To be sure, GM needs to turn around its ailing North American business if it hopes to be truly viable. The U.S. serves as the hub of GM production and is still seen as offering the most profit potential of any market in the world.

The third quarter will give a fuzzy picture of GM's progress at home. While costs have plunged thanks to layoffs, debt reduction and plant closings, the company's North American operation is a shell of its former self.

The auto maker lost considerable U.S. market share during the third quarter, falling to 19.5% from 24.5% a year earlier. The company also nearly halved production and increased per-vehicle spending on sales incentives, according to Autodata Corp. Even with the benefit of the U.S. government's "cash for clunkers" sales-incentive program, GM's sales volume fell.

For Mr. Henderson, momentum in China isn't necessarily lining GM's pockets. The bulk of the sales taking place in China are credited to Wuling, of which GM owns about a third. Wuling vans and small pickup trucks are generally strong among light commercial buyers and farmers, and can be bought at a fraction of what U.S. vehicles cost.

GM is on track to sell nearly two million vehicles this year in China, about as many as it is likely to sell in the U.S. Two-thirds of those Chinese sales are likely to be Wulings, with the balance going mostly to the Buick and Chevrolet brands. Buick is GM's mainline brand in China.

Profit aside, momentum in China is critical to GM's ability to keep pace with other global industry heavyweights, notably **Volkswagen** AG and **Toyota Motor** Co. Both are expected to surpass GM in global sales this year, but those leads are likely to be muted by GM's strength in China.

China is a rare pocket of growth amid a collection of GM operations that have been sinking for years. In the three years spanning 2006 to 2008, GM lost market share in 12 of the top 16 markets where it sells vehicles. It is gaining share in China.

The country now accounts for at least 25% of GM's global sales, compared with 10% a year ago. Whereas three GM vehicles were sold in the U.S. for every GM vehicle sold in China a year ago, that ratio has fallen to 1.25 vehicles.

Taiwan LCD maker to expand with $5.3 billion deal

By Charmian Kok
And Perris Lee Choon Siong

TAIPEI—Computer-monitor maker **Innolux Display** Corp. agreed to acquire **Chi Mei Optoelectronics** Corp. in a 172 billion New Taiwan dollar ($5.3 billion) all-stock deal that extends the reach of Taiwanese technology manufacturing tycoon Terry Gou.

The purchase of Chi Mei, announced Saturday, marks the second acquisition in less than two months for Innolux, which leads the world in shipments of flat-panel computer monitors. The deal, a 26% premium to Chi Mei's market value based on Friday's closing prices, reflects intensifying competition among Asia's major producers of liquid-crystal-display panels used in TV sets and flat-screen monitors.

Innolux was founded six years ago by Mr. Gou, who also is founder and chairman of Taiwan-based **Hon Hai Precision Industry** Co., the world's biggest contract manufacturer by revenue. Mr. Gou is the largest single shareholder in Innolux, and he, Hon Hai and other related interests together own about 24% of the display maker. Hon Hai has steadily expanded into a broad range of electronics including personal computers and cellphones.

Imaginechina

The purchase of Chi Mei expands the reach of Innolux's Terry Gou.

"We want to be Taiwan's No. 1 [flat-panel] player...and to be among the world's top three panel makers," Mr. Gou told reporters Saturday.

The LCD-panel industry has been beset by overcapacity as producers have poured cash into ever-larger factories that can bring costs down. The upshot is that even amid soaring demand for LCD television and computer monitors, producers have struggled to remain profitable.

The new entity, to be named Chi Mei Innolux Corp., will overtake **AU Optronics** Corp. as Taiwan's biggest maker of LCD panels by capacity and rank it among the world's three biggest LCD producers, company officials said. **Samsung Electronics** Co. and **LG Display** Co., both of South Korea, now lead the industry.

"The combined entity will have the scale to compete toe-to-toe with the Koreans," said Matt Cleary, an analyst at Deutsche Securities.

Mr. Cleary said consolidation should prove positive for the global flat-panel industry as fewer producers competing for clients will help support panel prices.

The Chi Mei tie-up follows Innolux's Oct. 5 announcement that it would buy **TPO Displays** Corp., a producer of flat panels used in gadgets like cellphones, in a share swap valued at $620 million. Chi Mei specializes in larger panels used for TV sets and monitors.

GM weighs financing plan to bolster Opel

By John D. Stoll
And Sharon Terlep

General Motors Co. is finalizing an Opel GmbH financing plan that significantly lessens its reliance on German government funding, using at least $1.48 billion in cash from GM and potentially $3 billion from European governments and labor unions, according to people familiar with the matter.

GM's plan to use a big chunk of its own cash, much of it provided by U.S. taxpayers, to prop up the unprofitable European unit is expected to be a key topic Monday, when the auto maker presents its first post-bankruptcy financial results.

GM must negotiate specifics of the plan with Opel's top labor representative, Klaus Franz, and present it to officials in several European nations where it has operations, these people said.

A GM official said Opel has enough liquidity to operate on its own, but significant financing is needed to restructure the unit and properly capitalize it for the future. Last month, GM said it had $13.4 billion in funds supplied by the U.S. Treasury sitting in escrow. The remainder of its cash on hand is likely to be disclosed Monday.

On Friday, the company said it paid back an additional €200 million ($296.8 million) to Germany and expects to pay the remaining €400 million owed on a €1.5 billion bridge loan by the end of this month. Repaying the loan will allow GM to dissolve an independent trust that Germany put into place as the custodian of a 65% stake in Opel.

It is unclear if GM will tap U.S. Treasury funds to fix Opel. In an interview last week, Chairman Edward E. Whitacre Jr. said GM has resources it could tap, including U.S. Treasury financing.

The latest Opel plan was set in motion after GM abandoned selling control of Opel and sister brand Vauxhall to Magna International Inc. of Canada and OAO Sberbank of Russia. Both Mr. Franz and officials in Germany, home to about half of Opel's 50,000 employees, had favored Magna.

The fresh round of meetings with labor and government officials is likely to begin this week.

Earlier this year, as Opel's parent company edged toward bankruptcy court and Opel's own cash began to run out, German Chancellor Angela Merkel provided a $2.2 billion loan and billions in additional financing if GM found an outside investor to take control of Opel.

Now, GM is distancing itself from Ms. Merkel and rethinking its need for German aid. Still, GM will discuss with German officials the potential for winning some financial backing, likely in the range of hundreds of millions of euros, for its new plan, a person familiar with the plan said.

Officials in Spain, the U.K. and Poland, all of which have Opel or Vauxhall plants, previously had committed nearly $1.48 billion to GM's Opel effort, and the company said in a statement Friday that it still seeks that support for the new plan. Mr. Franz, the labor official, also committed to about the same level of cost concessions as he did for the Magna plan.

—Christoph Rauwald contributed to this article.

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(1), (2): Based on data provided by a major server storage company using an HDD-only system and SSD applied systems.
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Dexia to shore up public-finance unit

Belgian-French bank plans to issue covered bonds to satisfy European regulators

By Matthew Dalton

European Pressphoto Agency/Belga

Dexia CEO Pierre Mariani

BRUSSELS—Belgian-French bank **Dexia** SA is moving to restructure its public-finance division, part of an effort to convince European Union regulators that the business is sustainable over the long term, Chief Executive Pierre Mariani said in an interview.

The business, which makes long-term loans mainly to local governments, historically relied on a mix of short-term and longer-term lending, leaving it vulnerable when short-term funding markets froze after Lehman Brothers collapsed last year. Now it will raise funding mostly by issuing covered bonds, a type of longer-term debt that is backed by individual assets, Mr. Mariani said.

Dexia frequently issued covered bonds before the financial crisis—when even covered-bond buyers disappeared—and will rely on them more in the future, he said.

"Clearly covered bonds are the most adequate way of funding the bulk of this business for reasons of liquidity, duration and cost of funding," he said.

Dexia is also moving to reduce the division's swollen balance sheet, particularly outside its core markets of France, Belgium, Italy and Spain. Mr. Mariani said Dexia has already sold some assets from Dexia Credit Local, the main public finance division, and could sell more in the future.

"Some parts of the business could be sold if we have an interest for liquidity, balance sheet management or for profitability," he said.

The funding question has been the main point of Dexia's negotiations with the European Commission, which must approve the bank's restructuring plan since it received major government support to survive the financial crisis. The commission has concerns about the security of Dexia's funding and is seeking a reduction of 40% or more in Dexia's balance sheet, people familiar with the negotiations say. That could require Dexia to sell a large piece or even all of Dexia Credit Local, these people said.

But Dexia on Thursday strongly denied that selling all of Dexia Credit Local is a possible outcome of its talks with the commission.

"[Board Chairman] Jean Luc Dehaene and Pierre Mariani have worked constantly and determinedly to set the company back on its feet and to preserve it in one piece," a company statement said.

Dexia argues that the sale earlier this year of FSA, its bond-insurance arm, should be viewed as equivalent to a major balance-sheet reduction because of the enormous credit risk that FSA represented. If the commission agrees with that argument, Dexia could avoid more onerous requirements to sell off other assets to meet the commission's balance-sheet reduction goals.

Dexia's third-quarter results released Friday showed that public finance may become less important to the company's core business. The bank had a better-than-expected profit of €274 million ($408 million) in the third quarter on sharply higher revenue, mainly from improving capital markets and lower charges related to its bond portfolio.

The leading earner for Dexia was its retail-and-commercial-banking division, which posted earnings of €125 million.

Revenue for the quarter more than tripled, to €1.37 billion from €315 million a year earlier, helping to reverse a €1.54 billion net loss in the third quarter of 2008. The biggest chunk of last year's losses was related to problems in its bond portfolio.

Strong deposit growth in Belgium and Turkey boosted profit, the bank said.

Mr. Mariani said that Deniz, its Turkish retail division, is important to Dexia's future growth and isn't being considered for sale as part of its talks with the commission. Dexia also wants to keep its insurance business as part of talks with the commission.

"It's not under discussion," Mr. Mariani said. "Insurance is not a source of liquidity drain for the group and would not be relevant to deal with these issues."

Three firms bidding for BHP's Ravensthorpe mine

By Elisabeth Behrmann And Alex Wilson

SYDNEY—Three potential bidders remain in the running for **BHP Billiton** Ltd.'s idled Ravensthorpe nickel operation in Western Australia state, with final bids due Nov. 25, people familiar with the situation said Friday.

Australia's **Minara Resources** Ltd. as well as **Poseidon Nickel** Ltd. and **China Metallurgical Group** Corp., or MCC, are all still taking part in the sales process for the nickel laterite operation, two people familiar with the bidding process said.

Confirmation that there are three potential bidders and that a date is set for final offers will raise market hopes that BHP may yet be able to extract some value from the US$2.1 billion operation, which it wrote off in January just eight months after it was commissioned.

Some analysts had predicted BHP could be forced to sell the mine for a nominal amount, given the risks and costs associated with restarting it; others think BHP will still aim for several hundred million dollars.

BHP declined to comment on potential bidders but said the operation continues to attract "considerable interest."

A spokeswoman for the miner said it is evaluating divestment, restart or closure options, adding that "a formal evaluation of the divestment as an option is progressing well and as planned."

One person familiar with the situation said MCC, Poseidon and Minara remain in the bidding, adding that there is also interest from other companies without elaborating.

Minara has confirmed its participation in the sale. A spokesman for Poseidon, chaired by Fortescue Metals Group Ltd. Chief Executive Andrew Forrest, declined to comment.

MCC also declined to comment.

Nickel laterites are deeply weathered ore bodies close to the surface. They contain lower concentrations of nickel than sulfide ore bodies, which tend to be much deeper below the surface. BHP opened Ravensthorpe at a time of plummeting nickel prices and struggled to turn a profit.

—Stephen Bell in Perth contributed to this article.

Vivendi tops Telefónica with bid for Brazil's GVT

By Max Colchester And Ruth Bender

Vivendi SA on Friday trumped an offer by **Telefónica** SA of Spain for a majority stake in Brazilian telecommunications operator **GVT**, a surprise move that is likely to put an end to a two-month bidding war and underscores Vivendi's desire to expand in fast-growing economies.

Vivendi said that it had bought 37.9% of GVT and had irrevocable options to buy an additional 19.6% of the company. This gives the French company effective control of 57.5% of GVT's voting share capital outstanding, the company said. Vivendi added that, in accordance with Brazilian law, it would now launch a tender offer for 100% of the Brazilian company.

Vivendi's bid of 56 Brazilian reals, or about $32.28, per share improves an offer laid down by Telefónica earlier this month of 50.50 reals and values GVT at about €2.8 billion, or $4.2 billion. Telefónica wasn't available for comment. GVT declined to comment.

Vivendi, whose businesses range from telecom companies to videogames, recently has focused its strategy on buying companies in developing markets, as revenue from its telecom operations in Europe stagnates amid increased competition and greater regulatory pressure.

Vivendi had made a friendly all-cash offer for GVT in September, but the offer was trumped twice by Telefónica.

Japan Airlines reports a loss for quarter

By Yoshio Takahashi

TOKYO—Racked by the cost of operating unprofitable routes in a travel slump, **Japan Airlines** Corp. reported its fourth straight quarterly loss and said it is seeking mediation with creditors on delaying loan repayments.

JAL also said Friday it will seek 125 billion yen ($1.4 billion) in bridge funding from the state-backed **Development Bank of Japan**, as well as other institutions, and plans to conclude talks on a potential alliance with another carrier by year-end.

The Japanese carrier scrapped its target of a full-year loss of 63 billion yen because of the uncertainty over its future while a government-appointed turnaround agency is working on a recovery plan. For July-September, the second quarter of its fiscal year, JAL swung to a loss of 32.18 billion yen from a year-earlier profit 40.09 billion yen, based on Japanese accounting standards. Revenue tumbled 26% to 429.06 billion yen.

The company is burning through its cash resources rapidly. The carrier said Friday that cash and cash equivalents on hand at the end of September amounted to 94.7 billion yen, about half of the year-earlier level.

And with "substantial doubt" hanging over its ability to finance daily operations, JAL said it is seeking out-of-court mediation on loans.

JAL has been talking to both **AMR** Corp.'s American Airlines and **Delta Air Lines** Inc. about a possible alliance. Chief Executive Haruka Nishimatsu said, "It would be natural to form a tie-up with American Airlines, taking into consideration [the relationship] we have had in the past."

The two airlines are members of the Oneworld airline-marketing network. But he added that his company will continue considering an alliance with Delta.

Either of the two U.S. airlines could take a stake in the Japanese company to gain access to lucrative Asian routes.

JAL's latest results and the need to look for a partner show that the airline is feeling the heat of a crisis in global aviation that has prompted a wave of consolidation.

In the latest example, British Airways PLC and Iberia Lineas Aereas de Espana SA agreed Thursday to merge to create one of the world's largest airlines, with annual revenue of roughly $20 billion.

JAL, which said this month it will discontinue 16 routes to cut costs, is restructuring with help from a quasigovernmental investment fund—the Enterprise Turnaround Initiative Corp. ETIC, which has access to 1.6 trillion yen in state-guaranteed funds and the ability to purchase the debts of beleaguered companies, will be assessing JAL's assets over the next two months to gauge the level of support it can provide.

Mr. Nishimatsu, who has faced pressure to resign, indicated Friday that he had no plan to immediately step down.

"Our task is to set a course for a restructuring plan. Once the course is set, I'd like to talk about our future management."

—Hiroyuki Kachi contributed to this article.

ECONOMY & POLITICS

Obama confronts limits of engagement

Halfway through Asian tour, U.S. president faces challenges to trade, human rights, security and environment

BY JONATHAN WEISMAN

Reuters

U.S. President Barack Obama boards Air Force One in Singapore Sunday, where he attended an Asia-Pacific summit. At the forum he appealed to Asian nations to make their economies more dependent on domestic consumption than on U.S. profligacy.

SHANGHAI — President Barack Obama arrived here Sunday night to press China on issues from climate change to economic restructuring, amid rising concerns that his first swing through Asia as president will yield more disappointment than progress on trade, human rights, national security and environmental concerns.

A flurry of actions over the weekend raised more questions than they resolved on a broad swath of issues confronting both sides of the Pacific.

On Sunday, leaders of the Asia-Pacific Economic Cooperation forum dropped efforts to reach a binding international climate-change agreement in Copenhagen next month, settling instead for what they called a political framework for future negotiations. Mr. Obama became the first president to meet with the entire Association of Southeast Asian Nations, including the military junta of Myanmar, and White House officials say he personally demanded the country's leaders release political prisoners, including opposition leader Aung San Suu Kyi. But Mr. Obama failed to secure any mention of political prisoners in an Asean communique.

The U.S. and Russia now appear unlikely to complete a nuclear-arms-reduction accord by Dec. 5, when the current Strategic Arms Reduction Treaty expires. Mr. Obama met for closed-door consultations with Russian President Dmitry Medvedev, but National Security Council Russia specialist Michael McFaul said major issues remain, and the two countries are working out a "bridging agreement" to extend previous arms ratification rules.

On trade, the U.S. president committed this weekend to "re-engage" the Trans Pacific Partnership, a fledgling free-trade alliance with smaller countries in the region. But a presidential shift in tone toward more trade engagement will face its real test Thursday when Mr. Obama visits South Korea to discuss a free-trade agreement with that country that remains stuck over the thorny issue of trade in automobiles.

On the issue of Iran, Mr. Obama and Mr. Medvedev were left to warn leaders of the Islamic Republic once again that "time is running out." Iran has yet to agree to a Russian offer to enrich Iran's uranium for use in research in exchange for the closure of a nuclear reactor that Western powers say could be used to enrich uranium for nuclear weapons.

Half-way through his Asian tour, Mr. Obama is confronting the limits of engagement and personal charm.

International efforts to combat climate change took a significant blow when the leaders of the Asia-Pacific Economic Cooperation forum conceded a binding international treaty won't be reached when the United Nations convenes in Copenhagen in three weeks. Danish Prime Minister Lars Lokke Rasmussen flew to Singapore Saturday night to deliver a new, downsized proposal to lock world leaders into further talks.

"Even if we may not hammer out the last dots of a legally binding instrument, I do believe a political binding agreement with specific commitment to mitigation and finance provides a strong basis for immediate action in the years to come," Mr. Rasmussen told APEC leaders at a hastily convened meeting organized by Mexican President Felipe Calderón and Australian Prime Minister Kevin Rudd on Sunday morning.

The election of Mr. Obama, a believer in strict limits on greenhouse-gas emissions, had raised hopes among environmentalists that Copenhagen would produce a tough, binding treaty to follow the Kyoto Accords of 1997, which expire in 2012.

The landslide victory of Japanese Prime Minister Yukio Hatoyama's Democratic Party of Japan brought to power a new government pledging deeper emissions cuts than its predecessor. And Chinese President Hu Jintao proposed in September to adopt what he called "carbon-intensity targets," the amount of carbon released into the atmosphere per unit of economic output. Emissions from surging economies such as China's would continue to rise but at a slower rate.

Political opposition in the U.S. Congress over Mr. Obama's climate-change proposals, and continuing resistance among developing countries to binding emission-reduction targets slowed consensus ahead of the Copenhagen summit.

Mr. Rasmussen laid out in some detail his goals for the summit. He said leaders should produce a five-to eight-page text with "precise language" commiting developed countries to reductions of emissions thought to be warming the planet, with provisions on adapting to warmer temperatures, financing adaptation and combating climate change in poor countries. It would include pledges of immediate financing for early action.

"We are not aiming to let anyone off the hook," Mr. Rasmussen told the leaders. "We are trying to create a framework that will allow everybody to commit."

But the leaders didn't say when a final summit would be convened to ratify a real treaty.

"There are two choices that we face, given where things are. One was to have a political declaration to say, 'We tried. We didn't achieve an agreement and we'll keep on trying,' and the other was to see if we could reach accord as the Danish prime minister laid out," said Michael Froman, White House deputy national security adviser for international economics.

Mr. Obama, in a speech Sunday, took his appeal for a new world economic order to the leaders of Asia that must help make it happen. He said the U.S. would strive to consume less, save more and restructure its economy around trade and exports. But he appealed to Asian nations to make their own economies more dependent on domestic consumption than on U.S. profligacy.

White House officials say a similar message will be delivered in Shanghai and Beijing, but it is unclear how hard the U.S. president can press Beijing to allow the Chinese yuan to appreciate—which would make Chinese products less competitive on world markets.

At the APEC summit, leaders "until the last moment" tried to secure a commitment to stabilize foreign-exchange markets, according to a top adviser to an APEC head of state. But disagreements between the U.S. and Chinese delegations kept any commitment on currency out of the APEC final statement.

A more-valuable yuan would empower Chinese consumers to buy, while making Chinese exports less attractive to U.S. consumers. But Washington can't afford to anger China, which it needs to float a U.S. budget deficit that reached $176.4 billion in October alone, a monthly record.

Indeed, the Asia trip is exposing the limits of Mr. Obama's policy of engagement. The U.S. president met with Asean, declaring that efforts to marginalize the government of Myanmar had failed. Human-rights groups had hoped a communiqué out of the meeting would call for the release of Ms. Suu Kyi, a Nobel Peace Prize winner under house arrest. Instead, it made a cryptic reference to a previous Asean foreign ministers' communiqué that called for her release. Sunday's statement did say that 2010 elections in Myanmar must be "free, fair, inclusive and transparent."

The failure to single out Ms. Suu Kyi was "another blow" to dissidents who want more pressure on the Myanmar junta, said Soe Aung, a spokesman for the Forum for Democracy in Burma, a Thailand-based organization. "We keep saying again and again that the U.S. should not send a mixed signal to the regime."

A White House official said the president never expected the leaders of Myanmar to accept any mention of Ms. Suu Kyi's release, but did press for a mention of political prisoners.

U.S. officials had taken pains to reduce expectations for the meeting, which was part of a new initiative by the Obama administration to improve its ties with Southeast Asia and to increase interaction with the Myanmar government. The U.S. imposes stiff sanctions on the country, also known as Burma. But many analysts view those sanctions as a failure, as Myanmar has expanded trade with China and other Asian nations, and U.S. officials now believe they might have more influence over the country's leaders if they talk with them more regularly.

—Costas Paris and Patrick Barta contributed to this article.

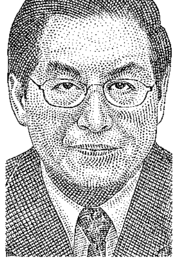
China bank regulator blames U.S. policy for asset bubbles

BY AARON BACK

BEIJING—China's top bank regulator blamed the U.S.'s loose monetary policy for creating new global asset bubbles, saying low interest rates and a weak dollar are encouraging speculation in world markets.

The U.S. Federal Reserve's promise to keep interest rates at extraordinarily low levels for an extended period "has already led to a massive U.S. dollar carry trade and massive speculation," said Liu Mingkang at the International Finance Forum in Beijing, which began shortly before U.S. President Barack Obama arrived for his first visit to China.

Mr. Liu, who is chairman of the China Banking Regulatory Commission, said the weak dollar and low U.S. rates are creating "unavoidable risks for the recovery of the global economy, especially emerging economies," and that the situation is "seriously impacting global asset prices and encouraging speculation in stock and property markets."



Liu Mingkang

China is particularly affected by U.S. policy because it has kept its currency largely pegged to the dollar. Key trading partners, including the U.S. and the European Union, have urged China to let its currency appreciate, and multilateral agencies such as the World Bank and International Monetary Fund have said a stronger yuan would help avoid risks of asset bubbles, in part because that would make it more expensive for outsiders to buy Chinese assets.

The focus on the greenback comes after it sank to a 15-month low against many major currencies last week. In a speech Tuesday, Richard Fisher, president of the Federal Reserve Bank of Dallas, said he is aware that the Fed's current stance of keeping interest rates low for an extended period was denting the dollar.

Mr. Fisher's comments marked the first mention from the Fed about the so-called carry trade, which takes advantage of the central bank's current near-zero-percent interest rate to borrow dollars cheaply. The dollars are then sold to buy other currencies or assets that investors think will earn a higher return, which further pushes down the dollar.

On Sunday, Mr. Liu didn't specifically mention China's asset prices, but the country's stock and property markets have been on the rise this year.

China has kept its benchmark interest rates unchanged this year, although policy debate has been shifting in Beijing as the recovery in the domestic economy consolidates and as the central bank tries to manage the flood of liquidity and credit underpinning the recovery.

A key concern that analysts say is keeping China from raising rates is the possibility that higher rates would prompt more speculative inflows into the recovering domestic economy. China has consistently said it won't bow to external pressure on its currency policy, though the central bank last week acknowledged that capital flows and the movements of other major currencies are issues it must take into account.

—Juan Chen contributed to this article.