Marketplace: Nestlé CEO stays hungry amid downturn

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Switzerland SF 5 - Syria S£ 210 - Turkey TL 4.5 - U.S. Military (Eur) $2.20 – United Kingdom £1.50

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Candidate's withdrawal looks set to elevate Karzai

Getty Images

VOCAL OPPOSITION: Abdullah Abdullah, who said he would pull out of this week's Afghan runoff vote due to concerns over fraud and abuse of power by the government, at a news conference on Sunday in Kabul. Page 3.

U.K. reforms need to slow, bankers urge

By Matt Turner
And Dominic Elliott

Some of the U.K.'s leading bankers have urged the Financial Services Authority to slow its efforts to overhaul markets, according to documents it sent to the regulator as part of a consulting process.

They demonstrate the level of discomfort the pace of change is causing an industry that has been nervous about publicly airing its dislike of reforms among widespread public anger over the financial sector's role in the recession.

In letters to the U.K. market regulator's chairman, Adair Turner, and its chief executive, Hector Sants, bank executives warned too little analysis had been conducted and raised concerns that proposals for change would stifle business by suffocating banks with too much regulation. They also expressed fears that opportunities for regulatory arbitrage would be rife if the U.K. pressed ahead with reform before securing international cooperation.

The letters were part of submissions made by several banks in feedback to the FSA's Turner review. As well as **Barclays PLC**, **Royal Bank of Scotland Group** PLC, and **HSBC Holdings**, the banks that submitted feedback included **Goldman Sachs** and **J.P. Morgan Chase** & Co.

RBS, Barclays, Goldman Sachs and J.P. Morgan declined to comment beyond what was contained in the submissions. HSBC said its position hadn't changed. Although the feedback was submitted in the summer, people close to the banks said they hadn't since changed their position.

A talk with Turner

The FSA, which released a summary of the banks' views on its Web site at the end of September but not the letters themselves, declined to comment beyond its statement at the time that the majority of respondents have offered clear support for its main recommendations.

That statement read: "The strongest concern was the need for international consistency in formulation and implementation of the regulatory policy response to the crisis."

Stephen Hester, chief executive of RBS, and his counterpart at Barclays, John Varley, warned the FSA of the dangers of proceeding too

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Alfa Group dials up telecom ambitions

By Gregory L. White

MOSCOW—Last month, Russia's **Alfa Group** ended five years of bitter legal battles with Norway's **Telenor** ASA with a deal to merge their telecom holdings in Russia and Ukraine. Now, the Russian company is setting its sights on another potential megadeal for its other telecom assets.

Alexei Reznikovich, chief executive of Alfa's telecoms unit, Altimo, said in an interview that the group would like to combine its minority stakes in Russian mobile operator OAO **Megafon** and Turkey's **Turkcell** AS into a single company. Sweden's **TeliaSonera** AB, now a shareholder in both Megafon and Turkcell, would get a minority stake alongside Alfa and other shareholders, he said.

"This is definitely the next thing we need to work on," he said, noting the group hasn't held any formal talks on the issue.

The deal with Telenor covers only about half of Altimo's $20 billion in telecoms assets, leaving Megafon and Turkcell, Mr. Reznikovich said. He said a combination of Megafon, which is the No. 3 player in Russia, and Turkcell, with operations in Turkey, Ukraine and other countries in the region, would create a company that could be valued at about $30 billion, and as much as $50 billion when international

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	CLOSE	PCT CHG
DJIA	9712.73	-2.51
Nasdaq	2045.11	-2.50
DJ Stoxx 600	236.93	-1.99
FTSE 100	5044.55	-1.81
DAX	5414.96	-3.09
CAC 40	3607.69	-2.86
Euro	$1.4757	-0.43
Nymex crude	$77.00	-3.59

LEADING THE NEWS

Fed's rate-boost cycle is coming into focus

Central bank debates how to communicate to financial markets

By Jon Hilsenrath

An economic recovery seems to have begun, and Federal Reserve officials are thinking mostly these days about how to unwind the unprecedented stimulus they've pumped into the economy. Eventually that will mean raising interest rates.

What will a Fed tightening cycle look like? When will it begin? Fed officials don't have answers to either question yet, and investors would be wrong to think they do. But the contours of what a rate-boost cycle could look like are beginning to come into focus as the Fed's next policy meeting approaches Tuesday and Wednesday.

THE OUTLOOK

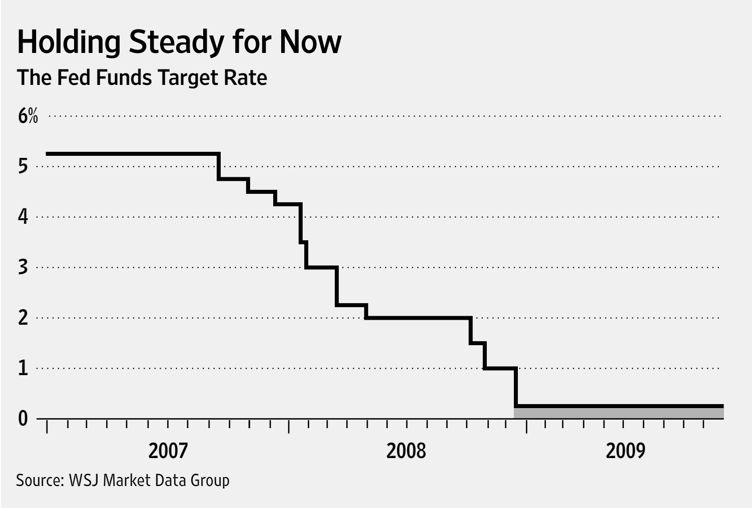
Three points emerge: First, an internal debate on tightening policy and how to communicate that to the market is only just beginning, and most officials don't believe the economy is near healthy enough yet to move toward tightening. Second, don't count on a tightening cycle to look like the last one. And third, the behavior of financial markets could take on added importance this time.

In the weeks ahead, officials are likely to begin elaborating on the economic outlook and speaking more directly about how that will affect their decisions about interest rates. Fed Vice Chairman Donald Kohn took a step in that direction in a late September speech, in which he pointed to how hard it will be to fill in the blanks for investors.

"I cannot give you a small list of variables that will trigger an exit," he said. "As always, our forecasts will use all available sources of information. And I can't predict how rapidly we will have to raise short-term interest rates from around zero or remove other forms of accommodation; that too depends on how the economy seems to be recovering and the outlook for inflation."

One obvious indicator is the unemployment rate, at 9.8% in September. Because it is so high—which implies that inflation is going to stay very low—officials aren't inclined to be in a big rush with this process. Another indicator is inflation expectations, which remain contained and give the Fed room to stay easy. A third is core inflation, which has slowed since last year but might need to slow further to justify such low interest rates.

Long before the Fed moves, it will need to communicate its intent to investors. The first step will be tiptoeing away from saying rates will stay low for an extended period. The communication strategy is likely to come up at this week's meeting, though it remains unclear when a change in the wording will happen.



"There is so much uncertainty about the first half of next year that until you have a sense about the momentum in the first quarter there will be reluctance to do anything," says Laurence Meyer, vice chairman of research firm Macroeconomic Advisers LLC and a former Fed governor.

Officials haven't decided how fast they'll raise rates once they do move. They can't, because they don't know yet what the recovery will look like. If it is exceptionally slow, rates could go up slowly, too.

But there's a good chance it won't look like the last Fed tightening cycle from 2004 to 2006. Back then, the Fed raised interest rates in a slow, methodical way, ratcheting the federal-funds rate up in quarter-percentage-point increments 17 consecutive times. This time they might want to move faster, in part because rates are so far from normal now. Policy makers also could decide to pause along the way, if the economy remains soft or the unemployment rate is slow to come down.

"If you move in a very gradual fashion back up when you need to, you'll get behind the curve in terms of tightening fast enough," says Frederic Mishkin, a former Fed governor who advocated moving rates down swiftly leading up to crises and who says they might someday need to move up swiftly, too.

The uncertainty this creates for financial markets might not be such a bad thing from the perspective of some Fed officials. The slow, predictable path to interest-rate increases that they took last time gave investors an all-clear sign to borrow cheap money and turn it into speculative investments like housing. Policy makers don't want uncertainty for uncertainty's sake, but they're also wary of giving investors license to speculate with low rates again.

Asset prices could matter more in this cycle than they have in the past. Fed officials have believed for a long time that they can't stop asset-price bubbles from happening without doing a lot of damage to the economy. But the housing bubble has shaken their views on this issue. They are increasingly focused on movements in financial markets, in the U.S. and elsewhere. Though markets are soaring in some parts of the world, and in the U.S. credit costs have come down surprisingly sharply, officials don't think there's a bubble now. But if markets do start looking frothy, or if the dollar becomes so weak it spurs import inflation, it could weigh on Fed decisions about when to start tightening or how aggressively.

"That aspect of things is going to carry more weight in the decision now," says Peter Hooper, chief economist at Deutsche Bank Securities.

Korea posts record nine-month trade surplus, despite declines

By Kanga Kong

SEOUL—South Korea had a larger-than-expected $3.79 billion trade surplus in October, helped by brisk exports of information-technology products and rising demand from emerging markets including China, the Ministry of Knowledge Economy said Sunday.

The government says it now expects that monthly exports and imports will begin to grow in November, partly helped by the low base from the year-earlier periods.

This projection is a come-down from its previous one, as it had said a month earlier that exports and imports would grow at the beginning of the fourth quarter, in October. But the government still points to a faster-than-expected recovery of domestic and global demand.

South Korea is one of the first economies in the region to report trade data, and thus provides a gauge to market watchers in assessing global demand.

According to the preliminary data, exports in October fell 8.3% from a year earlier at $34.03 billion, less than the 12% decline projected by market watchers, while imports were down 16.3% at $30.23 billion, versus a forecast for a 15.7% decline.

The trade balance was in the black for a ninth straight month, with the surplus for the January-October period totaling $34.58 billion, the biggest on record, followed by a $31.9 billion surplus in the first 10 months of 1998.

In September, Korean exports and imports fell 7.8% and 24.6% respectively, for a $4.7 billion surplus.

The latest data are expected to fuel growing optimism that South Korea will be one of the countries that weathers the severe global economic downturn better than expected this year.

Such optimism was recently backed up by the government, which now sees possibilities for gross domestic product to expand this year, since South Korea's production and exports are doing far better than when it had expected GDP to contract 1.5% this year.

According to recent production data, industrial output jumped 11% in September from a year earlier, the fastest pace in 20 months.

A majority of analysts still believe the Bank of Korea won't start to raise rates from an all-time low of 2% before early next year, due partly to the opposition from the government, which is warning that a hasty rate increase will hurt the nascent recovery. Still, experts say the firm economic indicators announced recently are more than enough to sway the central bank to adjust its policy rate.

During October, the average volume of daily exports was $1.48 billion, the highest level since October 2008, and that of imports reached $1.3 billion level for the first time in a year, the ministry said.

Liquid-crystal-display devices and semiconductors continued to lead the way in exports, by rising 38.8% and 36.8% respectively from a year earlier during the first 20 days of October.

Exports to China, South Korea's biggest export destination, rose 3.4% from a year earlier in the first 20 days of the month, while those to the Association of Southeast Asian Nations jumped 9.0% in the same period, marking the first rise this year.

Compared with the first 20 days of October 2008, shipments to developed nations were weaker, with exports to the U.S. down 37.4%. Shipments to the European Union were off 19% and those to Japan were down 22.5%.

INDEX TO BUSINESSES

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

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

LEADING THE NEWS

Challenger quits election in Afghanistan

Abdullah says runoff opposing Karzai won't be fair or free

Afghanistan's presidential challenger, Abdullah Abdullah, said he won't take part in the Nov. 7 runoff election because the vote will be neither fair nor free, handing a victory—if not a clear mandate to govern—to incumbent President Hamid Karzai.

*By **Yaroslav Trofimov** and **Anand Gopal** in Kabul and **Peter Spiegel** in Washington*

Getty Images

Afghan workers unload material for the runoff election along the Tajikistan border Sunday in the village of Pajwar.

Dr. Abdullah's decision dealt another blow to the credibility of the electoral process that was supposed to bring Afghanistan a stable, legitimate government that could tackle a spreading Taliban insurgency just as the Obama administration is considering sending tens of thousands of additional troops here.

But it doesn't necessarily mean the runoff, which is likely to spark new Taliban attacks, will be aborted. Mr. Karzai said he wants to press ahead with the vote, which would give him a clear majority, even if he runs unopposed.

The U.S. and its Western allies, which maintain some 100,000 troops in Afghanistan, and the United Nations, which played a key role in the elections, view such a second round without Dr. Abdullah as an unnecessary waste of money and probably lives, diplomats say. "There is a lot of pressure behind the scenes on Karzai not to go to a runoff," said a senior Western diplomat. "But he just doesn't want to accept a victory by default, a victory that has not been gained in the field."

The withdrawal of Dr. Abdullah from the runoff is a double-edged sword for the Obama administration. The White House had pushed hard to get Mr. Karzai to agree to a runoff election, saying it was essential to reestablishing some semblance of legitimacy to an electoral process that was wracked with allegations of fraud.

At the same time, U.S. military and intelligence officials have recently raised concerns about growing signs of apathy and disillusionment among Afghanistan's Pashtuns, the country's largest ethnic group and the one to which Mr. Karzai belongs. That could have depressed turnout, robbing the runoff of the credibility it was supposed to deliver. A recent spate of violence, including the killing of U.N. workers in a Kabul guesthouse last week, raised the specter of high-profile Taliban attacks throughout the runoff campaign.

Afghanistan's Independent Election Commission, a body appointed by Mr. Karzai, initially certified that the president won 54.6% of the votes in the August first round. Last month, a U.N.-led watchdog disqualified nearly one-third of the votes cast for Mr. Karzai as fraudulent, implicating many IEC officials in ballot-stuffing on his behalf. That decision pushed Mr. Karzai's total below 50% and triggered the runoff.

Citing that fraud, Dr. Abdullah demanded Mr. Karzai fire senior IEC officials by Saturday. The president declined. Talks between the two camps on possible power-sharing and moves to prevent fraud failed to produce a result, prompting Dr. Abdullah to announce Sunday that he is bowing out of the race. He spoke in a tent filled with about 1,000 supporters, behind a sign proclaiming: "No government without an election can be stable or lawful."

"The IEC is not independent," Dr. Abdullah said, his eyes welling up. "Everyone knows it is biased in favor of the incumbent, and the incumbent is misusing government resources."

IEC officials have repeatedly denied they favor Mr. Karzai. Mr. Karzai has insisted that no fraud was perpetrated on his behalf.

U.S. Secretary of State Hillary Clinton said over the weekend that Dr. Abdullah's pullout won't affect Mr. Karzai's legitimacy. "When President Karzai accepted the second round without knowing what the consequences and outcome would be, that bestowed legitimacy and helped strengthen the foundations from that moment forward, and Dr. Abdullah's decision does not in any way take away from that," Mrs. Clinton said during a visit to Israel.

Mr. Karzai's campaign said in a statement on Sunday that it regretted Dr. Abdullah's decision to abandon the race. "We had hoped that he could have completed the runoff and helped strengthen the foundations of democracy and rule of law in the country," the statement said.

In an interview with U.S.-funded Radio Azadi, Mr. Karzai said that "as an Afghan citizen and a candidate, I hope the runoff takes place," according to a transcript provided by the presidential palace in Kabul.

If the election goes ahead, Dr. Abdullah's name will remain on the ballots that have already been distributed throughout the country. Dr. Abdullah, who served as foreign minister under Mr. Karzai, said he didn't file the paperwork needed to formally withdraw his candidacy because he suspended any cooperation with the IEC. He also didn't urge his followers to boycott the vote.

"I leave the choice to my followers and supporters, based on what they see as the best interest of the country," Dr. Abdullah said, adding that he asked his backers to remain calm and avoid any violence.

Ahead of Dr. Abdullah's decision, White House officials had sought to portray Mr. Karzai's acquiescence to election regulators to hold a runoff as a victory in itself, a sign that the Afghan president, long accused of tolerating corruption in his government, was willing to abide by Afghan laws. While U.S. administration officials have acknowledged that Mr. Karzai's re-election was almost assured, they have argued that the process of investigating fraudulent votes was a key turning point in bringing the rule of law to Afghan politics.

On Sunday, Obama administration officials suggested that Dr. Abdullah's decision would have little impact on Mr. Obama's ongoing review of the Afghanistan war strategy, and urged Afghan authorities to abide by the country's laws when deciding how to proceed.

Senior administration officials have frequently cited the need for a reliable "partner" in Kabul as a central part of its Afghanistan strategy, and the White House is expected to wait until after the runoff to announce its new troop plans. Dr. Abdullah's withdrawal from the runoff could speed up that process, although U.S. officials said White House deliberations are expected to continue through this week.

The decision by the Obama administration to now tacitly back Mr. Karzai after the withdrawal of his chief rival from this month's runoff was a shift welcomed by congressional critics, who said Mr. Karzai had lived up to the Afghan constitution by submitting to local and international election regulators.

The Afghan constitution doesn't spell out what must happen when a runoff candidate bows out, and any decision by the IEC is likely to end up in Afghanistan's Supreme Court—which consistently ruled in favor of Mr. Karzai in previous disputes.

Some IEC officials said they expect legal specialists to advise them to move ahead with the Nov. 7 round. "The constitution says that there must be a runoff, and that is true regardless of whether Abdullah runs," said Daoud Ali Najafi, the commission's secretary and day-to-day executive.

But the IEC chairman, Azizullah Ludin, said that no decision has been made and that the election commission will meet with constitutional experts before deciding whether to hold the runoff, making a formal announcement Monday afternoon.

Banks' letters respond to bid for change

Barclays warns of FSA overshooting; RBS on coordination

BY MATT TURNER

Bloomberg News (3); Agence France-Presse/Getty Images

From left: Adair Turner, chairman of the U.K. Financial Services Authority; Hector Sants, CEO of the FSA; Stephen Green, HSBC Holdings chairman; John Varley, CEO at Barclays

At the launch of the Turner review in March, Financial Services Authority Chairman Adair Turner said that the changes recommended were profound and that the banking system will be different from the system of the past decade.

More than six months on, the debate on the document, and the discussion paper that accompanied it, continues, with the market regulator hosting its second Turner review conference today in Westminster, London.

The banks had three months to respond to Lord Turner's bid for change. Here are excerpts from some of the original letters and full submission documents, which shed more light on the regulatory concerns of some of the big banks operating in the U.K.

Barclays PLC

In a letter dated July 1 to FSA Chief Executive Hector Sants, Barclays Chief Executive John Varley warned of regulatory overshoot and raised concerns over the coordination of the review's proposals. He said: "While rich in detail about individual initiatives, the review gives no overview as to how these will operate together as a congruent prudential regime."

He said Barclays offered observations "in a constructive spirit" and added the bank wasn't arguing for "no change," but stressed the importance of international consistency on rules. In the feedback document, Barclays made it clear it opposed forcing banks to employ full-time nonexecutives—a view shared by Goldman Sachs. "We do not believe that full-time nonexecutive directors are desirable: This could lead to a loss of independence and it is likely that there would be difficulty in attracting serving executives from other boards to become nonexecutive directors. It would rule out the chairmen and chief executives of other companies as nonexecutive directors and deny us access to the skills and experience the board requires."

The U.K. bank, which was able to avoid a capital injection from the British government last autumn, argued in favor of a "living will" for banks, a concept that has since gathered steam among U.K. policymakers. The bank said: "We believe the authorities should identify what they regard as systemically important activities that, in the event of a crisis, must be protected, and should identify those activities within individual firms. As part of the normal supervisory regime, the authorities should seek to build credible plans that would protect those activities in the event of the failure of the bank, however remote that failure might appear."

The U.K. bank also warned against believing macro-prudential oversight would be a panacea, as such analysis is likely to be ambiguous and open to interpretation. Like Goldman Sachs and the London Investment Banking Association, Barclays said "innovation is a sign of health" and added the regulator should be receptive to "well-researched and carefully introduced innovation."

Goldman Sachs

Goldman Sachs, issued a 40-page feedback document to the FSA, dated June 18. The U.S. bank said it was strongly against a leverage ratio and dubbed securitization as "one of the success stories of risk management."

Pointing to the way in which the Turner review queried the social value of financial innovation, Goldman conceded the growth of new instruments had outstripped the capacity to manage them. However, the bank said it wasn't the product, but the way in which it was used that posed risks. The bank said: "The technique of securitization has been one of the success stories of risk management in the financial industry, although it must also be acknowledged securitization has been misused. OTC derivatives including [credit-default swaps] have also played a major role in global economic development, to the benefit of savers, investors, businesses and governments."

Goldman said it was strongly against a gross leverage ratio, as it didn't distinguish between high-risk and low-risk assets. The bank said: "We consider that a gross leverage ratio is entirely inappropriate as a measure of capital adequacy: it requires the same amount of capital to be set aside to cover both high-risk assets…and low-risk assets…, and there are inherent difficulties in incorporating the leverage embedded in derivative positions, as well as other off-balance sheet amounts."

Like Barclays, Goldman warned against expanding the role of nonexecutives, saying expanding the role would make it difficult to find sufficiently qualified individuals.

Royal Bank of Scotland

In a letter to Mr. Sants dated June 18, Stephen Hester, chief executive of RBS, drew attention to five main concerns that revolve around what it considers to be an uncoordinated approach in the review. The quasi-nationalized bank was surprisingly forthright in opposing elements of the document, pointing out "little substantive impact analysis has yet been undertaken of the individual proposals, their aggregate impacts or the extent to which they may duplicate (or cut across) each other."

Elsewhere, Mr. Hester raised concerns over the FSA's willingness to "go it alone" internationally, despite highlighting the need for a globally consistent approach elsewhere in the document. Mr. Hester added he wasn't convinced of the need to increase capital to the extent suggested in the Turner review.

RBS said: "Whilst we recognize the arguments around increased capital and stability, there needs to be an informed choice, taking into account the economic trade-offs and wider social impacts. RBS is not convinced that the overall scale of the proposed increases in requirements is justified."

In the feedback document, the bank went further, pointing out few banks can survive a retail run on deposits, regardless of their liquidity or capital position. Mr. Hester said many of the bank "rescues" that had taken place throughout the world weren't triggered by insufficient capital or liquidity. Rather when there is a lack of public confidence, few, if any, financial institutions can survive an enormous withdrawal of deposits.

RBS, which itself was implicitly dubbed "too big to fail" by the U.K. government, also argued against imposing different rules on systemically important banks in the feedback document:

"The debate also needs to consider that getting bigger is a rational response by banks, both as a means of diversifying risks and of achieving economies of scale. Of course, one of the contributory factors driving the search for economies of scale is regulatory costs—so further increasing regulatory obligations on larger banks would exacerbate the incentive to seek scale."

However, the search for scale is unlikely to trouble the Scottish bank in the near future, after reports last week that the U.K. government would force it to sell off retail branches in a bid to boost competition in the U.K. retail-banking market.

Like many of its peers, RBS wasn't convinced by the proposed leverage ratio, and pointed out a bank's ratio compared with its peers' would be more important than the absolute figure, hinting at the potential for market-led regulation as opposed to strict regulatory rules. The bank said:

"RBS remains very sceptical of the value of a leverage ratio, except possibly as a blunt back-stop instrument. Even then, there is no one magic ratio, either in definition or absolute amount. However defined, a leverage ratio should be seen as one of several measures of the health of a firm; moreover, the absolute measure of the ratio would be less important than its trend and a firm's own ratio when compared with its peers."

HSBC

Stephen Green, group chairman at HSBC, warmly welcomed the review in a letter to Lord Turner dated June 19 and set out his views on macro-prudential analysis and capital adequacy rules. Mr. Green said in the letter that the analysis of systemic risks had taken place prior to the crisis, but it hadn't been heeded.

"There was no shortage of macro-prudential analysis in the years before the crisis. The problem was that it carried no status, and was not connected to any policy levers. As Paul Tucker commented at the Review Conference, no one was looking to anyone to take away the punch bowl."

On capital, Mr. Green said the bank was in favor of counter-cyclical capital ratios, but warned the implementation of the policy would be key to it proving successful: "HSBC advocates a counter-cyclical capital ratio policy for the bank, which would be consistent with your own proposals. But it is important to avoid a 'ratcheting up' of capital ratios, under which they are increased in boom times but not reduced as the economy weakens. In other words, the policy must be genuinely counter-cyclical."

U.K. bankers call on FSA to slow the pace of overhauls

Continued from first page

quickly with changes to regulation.

Writing in a letter to Mr. Sants in June, Mr. Hester said: "Little substantive impact analysis has yet been undertaken of the individual proposals, their aggregate impacts, or the extent to which they may duplicate (or cut across) each other."

Mr. Varley, writing to Lord Turner in July, said: "The review gives no overview as to how these will operate together as a congruent prudential regime." He said he feared there was a danger of "regulatory overshoot" without sufficient coordination.

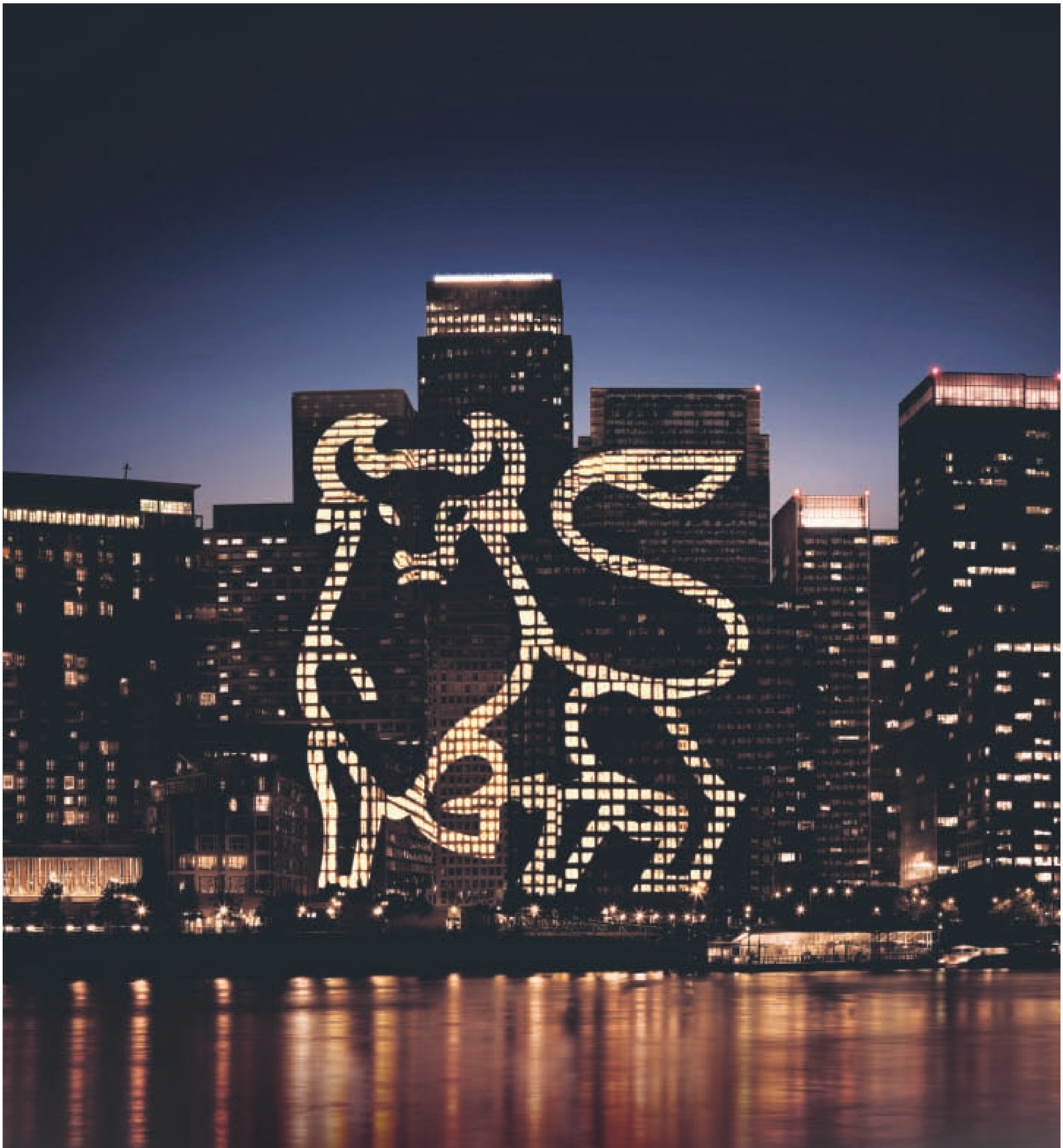
HSBC Chairman Stephen Green, writing to Lord Turner in June, drilled down into four topics covered in the review. One of the concerns he raised was that proposals for banks based outside Europe to operate as subsidiaries in the U.K. could see other countries retaliate with protectionist barriers.

Some say banks may be trying to slow much needed change. Tommaso Padoa-Schioppa, European chairman of regulation advisers Promontory Group, said: "Banks that say reform is proceeding too fast are dragging their feet. It's another way of saying they don't want reform."

While most banks shared concerns that the FSA could act too fast, they differed in their positions on individiual recommendations contained in the Turner review, including proposals on bank capital and liquidity regulations, the potential introduction of a cap on leverage and the monitoring of systemic risk.

The relevations of the banks' views come as the FSA today prepares to host its second conference on the Turner review in Westminster, with Deutsche Bank AG Chief Executive Josef Ackermann and Swiss central banker Philipp Hildebrand due to speak at the event.

The FSA has to date issued codes on finanical reporting and remuneration at banks, as well as last month finalizing rules on liquidity management. Last week it issued a discussion paper on how to regulate banks that are "too big to fail". Banks have until February next year to respond, after which new rules are likely to be implemented.



CORPORATE NEWS

Nigerian oil firm plans to list in London

Oando becomes major player in African country long dominated by foreign energy companies

BY SPENCER SWARTZ
AND WILL CONNORS

LAGOS, Nigeria—In a few months, **Oando** PLC, a small oil company here, is expected to take a rare step for any Nigerian company by applying for a listing on the London Stock Exchange. The move is an indication of something even more unusual about Oando: it is in position to become this oil-rich country's first major energy company.

The Nigerian oil market has for years been dominated by major foreign players like **Royal Dutch Shell** PLC, whose advanced technology and know-how have allowed this West African state to become the world's eighth-biggest oil exporting nation. But Oando, under chief executive Wale Tinubu, has bucked traditional investor views of Nigerian oil firms, most of which have little track record for being able to execute challenging oil projects.

Oando is parlaying its position as Nigeria's leading fuel retailer—a status it built just in the last few years—into plans to be a bigger, integrated oil company. With strong management that is seen as credible to the broader investment world, Oando has separated itself from a raft of other small local players.

Though still small by global oil standards, Oando is now aggressively laying the groundwork to boost its crude-pumping operations. It recently forked out hundreds of millions of dollars for the rights to drill for crude in two areas of Nigeria's offshore waters and cut deals with Russian natural gas giant OAO **Gazprom** and with the state-run **Ghana National Petroleum** Corp. to explore for hydrocarbons and build gas infrastructure.

"A lot of [investors] are learning that there are indigenous [Nigerian] companies...who in every way and manner run their businesses like

Reuters

Oando PLC Chief Executive Wale Tinubu

Investing in Nigeria

Oando PLC has received significant loans and arranged important deals this year

January: Oando secures $100 million in three-year loans from Standard Chartered Bank and Cairo-based African Export Import Bank

January: Oando pays $197 million to Eni SpA unit Agip for a 15% stake in two offshore blocks.

May: Oando wins $150 million drilling contract with Nigerian Agip Oil Co. for its oil fields in the Niger Delta swamps.

July: Oando acquires two inland barge rigs from Shell Petroleum Development Co. of Nigeria Ltd. for an estimated $43.5 million.

October: Oando selected as a Strategic Partner to the Ghana National Petroleum Corp. to develop assets and infrastructure to harness the gas that will be produced from the offshore Jubilee oil field.

October: Oando and Russia's Gazprom sign a memorandum of understanding to collaborate in building the infrastructure and pipelines for the distribution of gas in Nigeria.

world class corporations," said Oando's Mr. Tinubu in an interview at his office here in Nigeria's financial capital.

Oando, with stock listings already on the Nigerian Stock Exchange and South Africa's JSE Ltd., has received shareholder approval to raise $1.3 billion from local and foreign creditors to bankroll its expansion.

As it grows, Oando is exploiting a shift in Nigeria where, after years of failed policy, the government is moving to encourage the development of its own petroleum industry. "There's a desire for the government to see assets reinvested in local companies as well as local companies increasing their share of the energy-services market of the country," Mr. Tinubu said.

That foreign oil companies have largely built up this West African nation's petroleum sector the past six decades is a longstanding source of ignominy for locals and the government.

Oando—whose stock has gained around 25% this year on the Nigerian Stock Exchange—could represent a break from that legacy. The company was formed in 2003 following a merger of Unipetrol Nigeria PLC and Agip Nigeria PLC, but the company's roots date to more than five decades ago as a unit of what is now **Exxon Mobil** Corp. In the 1990s, through a process of state privatization and acquisitions, Oando came into its own as Nigeria's leading fuel retailer.

Oando's annual revenue since 2003 has grown to about $2.7 billion. That is a small amount relative to global oil companies but enough to make Oando a giant compared with its Nigerian peers.

Mr. Tinubu, 42, said Oando will list its shares on the London Stock Exchange in early 2010 without providing more specifics. The company is still completing technical details for the formal listing, he said.

The question now is how to step into the big leagues. Oando wants to boost its oil output to 100,000 barrels a day by 2013, from around 5,000 barrels a day today. While pale in comparison to Shell's production in Nigeria, the output target is similar to what Italy's **Eni** SpA currently gets to book in its accounts from its joint-venture with Nigeria's state oil company. Nigeria currently pumps about 1.8 million barrels a day.

Oando's planned London listing will give the company, which posted net income of roughly $75 million in 2008, much better exposure to investors and access to capital. The company plans to spend hundreds of millions of dollars on oil blocks previously held by major energy companies, though the outcome of a government plan to redistribute those blocks, which are relatively small in nature, is unclear.

Mr. Tinubu thinks Oando's status as a home-grown company would provide benefits to it and its foreign partners operating in the conflict-ridden Niger Delta.

With strong management that is seen as credible to the broader investment world, Oando has separated itself from a raft of other small local players.

Much of Nigeria's oil is pumped there, but militant attacks fueled by poverty the past few years have usually targeted foreign oil infrastructure, costing them and the government billions of dollars in revenue.

But there are various obstacles to Oando's growth path, including whether the government's long-delayed deregulation plan comes to pass.

A measure to liberalize gasoline pricing, a move that would benefit Oando, is opposed by many unions and local officials.

Analysts say that Oando's agreements with a number of foreign companies will serve it well. "By partnering with companies like Gazprom...Oando should further establish itself as a leading player in West Africa," said Thomas Pearmain, a London-based analyst at Global Insight.

Czech utility faces dilemma over nuclear reactors

BY SEAN CARNEY

PRAGUE—Czech power utility **CEZ** AS received initial bids to build five nuclear reactors in Eastern Europe. Now the company faces a dilemma: whether to use Western or Russian technology to construct them.

Twenty years after the Nov. 17, 1989, Velvet Revolution that toppled the Czechoslovak Communist regime, the search for suppliers of reactors in the Czech Republic, Slovakia and possibly Turkey has reopened the issue of Central and Eastern Europe's reliance on Russia for energy.

CEZ, one Central Europe's biggest companies, received the expressions of interest Friday in a tender that analysts say could be valued at up to $30 billion. It would be the region's biggest-ever deal for new nuclear reactors.

Czech politicians view increased use of nuclear power as a way to counter the country's limited choice of natural-gas and crude-oil suppliers. CEZ also needs to scale back production at its coal-burning power plants to meet European Union targets for reducing emis-

Bloomberg News

CEZ's Temelin nuclear plant, seen in 2007, uses Soviet and U.S. technology.

sions. Coal-fired power plants account for more than half of the company's power generation.

Meanwhile, the EU and the U.S. are calling on former Soviet satellites to move away from Russian energy and work with Western partners, after the flow of oil and gas from Russia to Europe was stopped several times in recent years.

Existing Czech and Slovak nuclear reactors are based on Soviet designs, although a hybrid unit in the Czech Republic's south Bohemian village of Temelin uses safety technology added in the late 1990s by Westinghouse Electric Company LLC, a Pennsylvania-based unit of Japan's **Toshiba** Corp.

State-run CEZ is hoping to build as many as three new 1,700 megawatt reactors to expand installed capacity in the Czech Republic. It also holds a 49% stake in a joint venture with a Slovak state-run power authority that will likely build a reactor at Slovakia's Jaslovske Bohunice nuclear facility. That unit would replace a recently decommissioned reactor at the site. CEZ has been expanding into Turkey in recent years and has said it will consider building a nuclear plant there as well.

The leading bidders include Westinghouse, Russian state-owned **Atomstroyexport** ASE and France's **Areva** SA.

CEZ said it will draw up a short list of bidders by early next year, and complete the process by early 2011, with a view to get the first new reactors online by 2020.

"My view is very clear. I favor diversification of energy sources and transport routes," Vaclav Bartuska, the Czech government's chief energy adviser, said in an interview. Mr. Bartuska, whose recommendations are crucial to the plans for CEZ, said he also favors geographic diversity.

But other Czech officials take a different view. Vladimir Hlavinka, a member of CEZ's board with expertise in nuclear power, said the company will base its decision foremost on safety, then price and finally on the circumstances of construction.

Despite the Czech Republic's dependence on Russian energy, CEZ itself is less so, Mr. Hlavinka said. CEZ gets its coal from domestic mines, produces some hydropower in local waterways and has struck a deal with Germany's RWE AG for natural-gas to supply a power plant to be built north of Prague. CEZ's only reliance on Russian companies comes from switching to a Russian provider of nuclear fuel, he said.

Michael Kirst, Westinghouse vice-president for Central and Eastern Europe, said that if Westinghouse is selected, as much as 80% of the subcontractors used to build the new reactors would be Czech companies and that the Czech Republic may become Westinghouse's regional supply base.

Atomstroyexport said 70% of suppliers for the CEZ reactors would be from Czech companies and be based on "more than half a century's experience of Czech-Russian cooperation."

CORPORATE NEWS

For 'Princess,' Disney returns to its roots

Former rival Pixar steers studio back to traditional style

By Ethan Smith

"The Princess and the Frog," **Walt Disney** Co.'s first hand-animated feature film in nearly six years, is a gamble by the studio that audiences will respond to the traditional medium of Mickey Mouse in an era when animation is dominated by slicked-up computer-generated fare from Pixar Animation and DreamWorks Animation SKG Inc.

Ironically, it was two of the biggest names in computer animation— Pixar cofounders John Lasseter and Ed Catmull, who have overseen Disney Animation since 2006, when Disney bought their company for $7.4 billion—who were behind the decision to return to the hand-drawn technique, and to rehire filmmakers who use it.

Disney in 2003 announced that it was abandoning traditional animation in favor of computer-generated imagery, after a string of hand-drawn flops that included "Treasure Planet" and "Brother Bear." In the same period, DreamWorks' "Shrek" and Pixar's "Finding Nemo" cleaned up at the box office.

But from Mr. Lasseter's point of view, the real problem wasn't Disney's animation techniques—it was more fundamental elements like characters and plot.

"I've never understood why the studios were saying people don't want to see hand-drawn animation," Mr. Lasseter said at a fan convention earlier this year. "What people don't want to watch is a bad movie."

But Disney didn't exactly strike pay dirt with its new all-computers, all-the-time approach. The studio's first fully computer-animated feature, 2005's "Chicken Little," posted a middling $135 million at the domestic box office, and 2008's " Bolt" earned $114 million domestically.

Production costs for films animated by hand or by computer tend to be comparable. Executives involved in making "Princess" say it cost slightly less than its original budget, which they declined to disclose. Others in the industry estimated the film's cost at around $150 million, a bit less than last year's "Monsters vs. Aliens," by DreamWorks Animation.

The retro production technique isn't the only hurdle facing "Princess." The movie's classic musical form, in which characters break into song, Broadway-style, could feel dated to audiences more accustomed to wisecracking movies like "Monsters."

Disney

Pixar co-founder John Lasseter, right, helped oversee Disney's hand-drawn "The Princess and the Frog.'

Associated Press

"Princess" producer Peter Del Vecho said in an interview that the filmmakers consider that a selling point: "There is a whole new generation now that hasn't experienced a great musical, hasn't experienced a big, epic fairy tale."

But reversing course wasn't simple. Special hand-animation workstations—with backlit, rotating drawing surfaces and pegs designed to create makeshift flipbooks out of stacks of drawings—had been scrapped or mothballed. Disney Animation's Burbank, Calif., headquarters had been turned into a warren of cubicles suited to creating computer-generated, or "CG" imagery. As for the fate of the traditional animators: about 150 were retrained at "CG Boot Camp" while others found work elsewhere, in videogames or commercial production.

Among those laid off were Ron Clements and John Musker, the writer-director team behind "The Princess and the Frog"—and previously, "The Little Mermaid" and "Aladdin." The men also made the 2002 box-office disaster "Treasure Planet."

Searching for a new gig, the men paid a visit to Pixar in 2005. In an interview, Pixar President Mr. Catmull recalled experiencing " the weirdest feeling" when he realized that Pixar's success had contributed to the men's ouster. "We in no way wanted to be thought of as advocates" of computer graphics only, Mr. Catmull said. "We wanted to make great films; great films are independent of technology."

The Disney-Pixar deal was imminent, but hadn't been finalized. That meant that Pixar essentially would be bringing back to Disney two men who had just been let go. "We had to be super-secret because the talks were confidential," Mr. Catmull said.

A Disney spokeswoman said Messrs. Clements and Musker were unavailable for interviews.

Messrs. Lasseter and Catmull ordered the sprawling second floor at Disney Animation, which houses the production operation, split in two. Half continues to contain the cubicles used for computer-generated films. The other side of the floor has been transformed into a "bullpen" filled with dozens of specialized animation desks retrieved from a studio warehouse.

Still, given the way the hand-animation capacity had been dismantled, parts of the process were outsourced to firms in Canada, Florida and Brazil—all started by ex-Disney animators.

The reassembled team of animators in Burbank felt a sense of mission, Mr. Lasseter said: "You have never met a group of artists more dedicated to proving something than the artists who did 'The Princess and the Frog.' "

Disney is aiming to build word-of-mouth buzz for "Princess" ahead of its Dec. 11 opening by holding two and half weeks' worth of premium-priced screenings at single theaters in New York City and Los Angeles. The studio says it has already sold $2.8 million worth of tickets.

Shanghai to address plans for a Disney theme park

By Denis McMahon

SHANGHAI—Amid rumors of progress on a proposal to build a Walt Disney Co. theme park in Shanghai, the Chinese city's mayor said Sunday that a press conference on the subject will be held soon.

"There's a lot to be said on the subject," Shanghai Mayor Han Zheng told a press conference Sunday following a meeting with foreign executives. Mr. Han said the government will hold a press conference on the subject in the coming week.

In the past, the Shanghai government has routinely declined to comment on the possibility of a Disney project for the city, though the mayor did say in early 2009 that any deal would be up to central government authorities.

A Disney spokeswoman couldn't immediately be reached on Sunday for comment.

Mr. Han's latest statement comes amid fresh speculation in recent days that Shanghai Disneyland could get a green light. Shanghai newspapers have highlighted speculation in the local property and stock markets that an announcement on plans for a theme park could be made around the time U.S. President Barack Obama makes an overnight visit the city on Nov. 15, a brief stopover ahead of a state visit in the Chinese capital, Beijing.

In one instance, shares of a printing company with sizable land holdings in the area where Shanghai Disneyland would be built, Shanghai Jielong Industry Group Corp., have jumped 39% so far this month. A company spokesman last week said he didn't have fresh Disney news.

For Anaheim, Calif.-based Disney, a park in Shanghai would mark its most significant step yet into the world's most populous country and a visible sign of the brand.

For China, the park would be one of the country's largest ever foreign investments, and it could be a major job creator for Shanghai and the next big thing following a six-month-long World Expo due to kick off next May.

Last January, The Wall Street Journal reported that the Shanghai government and Disney had finalized a feasibility report and submitted it to China's central government. It outlined a theme park costing around $4 billion that would open in phases starting around 2014 in a joint venture between Disney and local government-owned companies. If the project were to proceed, a next step would be for the study to gain approval, paving the way for contracts to begin development.

—James T. Areddy contributed to this article.

CORPORATE NEWS

Employers brace for swine-flu outbreaks

Cross training, hand sanitizers become priorities

By Betsy McKay
And Dana Mattioli

Associated Press

People line up to get swine-flu vaccinations in Quebec, Canada, on Friday. The illness has killed at least 5,700 world-wide.

Swine flu has made Friday afternoons a lot busier for some employees of Hormel Foods Corp. As they wind down the week, staffers in the food company's logistics, transportation and customer-service department take time to learn one another's jobs.

The cross-training is meant to ensure that Hormel, based in Austin, Minn., can keep operating if many employees specializing in one task contract the flu simultaneously, says company spokeswoman Julie Craven.

Hormel's Friday-afternoon training is an example of how corporations around the world are girding themselves for swine-flu outbreaks. The illness, also known as H1N1 flu, has infected millions of people and killed at least 5,700 world-wide.

Worried they could face throngs of ill and absent employees, companies are devising plans to keep their offices and factories running. They also hope to prevent or limit the spread of infection in the workplace by installing hand-sanitizer dispensers and thermal scanners, ordering workers to wipe down their desks and phones, and asking employees who don't feel well to stay home.

So far, outbreaks appear to be more common in schools than workplaces. But the number of cases is rising, and deliveries of a new vaccine against the virus are slower than officials had hoped.

Eighty-one percent of attendees polled at a September conference by the Center for Infectious Disease Research and Policy at the University of Minnesota said their greatest concern about H1N1 flu was employee absenteeism.

Only a third of 1,057 businesses across the U.S. surveyed by the Harvard School of Public Health in July and August said they could avoid operational problems over a two-week period if half of their work force was out because of H1N1.

To pre-empt high absenteeism, many companies are trying to get workers vaccinated, particularly those who travel internationally, says Myles Druckman, vice president of medical services for the Americas for **International SOS Assistance** Inc., a medical- and security-assistance company based in Trevose, Pa.

Many employers hold vaccination clinics for seasonal flu, but obtaining H1N1 vaccine is difficult because governments are controlling supplies and steering them to those considered at highest risk, he said.

Another challenge: persuading sick employees to stay home. Many hourly workers have limited sick time, after which they aren't paid, says Nina Stillman, a partner with Morgan, Lewis & Bockius LLP who has advised clients regarding H1N1. Higher-ups consider themselves essential, she adds.

"What do you do with the senior executive or senior partner who says, 'No, I'm going to tough it out?'" Ms. Stillman asks. "Employers are going to have to realize they're going to need to enforce their positions. If you're not feeling well, go home."

Texas Instruments Inc. has relaxed its sick-leave policy to encourage employees with flu-like symptoms to stay home, including hourly employees who aren't paid if they don't work. The Dallas semiconductor maker normally limits the number of sick days hourly workers can take without losing pay. This winter, TI is letting workers take as many sick days as they need for flu by borrowing against future allowances, says Lisa Luna, manager of occupational health.

Some companies are stocking antiviral drugs to treat flu-ridden employees. Clinics run by **Continental Airlines** Inc. at hub airports in Houston, Cleveland and Newark, N.J., dispense Tamiflu and Relenza to employees who test positive for flu, says Julie King, a spokeswoman for the airline.

Monsanto Co., a St. Louis agricultural-products firm, has an emergency supply of at least 300 doses of Tamiflu in the event of a shortage, says Emer OBroin, vice president of environmental safety, health and human rights.

The company started securing the drug in April through its doctors amid concerns about tight supplies if the flu spread widely.

Monsanto is working with local health-care providers to obtain the vaccine for high-risk employees, including pregnant women and those with asthma or respiratory problems, once it is available, Ms. OBroin says.

Abbott Laboratories, a health-care company with 72,000 employees, in September began distributing H1N1 travel kits to employees traveling on business as well as to salespeople, who often visit hospitals or doctors where H1N1 patients may be treated. The kits include tissues, antibacterial soap, disposable thermometers, respirators and other items. Abbott spokesman Kurt Ebenhoch says the Abbott Park, Ill., company encourages employees with flu symptoms to stay home. Hourly workers would follow the normal sick-day policy, he adds.

To keep people from getting sick on the job, **Convergys** Corp. has asked agents at its 82 call centers globally to wipe down their desks, headsets and phones with sanitizing wipes at the end of their shifts, says Carol Fox, senior director for risk management and business-continuity planning.

The Cincinnati company says it initially thought that absenteeism could be as high as 20%, but so far "we aren't seeing that at all," Ms. Fox says.

Sanofi expects H1N1 vaccine to boost sales for year

By Mimosa Spencer

PARIS—French drugs company Sanofi-Aventis SA Friday reported a 6.8% rise in third-quarter net profit thanks to robust sales growth of blockbuster drugs Lantus and Lovenox, and raised its full-year outlook, citing an expected $500 million boost to fourth-quarter sales from the H1NI, or swine-flu, vaccine.

The company said it now expects full-year adjusted earnings per share excluding selected items to rise at least 11%, up from its previous target of 10%.

Sanofi also said it is buying the French beauty nutrition company Laboratoire Oenobiol to bolster its over-the-counter offering in its latest step to find new sources of growth to offset the threat of patent expirations. The drug maker give a value for the deal, but Laboratoire Oenobiol's annual sales are about €57 million ($85 million).

Sanofi's net profit increased to €1.42 billion in the three months ended Sept. 30 from €1.33 billion a year earlier, as sales increased 8% to €7.4 billion.

Double-digit sales growth of diabetes drug Lantus and blood thinner Lovenox helped offset a steep drop in sales of cancer treatment Eloxatin, which were hit by generics competition. Lantus sales rose almost 22%, in a sign the company has managed to successfully shrug off the publication of studies earlier this year suggesting that the treatment could be linked to cancer. Some medical experts have called the studies inconclusive.

Eloxatin sales fell 44%, when stripping out currency fluctuations, to €193 million, amid competition from generics in the U.S. and Europe. Competition from generics to its Plavix drug, which posted 4% sales growth at constant rates to €664 million, is expected to accelerate in the fourth quarter in Europe, Chief Executive Chris Viehbacher told journalists.

Under the direction of Mr. Viehbacher, who is looking to emerging markets to help fill the hole from future patent expirations, Sanofi has bought companies specializing in vaccines and generics in emerging markets. Mr. Viehbacher is also pushing Sanofi to seek more partnerships to fill its pipeline of new products after slimming down its research-and-development operations and cutting projects.

In the past week, Sanofi has signed agreements with two U.S.-based companies to license cancer and diabetes treatments. Mr. Viehbacher said the company isn't pursuing a large acquisition.

Sanofi recently agreed to pay **Merck** & Co. $4 billion for the other half of an animal-health venture called Merial that the two companies had jointly owned for years. Merck needed to sell its stake to avoid antitrust problems as it acquires Schering-Plough Corp. As part of that deal, Sanofi and Merck left the door open for eventually combining Merial with Intervet, an animal-health business that Schering-Plough is bringing to Merck. In an interview Friday, Mr. Viehbacher said there is a "better than 50-50" chance that the companies will be combined, which would make Sanofi and Merck joint owners again, but of a larger business.

While Sanofi's H1N1 vaccine is already being administered to consumers in the U.S., Mr. Viehbacher acknowledged that the company is "behind" rivals in gaining regulatory approval for its shots to be used in Europe. Vaccines from Novartis AG and GlaxoSmithKline PLC are already being used in Europe, because the companies took advantage of a special European process that allowed companies to apply more than a year ago for permission to sell pandemic flu vaccines.

Sanofi didn't do this, only applying more recently, and is still waiting for regulators to approve its shots for use. The company said it expects European regulators to approve one type of its vaccine in the next few weeks, and another type—containing a special booster ingredient called an adjuvant—in December.

Separately, U.K. drug maker **Shire** PLC posted a third-quarter net profit and said a yet-unapproved drug for a rare disease has been made available to as many as 600 U.S. patients amid a shortage of the only other medicine available.

Shire said velaglucerase alfa has been made available to between 300 and 600 sufferers of Gaucher disease, a rare genetic condition characterized by an inability to break down types of fats that subsequently build up in blood vessels, tissues and organs. The U.S. Food and Drug Administration, or FDA, asked Shire to step in after a shortage of Gaucher treatment Cerezyme caused by manufacturing problems at the facilities of its U.S. maker, **Genzyme** Corp.

Velaglucerase alfa, or vela, is being supplied free ahead of formal FDA approval and will be made available to several hundred more patients in 2010, Shire said.

The company, based in Basingstoke, England, said third-quarter net profit was $59.6 million, compared with a loss of $34.9 million a year earlier, when higher interest expenses weighed on the bottom line. Revenue fell 15% to $602.5 million, as sales of Adderall XR, a hyperactivity treatment that is now losing ground to cut-price generic copies, dropped 74%. Sales of newer hyperactivity drug Vyvanse, meanwhile, rose 34% to $129 million.

Shire also said it received a subpoena on Sept. 23 from the U.S. Department of Health and Human Services in coordination with the U.S. Attorney for the Eastern District of Pennsylvania, seeking documents related to the sales and marketing of Adderall XR, Daytrana and Vyvanse.

The inquiries are at an early stage and there is no evidence of wrongdoing, Shire said,adding that it was cooperating and responding to the subpoena.

—Jeanne Whalen and Jason Douglas contributed to this article.

FSA chief sees Asia as top bubble risk

Turner says Basel II defended against enemy that never came and overlooked liquidity; too-big-to-fail debate

Adair Turner has been chairman of the U.K.'s Financial Services Authority since September 2008. The Wall Street Journal's Jon Hilsenrath and Bob Davis caught up with him in Washington for a discussion of financial bubbles, too-big-to-fail financial institutions and rules for bank capital designed by global regulators in Basel, Switzerland, which are known as Basel II. Excerpts of the conversation follow.

Getty Images

Adair Turner says he doesn't see bubbles in U.S. or European stocks or real estate.

WSJ: Are there asset bubbles forming as a result of low interest rates and other measures being taken to fight the recession?

Lord Turner: If there are, the Asia area is probably the most significant area to keep one's eye on at the moment. You're now seeing a significant resurgence, for instance, of property markets in China. Of course China has a very, very large expansion of bank credit going on. It's been a key part of their stimulus package. I'm sure that's a thing they will continue to keep under sight. More generally across the world, I wouldn't say it's a problem we need immediately to focus on. I still think we're in the environment where our worries are about the dynamism of underlying demand. In Europe or the U.S., I don't think we're seeing anything in property markets or equity markets which looks at all like a bubble effect.

WSJ: Do developed economies and their central banks bear any responsibility for bubbles that could be building in emerging markets?

Turner: There is a need for enhanced global discussion of these issues. We realize there is complex interconnectedness across the world, and we need to understand the implications of one area for another. But most of the things that are happening in, say, China are driven by the very rapid scale of bank lending growth which is going on there, and I think there are very, very competent people there who are thinking about it. A lot of the key dynamics are still national.

WSJ: There is a debate going on inside the Federal Reserve and other central banks about what financial regulators and central banks should do in the face of bubbles, whether regulators should use the blunt instrument of interest rates or whether they should use supervisory controls.

Turner: I think it's clear that we need within the banking system not only to deal with the issue of pro-cyclicality but actually to go further and make the system overtly countercyclical. The essence of it is capital that builds up in the good years so it can be run down in the bad. You could put buffers into the banking system so that when the bad times come the banks don't go bankrupt and make the downturn worse. You could be ambitious enough to believe the buildup of countercyclicality buffers in the upswing will actually lean against the upswing. That debate about how ambitious we want to be is not yet fully resolved.

It relates to another debate about hard wiring versus discretion. There is a work program going on in the Basel committee to define a countercyclical capital regime which will go up during the boom years and be drawn down during the bad. Can we design formulas that hard-wire this, linked to the pace of credit or general macroeconomic indicators? Or does it take a committee of wise people? The more one has the ambition of using this as a tool of macroeconomic discretion, the more there has to be discretion instead of hard wiring.

The program is clearly set out. Between now and the autumn of next year we will arrive at definitive new global agreements on countercyclical capital.

WSJ: Liquidity too?

Turner: Liquidity is an area where there was not nearly enough attention in the past 15 years. Enormous intellectual effort went into the design of the Basel II capital-adequacy regime. And very little attention went into liquidity. The developed world moved away from the idea that it had hard-and-fast rules. 'You must have this percentage of your assets in clearly liquid assets.' ... And we realize that that was wrong and there are work programs within Basel to agree on some common global liquidity standards.

WSJ: Would you call this Basel III?

Turner: I think it is effectively Basel III. If you look at Basel II, it took the better part of 12 years. And effectively we are trying to drive a Basel III in a year and a half.

WSJ: Basel is dead, long live Basel.

Turner: It's a big challenge. We'll still build on Basel II. Another area where Basel III will be significantly different is in trading books. Basel II was almost entirely concentrated on the banking books of banks, the held-to-maturity assets. It really didn't change the trading books, the market risk stuff. In retrospect the whole Basel II exercise was an extraordinary exercise of enormous intellectual effort to defend against an enemy that didn't come. The enemy came from another direction. It's rather like the British guns in Singapore, pointing out to sea, and the Japanese came across the causeway. We were focusing enormous effort into the relative asset quality in the banking books and onto capital and the huge problems were liquidity and the capital on trading books.

WSJ: Where do you stand in the debate about dealing with too-big-to-fail institutions?

Turner: A crucial debate. The key to it is to understand that it is very unlikely that there is one silver bullet answer. There are a series of reinforcing policies which will help us address this. This includes a higher level of capital for systemically important banks, or higher quality capital. We have to reduce the probability of failure of very large banks. Beyond some measure of systemic importance, which may be primarily size but could include some non-size metrics as well, we will require a higher level of capital or a higher quality of capital.

More officials stepped down as push for freedoms grew

As we approach the 20th anniversary on Nov. 9, we will chronicle the events that precipitated the fall of the Berlin Wall as they played out in the pages of The Wall Street Journal.

East and West

As the Berlin Wall Fell

On Nov. 2, 1989, East Germany ousted top-level officials amid continued pro-democracy protests. The wife of deposed Communist Party leader Erich Honecker lost her cabinet post as education minister and several other senior politicians quit as pressure for internal freedoms intensified.

"The resignations, viewed as the start of a wholesale government purge, came as tens of thousands of demonstrators marched in at least four cities to demand democratic changes and an end to Communist Party privileges," the Journal wrote. "Thousands of other East Germans poured into Czechoslovakia en route to West Germany as part of a resumption of an exodus to the West."

Just the day before, Mr. Honecker's successor, Egon Krenz, had met with Soviet President Mikhail Gorbachev and emerged from talks "declaring his wholehearted readiness to embrace perestroika," according to the Times of London.

Mr. Krenz said the demonstrations that had become commonplace in East Germany were a good sign, "affirming that most of those taking part in the talks were demanding precisely what he had to offer them," the Times wrote. He also expressed confidence that the mass exodus of citizens to the West would stop when they began to feel the results of the changes he was planning. "Krenz has to convince his people that the leadership changes will make a difference to their lives," wrote the Times. "What Mr. Gorbachev can advise him on is how far he needs to open up one of the most repressive regimes in Eastern Europe to appease a restless people without going as far as Poland or even Hungary with his reforms."

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Getty Images

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World-Wide

EAST GERMANY OUSTED top-level officials amid pro-democracy protests.

The wife of deposed Communist Party leader Honecker lost her cabinet post as education minister and several other senior politicians quit as pressure for internal freedoms intensified. The resignations, viewed as the start of a wholesale government purge, came as tens of thousands of demonstrators marched in at least four cities to demand democratic changes and an end to Communist Party privileges. Thousands of other East Germans poured into Czechoslovakia en route to West Germany as part of a resumption of an exodus to the West.

East German leader Krenz traveled to Warsaw and met with Polish officials. He reportedly vowed to announce Monday a law allowing freedom of travel.

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At left, East German refugees wait to go to West Germany. At right, a Nov. 3, 1989, Wall Street Journal article.

Ukraine defies IMF warnings about debt

President approves an increase in social spending, jeopardizing loan; S&P downgrades its outlook for country

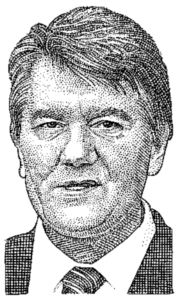
By James Marson
And Alexander Kolyandr

Ukraine's president defied warnings of the International Monetary Fund and approved an increase in social spending that will balloon the government deficit. The move will likely lead to a suspension of IMF lending to one of Europe's most fragile economies.

In response, ratings agency Standard & Poor's downgraded its outlook for Ukraine, while the IMF's managing director said he is "concerned" by Ukraine's decision.

Ukraine's collision with the IMF comes amid jockeying among Ukraine politicians before presidential elections in January.

While IMF officials worry that an economic meltdown in Ukraine could spoil a fragile recovery in Europe, the country has also emerged as a testing ground for the integrity of IMF lending standards.



Viktor Yushchenko

Earlier last week, the IMF warned Ukraine President Viktor Yushchenko that he needed to veto the law boosting Ukraine's minimum wage and pensions if the country was to remain on track with the IMF lending program.

Mr. Yushchenko, who trails far behind major rivals in opinion polls, had remained noncommittal until Friday, when he announced to reporters that he had signed the bill. He said he didn't want the country's budget problems to be solved "at the expense of pensioners, poor people and the disabled."

Of all the countries the IMF has helped this year, Ukraine has proved to be the most complex because of the tangled politics. The IMF delayed an earlier disbursement of money to keep pressure on Kiev.

With local politicians denouncing the IMF for its austerity, the IMF's resident representative met last week with labor leaders and other officials to put forward a friendlier face. But the president's action, in the face of a direct warning from the IMF, appears to leave little wiggle room.

IMF chief Dominique Strauss-Kahn told Reuters that Ukraine was "off track and in this situation I'm afraid it would be very difficult to complete the next review of the program." He later softened his position in a statement, saying, "We understand that there is disagreement among the authorities on how to proceed, but we continue working with them in the hope that they come together to reach a position that will allow early completion of the review."

Mr. Yushchenko's move is seen as an effort to undermine his erstwhile ally of the Orange Revolution, Prime Minister Yulia Tymoshenko, who is now his bitter rival and far ahead of him in the opinion polls. The front-runner for the January ballot is Viktor Yanukovych, leader of the opposition Party of Regions, whose lawmakers frequently have blocked parliament in recent months demanding rises in social spending.

Reuters

IMF mission chief Ceyla Pazarbasioglu, left, and Ukraine's Prime Minister Yulia Tymoshenko at a July conference on loans.

On Friday, one of Ms. Tymoshenko's top advisers, Deputy Prime Minister Hryhoriy Nemyria, called Mr. Yushchenko's move, which increases the minimum wage and pensions in the crisis-stricken country by 20%, "irresponsible" and "politically motivated."

Mr. Nemyria said the government is in talks with the IMF to look for "exceptional solutions to this exceptional situation," but he declined to provide further details.

He said, though, that wage and pension rises jeopardize release of the next $3.8 billion tranche of an IMF bailout package, and may also thwart financial help from the European Union and other financial institutions.

The IMF has handed out almost $11 billion in loans to Ukraine since approving a $16.4 billion standby loan in the fall of 2008. These have helped prop up distressed banks, plug holes in the budget and support the hryvnia, Ukraine's currency.

Rivalry between Mr. Yushchenko and Ms. Tymoshenko was intense long before the official beginning of the election campaign last week, and their disagreements have left the government largely in gridlock.

On Friday, Ms. Tymoshenko ordered schools closed across Ukraine and banned public meetings, including election rallies, for a three-week period after confirming the country's first death from H1N1 flu. Mr. Yushchenko said Saturday that 53 people had died from flu and respiratory infections, although it was unclear how many of these were caused by the H1N1 virus.

China company's ties draws examination

By Shai Oster

BEIJING—The chairwoman of China International Fund Ltd., which recently struck a minerals-and-infrastructure deal with Guinea, has ties to a Chinese government-owned entity, company filings and other documents show.

Guinea's leaders in October announced a mining-and-infrastructure deal with China International Fund. Officials say under the arrangement, CIF will invest $7 billion—or more than the country's annual output—in Guinea.

Mining Minister Mahmoud Thiam said CIF would invest in Guinea under a partnership to develop the country's mineral resources, including diamonds, iron ore, oil and the world's largest reserves of bauxite.

Human-rights groups criticized the arrangement as an example of China's readiness to deal with governments, such as Guinea's military junta, with poor human-rights records to gain access to natural resources.

China denied the allegation. A Ministry of Foreign Affairs spokesman said the entity involved is a private, Hong Kong-based company whose "business cooperation" with Guinea "is unrelated to the Chinese government." China International Fund declined to comment.

China has been expanding overseas investment, especially in Africa, where it is playing catch-up to Western companies. China says the efforts are developing much-needed infrastructure, and that its activity in Africa benefits the people there. Critics say China's no-strings-attached investments and loans undercut political and economic reform efforts by Western governments and groups such as the World Bank.

China International Fund is 99%-owned by **Dayuan International Development** Ltd., which has about 30 subsidiaries, company records show. The U.S. China Economic & Security Review Commission, which was established by Congress to examine the security implications of U.S.-China trade, in July issued a report on how Dayuan, CIF and its subsidiaries invested in Africa, Latin America and the U.S. The report also examined their relationship to the Chinese government and Sinopec, China's second-largest state-owned oil company.

The report dubbed the collection of companies the "88 Queensway Group," after the Hong Kong address most frequently listed for headquarters of the subsidiaries. The panel stopped short of saying the businesses are government-controlled and concluded the company structure could be designed to mask some of China's overseas investment.

"By posing as a private firm, the Group creates numerous companies within a complicated organization structure to invest globally, thereby enabling the Group to acquire assets unnoticed," the report said.

Though most of the Queensway Group companies are listed as private, "there is evidence that several of its key personnel have ties to Chinese state-owned enterprises and government agencies," the report said.

CIF filings don't show direct government ownership. Chairwoman Lo Fong Hung is director of Sonangol Sinopec International Ltd., a joint venture between Sinopec and Angola's state-owned oil company, Sonangol, according to the 2009 annual report of China Sonangol Resources Enterprises. CSRE is owned by China Sonangol International, which is a part owner of Sonangol Sinopec International.

Wu Yang, a CIF director, was identified as a vice chairman of Sinopec in a March 2006 U.N. report. Mr. Wu isn't listed in Sinopec annual reports. It isn't clear whether he currently holds that position.

The congressional advisory panel's report said Mr. Wu is listed as independent executive director for a Sinopec subsidiary called Beijing Yanhua Up-Dated High-Tech Co., Ltd.

Sinopec declined to comment. Attempts to reach Mr. Wu and Ms. Lo were unsuccessful.

Human-rights groups criticized the arrangement as an example of China's readiness to deal with governments with poor human-rights records.

Resource rich

Mineral production in Guinea, 2007

Bauxite (aluminum ore)	18,519,000 metric tons
Cement	360,000 metric tons
Diamonds	1,019,000 carats
Gold	34,094 pounds
Salt	15,000 metric tons

*Wet basis
Source: U.S. Geological Survey

Tropical storm hits Philippines, nears Vietnam

Associated Press

MANILA—A tropical storm roared toward Vietnam on Sunday after battering the Philippine capital and surrounding provinces, leaving 20 people dead in the region.

Typhoon Mirinae weakened Sunday as it headed over the South China Sea. It was expected to strike Vietnam's central coast around noon Monday.

Vietnamese Prime Minister Nguyen Tan Dung ordered residents to begin evacuating high-risk areas of five coastal provinces and ordered Vietnamese fishermen in the South China Sea to seek shelter.

The two countries are still recovering from Typhoon Ketsana, which brought the Philippine capital of Manila its worst flooding in 40 years and went on to kill more than 160 people in Vietnam in late September.

Ketsana and two later storms killed more than 900 in the Philippines. Some 87,000 people who fled the storms were still living in temporary shelters when Mirinae struck. The latest typhoon left 20 dead, mostly from drowning, in six provinces. Four people were missing, disaster response officials said.

The storm didn't keep the largely Roman Catholic country from paying respects to the dead on All Saints Day on Sunday.