Leading the News: Wariness about democracy lingers behind the former Iron Curtain

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What's News

Manufacturing activity around the world surged in October as firms ramped up production, signaling a global rebound in economic growth. The euro zone's factory sector expanded for the first time since May 2008. U.S. manufacturing had its third straight month of growth and an upturn in employment. **Page 2**

■ **The Bank of England's** Mervyn King faces a tough call on whether to expand the British bailout as other countries dial back economic relief measures. **Page 21**

■ **U.K. bankers argued** against proposals to force "too-big-to-fail" banks to hold more capital. **Page 4**

■ **U.S., European stocks rose** after a measure of U.S. manufacturing hit its best level in over three years. **Page 22**

■ **Ford swung** to a $997 million profit on renewed strength at its credit arm and a big improvement in North America. **Page 6**

■ **Renault said** it would provide partner Avtovaz with know-how but isn't willing to inject cash into Russia's leading car maker. **Page 6**

■ **Italy's Eni signed** an oil agreement with Iraq, to be followed by pacts involving BP, China National Petroleum and Nippon Oil. **Page 8**

■ **Goldman Sachs is in talks** to buy tax credits from Fannie Mae but faces U.S. Treasury opposition amid public anger at Wall Street. **Page 21**

■ **Arab leaders charged** the Obama administration's drive for Middle East peace risked "failure," prompting a careful response from Secretary of State Clinton. **Page 11**

■ **Commerzbank posted** a loss of $1.55 billion on costs for revamps and integration of Dresdner Bank. **Page 24**

■ **Radovan Karadzic skipped** his trial as a U.N. prosecutor said the former Bosnian Serb leader orchestrated the 1995 Srebrenica massacre.

■ **Iranian regulators** revoked the license of the country's business daily Sarmayeh for "repeated violations" of press laws.

■ **Putin urged** the EU to lend Ukraine at least $1 billion to pay for gas supplies from Russia to avoid disruption of flows to Europe.

EDITORIAL&OPINION

Whole and free
Twenty years ago, Europe was reborn.
Page 15

Breaking news at europe.WSJ.com

Incumbent declared winner of Afghan election

Reuters

OFFICIALS' DISCUSSION: President Hamid Karzai, left, talks with U.N. Secretary-General Ban Ki-moon in Kabul Monday, after the nation's election commission has canceled Saturday's run-off. **Page 35.**

Lloyds, RBS will diverge on U.K. aid

By Sara Schaefer Muñoz And Alistair MacDonald

After complex negotiations with the U.K. government and European Union regulators over state aid, two ailing British banks are expected to announce the outcome as early as Tuesday—and put themselves on much different paths to the future.

Lloyds Banking Group PLC and **Royal Bank of Scotland Group** PLC, which share the U.K. government as their largest shareholder, have for weeks been locked in tough negotiations over the extent of their participation in a government program to insure their bad assets. The outcome is crucial to parallel talks the banks have held with the E.U. over how many assets they should have to divest in return for state aid.

Now, the result of the talks are about to be unveiled. What's expected: Lloyds will dodge greater government control and fewer divestitures but face the gamble that it can manage without the safety net that the government insurance program provides. RBS, meanwhile, will be tethered more deeply than ever to the government and faces a bigger divestiture of assets as a result.

Lloyds is betting that it can move forward without more government assistance by raising £21 billion ($34.48 billion) via one of the biggest rights issues ever in the U.K. as well as through other mechanisms. As a result, it faces the E.U.'s demand of only modest divestments, which could include retail businesses such as mortgage lender Cheltenham & Gloucester, online retail bank Intelligent Finance and Lloyds TSB Scottish branches.

RBS is set to participate in the U.K. insurance program, a move that will expand the government's stake in the bank to 84% from 70% and prompt the E.U. to demand much tougher asset sales. RBS faces selling off as much as 50% of its businesses, according to a person familiar with the matter, including as much as 20% of its lucrative investment-banking unit. Other businesses RBS likely will be forced to sell include insurance operations, such as Churchill and Direct Line, as well as 300 of its 2,000 retail branches across the U.K.

The starkly different outcomes illustrate the different long-term views of the banks'

Please turn to page 4

As the rules change

Merkel will address U.S. lawmakers

By Marcus Walker

BERLIN—Chancellor Angela Merkel will mark the 20th anniversary of the fall of the Berlin Wall in a speech Tuesday to the U.S. Congress, a rare honor for a German leader, but political observers say she is expected to face tough questions from the U.S. about Germany's contributions to the economic recovery, Iran and Afghanistan.

President Barack Obama could make uncomfortable demands on Ms. Merkel now that September's German elections are out of the way, analysts say. The U.S. expects Germany to start delivering on a range of issues, though German officials have played down any tensions. The U.S. is looking for help from Germany and other major exporters to rebalance the world economy, with the aim of making it less reliant on American consumers by boosting demand in Europe and Asia.

Ms. Merkel has so far resisted calls from the U.S. and other countries to make Germany's economy less export-dependent.

The U.S. also wants Germany to agree to stiffer economic sanctions against Iran if the regime in Tehran doesn't agree to international controls on its nuclear activities. And Mr. Obama wants Germany to increase its military contribution in Afghanistan, a mission that is widely unpopular with Germany's

Please turn to page 35

Inside

Engine trouble

U.S. tightens the screws on bailed-out GMAC
News In Depth, pages 16-17

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9789.44	+0.79
Nasdaq	2049.20	+0.20
DJ Stoxx 600	237.64	+0.30
FTSE 100	5104.50	+1.19
DAX	5430.82	+0.29
CAC 40	3639.46	+0.88
Euro	$1.4817	+0.41
Nymex crude	$78.13	+1.47

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THE WALL STREET JOURNAL.

LEADING THE NEWS

Manufacturing shows signs of a resurgence

Euro zone, U.K. join in the sector's growth around the world

BY SUDEEP REDDY

Manufacturing activity around the world surged in October as firms ramped up production, signaling a global rebound in economic growth.

Surveys of purchasing managers showed most major global players growing. In the euro zone, the factory sector expanded for the first time since May 2008, with France posting its biggest increase in nine years. Manufacturing activity in the U.K. posted its strongest growth in two years. In the U.S., the Institute for Supply Management's manufacturing index rose 3.1 points to 55.7, the third straight month of growth and the highest level since April 2006.

An upturn in the ISM's employment index showed U.S. manufacturing firms looking to bring back workers for the first time in 15 months, offering further hope that the overall labor market may be stabilizing.

The global figures suggest a resurgence in confidence among manufacturers following the deep dive in activity after last fall's financial crisis. The stabilization in credit markets is supporting capital flows, sparking stronger export activity around the world.

"It was a surprisingly synchronized downturn, and it's a surprisingly synchronized upturn," said Paul Ashworth, an economist at Capital Economics, a London-based research firm. "Once you see confidence returning and markets beginning to open up again, they open up everywhere."

The sustainability of the recovery remains a key concern. Firms slowed production for much of the year as they pared inventories, so the latest upturn was an expected rebound. Consumers and businesses remain shaken by the financial crisis, maintaining a cautious posture in spending and investment.

"October is an indicator that things are growing," said Norbert Ore, chairman of the ISM manufacturing survey. "I'm not sure they will continue to grow at that rate. We may see that fall off a little bit because of a lack of confidence of the consumer and of business."

The falling U.S. dollar supported continued growth for manufacturers, while imports grew at a slower pace in October than in the previous month. New orders, a gauge of future activity, fell to 58.5 from 60.8 in September.

Reuters

A worker in the Alessi factory in the town of Omegna, Italy

The improvement in U.S. employment was attributed to some workers being called back and to temporary work opportunities. The growth in the ISM employment index generally tracks government data.

Consumers and businesses remain shaken by the financial crisis.

Several regions offered cause for caution. A key indicator of Russian manufacturing contracted in October, signaling an overall deterioration in industrial activity and calling into question the country's economic recovery.

The VTB Capital manufacturing Purchasing Managers Index shrank to 49.6 in October from 52 in September—the first monthly fall since a record low of 33.8 in December 2008. Any figure below 50 indicates a contraction.

"The recovery is still very fragile, and this only adds fuel to the fire for those who are not believers in it," said Vladimir Osakovsky, head strategist at UniCredit SpA.

But the index also showed new orders rising for a fourth straight month, indicating increased demand for Russian goods from an improving global economy.

Australia's manufacturing sector recorded its third consecutive month of growth, though the Australian Industry Group-PricewaterhouseCoopers Australian Performance of Manufacturing Index fell 0.3 point in October from September to 57 points. Figures above 50 indicate expansion for the sector.

The slower growth showed that the outlook for the Australian economy remains uncertain, especially as the nation's exporters suffer from the local dollar's nearly 50% jump against the U.S. currency from early March to late October. "While the lift in manufacturing activity over the past three months and rising new orders in particular are welcome, growth is not accelerating, and there remains a considerable way to go before we recover the ground lost over the past year," said Australian Industry Group Chief Executive Heather Ridout.

In India, manufacturing activity also rose, helped by new orders, but the pace lagged behind that of the previous month. HSBC's India index was 54.5 in October, lower than 55 in September. "It may be that domestic new-order growth is beginning to suffer from the impact of a drought, but at least stronger foreign demand is helping to cushion the blow," said Robert Prior-Wandesforde, senior Asian economist at HSBC.

Growth in the euro zone's manufacturing sector boosted hopes that the economy would grow throughout the second half of 2009. The purchasing managers index from Markit Economics for the euro zone's factory sector rose to 50.7 from 49.3 in September. That was the highest reading since January 2008.

Markit reported that manufacturing output grew in October at the fastest pace since February 2008. "Business conditions in the euro-zone manufacturing sector improved for the first time since May of last year, driven by accelerating growth of output and new orders, and moderating job losses," said Chris Williamson, chief economist for Markit. "With capacity now coming into line relative to order books, and further growth of production looking likely in coming months as factories restock, conditions are set to improve further."

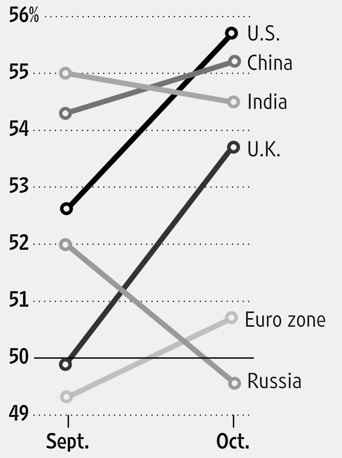
France's manufacturing index remained the strongest performer in the euro zone, as the index rose further into expansionary territory in October to 55.6. That was the highest level since November 2006 and compared with 53 in September.

Germany's manufacturing index also rose in October and indicated that the sector grew for the first time since July last year, rising to 51 from 49.6 in September. Italy's manufacturing PMI rose sharply to 49.2 in October from 47.6 in September.

—Enda Curran, Abhrajit Gangopadhyay, Ilona Billington, Ira Iosebashvili and Joe Parkinson contributed to this article.

Showing resilience

Many factory purchasing managers' indexes moved further into growth territory.



Note: A reading above 50 indicates the sector is expanding, while a reading below 50 indicates it is contracting.
Sources: Institute for Supply Management (U.S.); Markit Economics (U.K. and euro zone); China Federation of Logistics and Purchasing (China) HSBC (India)

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

Berlin Wall's fall marks better lives, survey finds

But many who lived behind Iron Curtain voice economic woes

By Charles Forelle

People who lived behind the Iron Curtain are substantially happier with life 20 years after the fall of the Berlin Wall, but express reservations about democracy, capitalism and their lot in the modern market economy, a new survey reports.

Fewer than a third of Ukrainians approve of the change to multiparty democracy, according to a wide-ranging poll by the Pew Research Center. In Russia, a majority mourns the Soviet Union, and nearly half say there ought to be a Russian empire. In every former Soviet bloc country polled, fewer people now support the shift to capitalism than in 1991. Seventy-two percent of Hungarians say their economic situation was better under the Communists.

The survey comes amid a financial crisis that is straining the adolescent market economies of the old Eastern bloc, and its findings reflect mixed—and sometimes paradoxical—attitudes in Russia and Eastern Europe.

Overall, majorities—albeit some slender ones—in every country but Ukraine approve of the shift to democracy. Ethnic hostilities, while persistent, have generally declined, and majorities or pluralities in all countries except Hungary and Ukraine welcome capitalism.

But significant worries remain about corruption, judicial fairness and the privileges of the rich and well-connected. Older people are far more wary of the new systems than their younger compatriots.

In one paradox, most nations are generally more favorably disposed toward immigrants than in 1991—but also support tighter immigration controls.

In spring 1991, amid the early, turbulent moments of the East's emergence from Communism, Pew's predecessor, the Times Mirror Center, surveyed 12,569 people in nine countries (the U.K., Bulgaria, Czechoslovakia, France, Germany, Hungary, Italy, Poland and Spain) and three Soviet republics (Lithuania, Russia and Ukraine). This fall, the Pew center returned to those places.

In some ways, the Eastern countries have converged with Western ones. Opinions on the European Union and the North Atlantic Treaty Organization are generally favorable everywhere except Hungary and the U.K., which are both sour on the EU.

In other areas, a gap remains. Roughly twice as many people in the East disapprove of ethnic and religious diversity as do their counterparts in France, Spain, Germany and the U.K. (Italy, where 84% have an unfavorable view of Gypsies, is a Western exception.)

Within the former Eastern bloc, the financial crisis has amplified disparities: The Czech Republic, Slovakia and Poland, which have weathered the turbulence relatively well, are most welcoming of democracy and capitalism. However, badly battered Hungary, Ukraine and Lithuania are still trying to claw their way back.

Hungary is a notable outlier. Support for capitalism was 80% in 1991; it is now 46%. A deep recession has exacerbated popular dissatisfaction with the government.

"What people think of capitalism and democracy is very strongly linked to what people think of the government," says Márk Szabó of the Perspective Institute in Budapest. His firm's polls show more than half of Hungarians don't believe the government can handle the crisis. Hungarians' dismay with the market economy has been mounting for years, Mr. Szabó says, as it becomes clearer that promised social benefits can't be sustained.

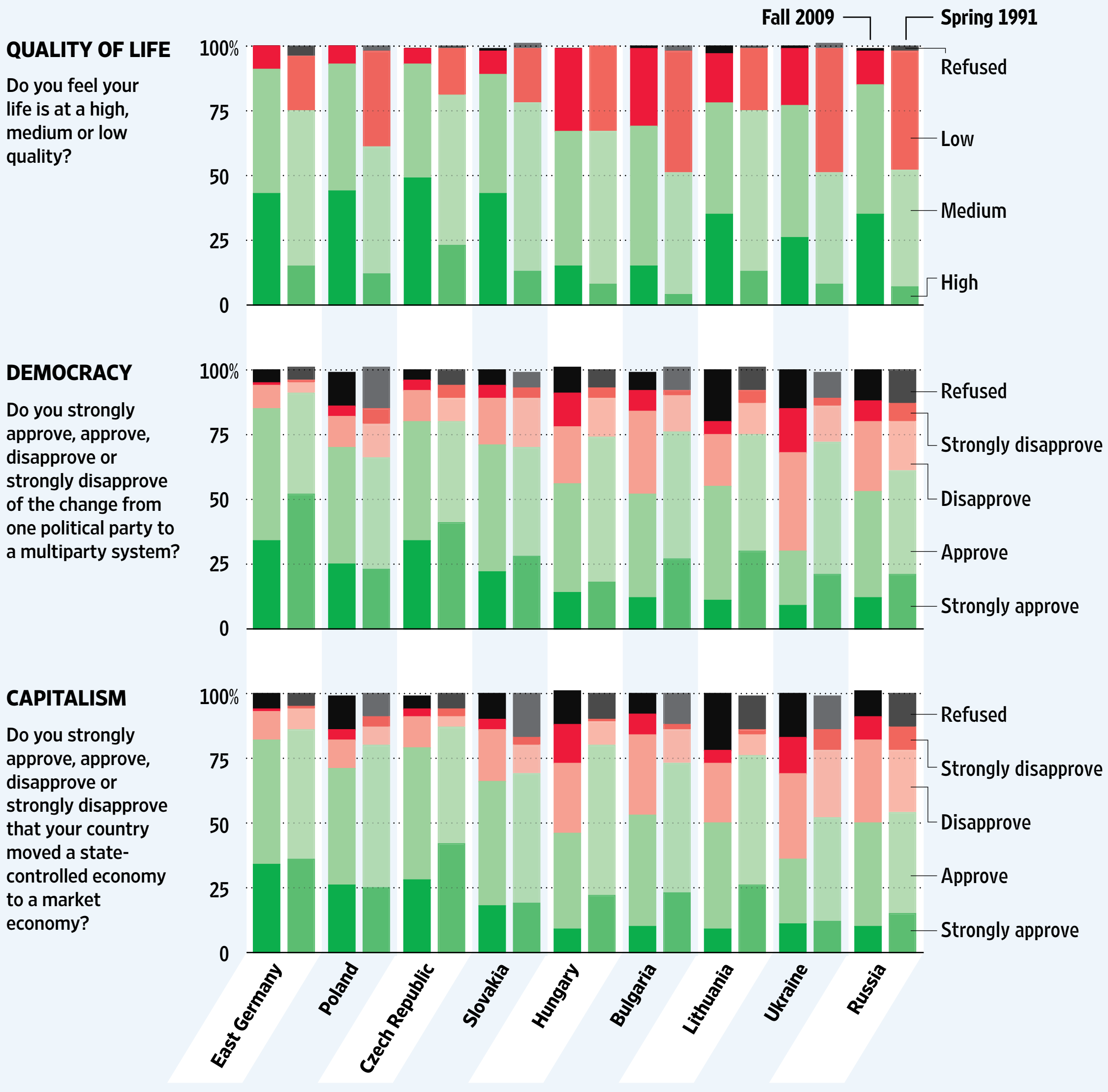
Similar forces are at work in Ukraine, where improvements in living standards haven't matched expectations that surged after the Soviet Union collapsed.

Politically, the Orange Revolution in 2004, when street protests overturned a rigged presidential ballot and brought President Viktor Yushchenko to power, was supposed to mark a turning point in Ukraine's development as a democracy. But reforms haven't materialized.

"There is complete disillusionment because of unfulfilled promises and corruption, and disappointment with the political class as a whole," says Yuriy Yakymenko, a political analyst at the Razumkov Centre, a think tank in Kiev.

—James Marson contributed to this article.

After the fall | In the post-Communist east, a better life but growing suspicions of democracy and capitalism



Note: Survey was conducted Aug. 27 to Sept. 24, 2009 among 14,760 respondents: Margin of error +/–5 percentage points

Source: Pew Research Center

EBRD courts non-EU states

By Paul Hannon

LONDON—The European Union should map out a new policy for its relationships with European countries that aren't yet members, and engage with Russia in developing its strategy, the head of the European Bank for Reconstruction and Development said.

Speaking Monday at a conference to mark the coming 20th anniversary of the fall of the Berlin Wall, EBRD President Thomas Mirow said the EU "desperately needs a new effort on Ostpolitik."

That is a reference to West Germany's post-1969 attempt to secure change in East Germany by working with its Communist government and the Soviet Union, rather than ignoring them as previous governments had done.

The EBRD was established in 1991 to help countries emerging from communism make the transition to market economies from centrally planned economies. In 2004, eight of the countries it invests in joined the EU, followed by two more in 2007.

But the future for the remaining European countries that are outside the bloc is uncertain, Mr. Mirow said, and the EU should now focus on developing a framework that will give them some clarity about their long-term relationship.

The EU has spent much of the past decade debating changes to the way it makes decisions, a process that produced the Lisbon Treaty, which appears likely to come into force after concessions were made last week to the Czech Republic, the only country that has yet to ratify it.

LEADING THE NEWS

Bankers blast FSA's 'too big to fail' push

Regulation is needed but not based on size; get ready, Sants says

BY ADAM BRADBERY

Hector Sants, the CEO of the U.K.'s Financial Services Authority, said some companies aren't aware they will need to review their entire business models in the face of planned regulatory changes. Above, he leaves the Treasury after a July meeting.

LONDON—Bankers hit back at proposals from the U.K. Financial Services Authority to force systemically important banks to hold more capital.

At an FSA conference Monday on how to regulate banks and other firms that are deemed "too big to fail," the bankers said big banks have virtues of their own and basing a capital requirement solely on size would crimp economic activity.

"I would suggest that being penalized in the form of higher capital requirements or other regulatory measures simply because of size is wrong; in fact it could it be a distortive force," said António Horta-Osório, chief executive of **Banco Santander** SA's Abbey National PLC.

He said measures to reduce the risks posed by systemically important banks need to focus instead on firms that are complex in nature, trade with a large number of counterparties, are highly leveraged and rely on vulnerable sources of funding.

Josef Ackermann, chairman of the management board of **Deutsche Bank** AG and chairman of the Institute of International Finance, which represents the views of financial institutions around the world, said large banks are uniquely placed to offer a variety of funding sources to companies.

"Large banks are the most efficient in providing the sort of services needed by multinational companies—in other words the companies that form the bedrocks of our economies," Mr. Ackermann said.

FSA Chief Executive Hector Sants told delegates at the conference that systemically important firms will likely face tougher regulatory requirements.

"Not all systemic firms have recognized they need to consider a root-and-branch review of their business models to ensure they have fully taken on board the collective impact of the changes that are emerging," he said.

The FSA chief said the process by which regulators sign off on a firm's blueprints for dealing with its own financial turmoil and winding itself down will be challenging. He said companies will need to show management actions during financial turmoil will reduce risk and support recovery. They will have to show they can withstand the failure of the counterparty to the largest chunk of their transactions.

These challenges mean regulators need to "second-guess" the judgments of firms' senior management, Mr. Sants said.

The FSA published a discussion paper last month that said there is a "strong case" for applying some form of capital—and possibly liquidity—surcharge to systemically important banks.

The FSA also wants banks to create blueprints—or so-called living wills—on how to wind themselves down if they run into difficulties. It said last month that banks may need to split their retail businesses from riskier trading operations if these wills show their business structures are too complex.

Mr. Ackermann said that although he agreed banks must simplify their structures and have contingency plans in place to deal with problems, meaningful living wills would be difficult to produce and could produce weak companies.

"Detailed living wills ... would be very theoretical and lead to inefficient corporate structures that would create trapped pools of capital," Mr. Ackermann said.

Regulators like contingent capital, but who will buy it?

BY DUNCAN KERR

Regulators are sold on the value of "contingent capital" as a way to automatically steady banks in a time of crisis. The next step is to sell them to investors.

Contingent capital, which comes in the form of bonds that convert into common equity in an emergency, has gained regulatory backing from both sides of the Atlantic, support that it is hoped will hasten the birth of a new asset class.

No bank has raised contingent capital in this form before, but bond origination and structuring specialists at investment banks are hard at work preparing issuance for the first time.

The instrument fits with regulators' desire for banks to have strong enough reserves of capital to survive tough times. At its simplest, contingent capital is debt funding that a bank raises amid stable economic conditions but which converts into equity capital when certain triggers are breached.

"Effectively, it allows the issuer to raise core capital in good times that will be there in bad times," said Amir Hoveyda, head of debt capital markets for Europe, the Middle East and Africa, at Bank of America Merrill Lynch in London.

There are already a few forms of capital that transform into other kinds of capital, but none share all the characteristics of contingent capital.

For the issuing bank, selling contingent capital makes some sense, in so far as they have the capital to deploy when required, thereby reducing the risk of a government taking a stake or nationalizing it.

The difficulty in selling this new form of capital, however, is finding investors willing to buy it. Investors buying a contingent-capital bond would incur a penalty on its conversion to equity, while existing shareholders in the bank would see their holding substantially diluted. But faced with the alternative of the bank collapsing, incurring some losses might be easier for investors to swallow than losing everything.

Regulators believe that with bondholders aware of the possibility that the debt could be converted into equity, it could force more market discipline on big banks.

Even with the inherent risk in buying contingent capital, and with the torrid time investors in other forms of hybrid bank capital have experienced in the wake of the crisis, interest in the idea is increasing.

—For more, visit efinancialnews.com

U.K. to tighten hold on RBS but not Lloyds

Continued from first page

chief executives: Lloyds CEO Eric Daniels is rosier about the economic recovery and believes the worst is behind his bank, while RBS CEO Stephen Hester is more cautious and said recently that the insurance is "essential" for the bank.

Mr. Daniels also was in a position to gain more from exiting the insurance program, because it will help him justify Lloyds' acquisition of troubled lender HBOS PLC. Mr. Daniels has been roundly criticized for the purchase, because losses from HBOS triggered Lloyds' need for the insurance program when it was first launched.

To avoid participating in the plan, Lloyds is expected to announce as early as Tuesday its effort to raise £21 billion in capital to absorb losses on its own, through a £13.5 billion rights issue, in which existing investors buy shares at a discount, and £7.5 billion through the issuance of contingent capital, or securities convertible into equity if the bank hits trouble. The offer will be priced at a discount of as much as 40% to Monday's closing share price of 85 pence. That would put the subscription price for the rights issue at about 50 pence.

U.K. Treasury Chief Alistair Darling had also looked at insisting that Lloyds remain in the asset insurance program. Now the government will need to chip in billions of pounds for its share of the rights issue, and Mr. Darling faces a tricky sell to a British public tired of bailing out the banks they blame for the recession. The government will portray the decision to allow Lloyds to raise cash through a rights issue as one that allows them to share the risk with investors, as the insurance program would see the taxpayer take all the risk and the state's stake in the bank rise to 65% from its current 43%.

In contrast, RBS will confirm its participation in the government plan, which will insure a £280 billion pool of troubled loans and investments. Under the terms of the plan, RBS would shoulder some £60 billion in "first losses," including losses the bank has already taken. The £60 billion is more than the £42 billion in first losses that the bank previously had agreed to.

To help it absorb those, RBS will take a £25.5 billion cash injection from the government that will be turned into special non-voting shares. It also will pay an annual fee in the "high hundreds of thousands" of pounds to the government.

Unlike the up-front fee agreed to in February, the annual fee will give RBS more flexibility to exit the program should conditions improve. RBS also won't have to give up several billion pounds in tax credits that it had agreed to.

RBS's estimation that it will take a total of £60 billion in initial losses under the plan "raises further questions about the quality of its balance sheet," said Credit Suisse analyst Jonathan Pierce.

—Dana Cimilluca and Margot Patrick contributed to this article.

Divergent paths

Outcomes for Lloyds and RBS on government asset insurance

RBS

Oct. 13, 2008:
Government purchases £15 billion of ordinary shares and £5 billion of preference shares* to help struggling RBS

Feb. 26, 2009:
RBS reaches an initial agreement with the treasury to insure £300 billion in bad assets under the government insurance plan, in exchange for a fee that could see the government stake rise to more than 80%

November 2009:**
RBS confirms participation in government insurance plan, bringing government stake to 84%

Lloyds

Oct. 13, 2008:
Government purchases £17 billion of ordinary and preference shares to help ailing Lloyds and HBOS*

March 7, 2009:
Lloyds reaches an agreement with the treasury to insure some £250 billion in bad assets under the government insurance plan in exchange for a fee that could see the government's stake in the bank rise to around 65%

Aug. 5, 2009:
Lloyds posts first-half loss of £4 billion but says worst of loan impairment charges are behind it

November 2009:**
Lloyds exits government insurance and aims to raise some £21 billion in capital in the market

*Later converted to ordinary shares
** Anticipated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There are lots of ideas about how to meet a growing energy demand. Here's a chance to try out a few of your own.
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CORPORATE NEWS

Ford reports profit, lifts forecast

Earnings approach $1 billion on strength at credit arm and in North America

By Matthew Dolan
And Jeff Bennett

Getty Images

Ford's operating profit in North America was the segment's first in more than four years. Above, workers built cars at the company's Chicago assembly plant in August.

Ford Motor Co. reported nearly $1 billion in profit for the third quarter, the result of renewed strength at its credit arm and vastly improved operations in North America.

The company on Monday posted profit of $997 million, or 29 cents a share, compared with a year-earlier loss of $161 million, or seven cents a share.

Revenue fell to $30.9 billion from $31.7 billion.

The Dearborn, Mich., auto maker also revised its forecast, saying the company would be "solidly profitable" in 2011. It had previously said only that it would break even by 2011.

"We are very pleased with the progress we have made so far this year," Ford Chief Executive Alan Mulally said in a conference call. But he also cautioned that "our transformation is far from complete."

The quarterly profit suggests that Ford is turning the corner and could meet its goal of posting a full-year profit for 2011. The absence of items that had propped up earnings in previous quarters also offered encouragement that the company is on track to achieve full-year profitability.

Ford's North American unit posted a pretax profit of $357 million, not including items. A year ago, the division had a $2.6 billion loss excluding items. The North American operation last reported an operating profit more than four years ago. Higher pricing for Ford vehicles and a higher U.S. market share helped lift North American revenue 21% to 13.7 billion.

The company's lending arm, Ford Motor Credit, reported profit of $427 million, up from $95 million.

Analysts cheered Ford's results, and the company's stock was up about 7% in afternoon trading. Fitch Rating raised the company's standing to positive from stable.

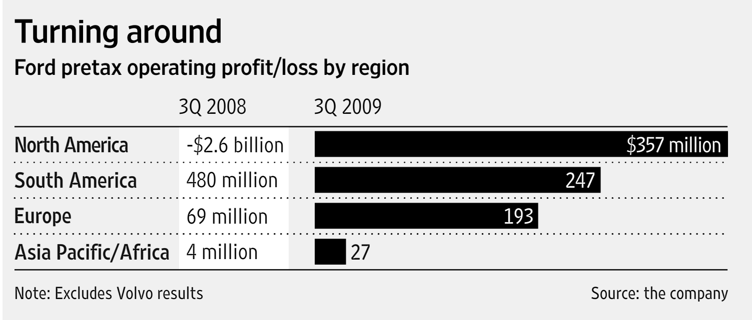
Ford's debt load remains a concern, however. At the end of the third quarter, Ford had $23.8 billion in gross cash but total debt of $26.9 billion. The debt is expected to increase by $7 billion to $8 billion because of payments the company is scheduled to make to a new fund that covers the cost of retiree health care.

And Ford still faces challenges in two of its biggest markets.

In the U.S., auto sales remain sluggish. Auto makers expect to sell about 10.5 million cars and light trucks in the U.S. this year, well below the 16 million or more they were selling earlier in the decade. Meanwhile, the United Auto Workers rejected contract concessions.

In Europe, Ford and other auto makers are bracing for a slowdown when governments end incentives to scrap older vehicles that have boosted sales of new cars for the past year or so.

Still, Chief Financial Officer Lewis Booth said he expects the auto maker to report positive cash flow and Ford Credit to remain profitable in the current quarter. Ford Credit's earnings rose to $427 million in the third quarter from $95 million a year earlier.



Mr. Booth and Mr. Mulally declined comment on the proposed new contract for UAW members and said the company remains in talks to sell its Volvo unit to China's **Geely Automobile Holdings** Ltd.

Ford reported profits in all divisions except its Volvo unit, which narrowed its pretax operating loss to $135 million from $458 million.

The South America unit's profit fell to $247 million from $480 million because of unfavorable currency-exchange rates. The unit's revenue fell 22% to $2.1 billion.

Europe's pretax operating profit rose to $193 million from $69 million. Revenue fell 21% to $7.6 billion.

The Asia-Pacific-Africa unit's profit jumped to $27 million from $4 million. The company cited cost reductions, higher vehicle pricing and reduced incentives to buyers. Revenue fell 11% to $1.5 billion.

The auto maker forecast full-year 2009 U.S. industry sales of 10.6 million new vehicles, consistent with its prior outlook. For Europe, the company increased its forecast to 15.7 million vehicles.

Renault offers know-how, but not cash, to Avtovaz

By David Pearson

PARIS—**Renault** SA is prepared to provide its Russian partner OAO **Avtovaz** with its technology and know-how but has told Russian authorities it isn't willing to inject cash into the country's leading car maker, a Renault executive said.

Christian Esteve, head of Renault's Russian operations, told journalists the two companies on Nov. 10 will present the Russian authorities with their latest proposals for Avtovaz's survival by revamping its business plan and reinforcing its core vehicle-making business. Renault bought a 25% interest in Avtovaz in early 2008.

Autovaz, which is struggling to survive, is seeking massive injections of cash from its main shareholders, which include the Russian state, Russian holding company Russian Technologies and Russian investment bank Troika Dialog.

Mr. Esteve, who took over as head of Renault's Russian operations this year, said Monday he has never considered that he had been given an ultimatum by Prime Minister Vladimir Putin to help Autovaz financially. Mr. Putin in September said Renault could have its 25% stake in Autovaz diluted if it doesn't contribute to the bailout.

Mr. Esteve declined to put a value on Renault's contribution to the Autovaz rescue plan. Negotiations on how Renault will make a contribution that allows it to preserve its 25% shareholding will continue in the coming months, Mr. Esteve said. A debt for equity swap is one possibility.

A proposal being studied is to create a common vehicle platform—the parts of a car not visible from the outside—which will be used to make new vehicles at Autovaz's plant in Togliatti, Russia, for the brands of Renault, Autovaz and Renault's alliance partner, **Nissan Motor** Co., he said.

This plan would mean additional production of 300,000 vehicles annually at the sprawling facility and part of Renault's contribution would be to re-equip the production line. That could involve providing already-amortized tooling from other Renault plants, as the French company has done successfully with its Romanian subsidiary, Dacia.

Autovaz's original agreement with Renault calls for the Russian company to make two vehicles based on the platform used for the Renault/Dacia low-budget Logan. If adopted, the new plan would involve Renault making two new models and Nissan making one based on the same platform, Mr. Esteve said.

Mr. Esteve said negotiations with Autovaz's stakeholders, including local and national authorities, are likely to take several months. "In my experience, negotiations like these could take until next summer," he said.

A major hurdle for Autovaz's return to profitability is the massive job cuts that are required to lower the company's fixed costs. Mr. Esteve said Autovaz is under pressure to spread the cuts over a long period, some are suggesting 18 months, to make the downsizing as painless as possible.

Renault's involvement in Autovaz is a long-term affair, Mr. Esteve said, adding that the Russian automobile market will eventually recover to sell three million vehicles annually or more, after slumping more than 50% this year.

Auto makers in Japan raise their forecasts

By Yoshio Takahashi

TOKYO—Three Japanese car makers reported slumping earnings but raised their projections for their full fiscal year, amid signs that cost-cutting is beginning to pay off.

The upgraded forecasts coincide with data from the Japan Automobile Dealers Association showing that Japan's auto sales for October jumped 12.6%, the third straight monthly increase, highlighting the improving business environment for domestic auto industry.

Suzuki Motor Corp. posted a 63% drop in net profit for the six months ended September, while **Daihatsu Motor** Co., the small-car manufacturing subsidiary of **Toyota Motor** Corp., said its net profit dropped 41% in its second quarter, ended in September. **Fuji Heavy Industries** Ltd., meanwhile, reported a loss for the six months through September.

Suzuki and Daihatsu raised their profit forecasts for the full fiscal year ending March 2010, while Fuji Heavy said it now sees a narrower net loss than previously expected.

In upgrading their projections for the full fiscal year, the three companies join **Honda Motor** Co. and **Mazda Motor** Corp., which both raised their outlooks last week.

The projections are encouraging for Toyota and **Nissan Motor** Co., both of which are scheduled to release earnings this week.

The upbeat forecasts underscore the improvements auto makers have made in becoming leaner and more cost-effective in the wake of last year's industrywide decline.

Suzuki, the maker of small cars and motorcycles, posted a net profit of 12.51 billion yen ($139 million) for the six months ended Sept. 30. This was sharply down from 34.23 billion yen profit a year earlier, as slack sales in Japan, North America and other markets canceled out solid sales in India, Germany and the U.K.

Sales tumbled 31% to 1.182 trillion yen in the first half.

"For the second half, we need to watch how the yen's strength will develop. Incentives ending in some countries is also a focal point," said Osamu Suzuki, Suzuki's chairman and chief executive.

The company raised its forecast for the fiscal year ending March, partly encouraged by better-than-expected first-half results. Suzuki now expects a net profit of 15 billion yen, stronger than its earlier estimate of a five billion yen net profit. It kept its revenue projection at 2.3 trillion yen.

Daihatsu's fiscal second-quarter net profit of 3.25 billion yen was down sharply from 5.52 billion yen a year earlier, as weaker sales of small cars in Asia dented the bottom line. Sales fell 17% to 363.2 billion yen.

The Osaka-based company raised its net profit outlook for the full fiscal year to 13 billion yen from eight billion yen, and lifted its sales forecast to 1.45 trillion yen from 1.4 trillion yen.

Fuji Heavy, which is 16%-owned by Toyota, posted a net loss of 21.73 billion yen for its fiscal first half, compared with a year-earlier net profit of 4.4 billion yen.

Sales dropped 15% to 635.55 billion yen in the first half.

Bridgestone slows down

Tire maker to drop its supplier pact with Formula One

By Carlos Tejada

Agence France-Presse/Getty Images

Bridgestone spends $70 million a year supplying tires for Formula One races.

HONG KONG—Tire maker **Bridgestone** Corp., which is grappling with the global auto slowdown, plans to stop providing tires for Formula One racing next year to focus its resources on environmentally friendly products.

The Tokyo-based tire giant is the sole supplier of tires to the Formula One competition, as part of a relationship that goes back 13 years. Bridgestone supplied tires in more than 200 races, according to the company, providing a high-profile showcase for its technical prowess.

But Bridgestone said Monday it wouldn't seek to renew the company's contract with the FIA Formula One World Championship series when it ends next year, citing the "continuing evolution" of the business environment.

"We have to focus more on the development of more innovative technologies," said Makoto Shiomi, a Bridgestone spokesman in Tokyo.

Mr. Shiomi said Bridgestone spends $70 million annually to produce and distribute the tires.

Formula One officials in Paris weren't available for comment on Monday.

The global economic slowdown has taken a toll on Bridgestone. The Japanese tire maker reported a loss of 38.34 billion yen ($425.9 million) in the first six months of the year.

Mr. Shiomi said Bridgestone would shift its focus to developing environmentally focused products. He cited the company's line of "run flat" tires, which can be used for limited distances after they lose air pressure and eliminate the need for drivers to carry a spare tire.

Faurecia in deal to boost role in emissions control

By William Horobin And David Pearson

PARIS—Car-parts maker Faurecia SA said Monday it is buying U.S.-based Emcon Technologies in an all-share deal valued at €296.2 million ($435.8 million), underlining the auto industry's drive to consolidate in the wake of the global economic downturn.

Like other companies in its sector, Faurecia is struggling amid an unprecedented slowdown in vehicle production. "Organic growth alone won't be enough to get us back to our previous volumes," Faurecia Chief Executive Yann Delabrière said in an interview. "If you want faster growth, you have to carry out consolidation operations."

Faurecia will buy the Troy, Mich., maker of exhaust systems for 20.9 million new Faurecia shares, cutting PSA Peugeot-Citroën SA stake in the French company to 57.4% from 70.85%. One Equity Partners, an investment fund of **J.P. Morgan Chase** & Co., and current shareholder of Emcon Technologies, will hold a 19% stake and be represented with two seats on Faurecia's board of directors as well as one seat on the board's strategic committee.

Faurecia said the acquisition will make it a world leader in emissions-control technologies, and will double the size of its exhaust-systems business, allowing it to leapfrog U.S. rival **Tenneco** Inc. Faurecia said it sees strong growth in this market of about 7% a year until 2020.

The deal will also expand Faurecia's customer base, notably with Japanese car makers Honda Motor Co. and Toyota Motor Corp. and with commercial-vehicle customers.

The passenger-vehicle segment of the market is expected to hit €65 billion in 2020 compared with €29 billion in 2008 and the commercial-vehicles market will likely increase to €16 billion in 2020, Faurecia said.

Faurecia put Emcon on its radar screen in April, when it completed an overhaul to cut costs and preserve cash, and raised €455 million in fresh capital, Mr. Delabrière said.

CORPORATE NEWS

Eni leads spate of Iraqi oil agreements

BP, China National, Nippon Oil also set to invest in fields

BY GINA CHON

BAGHDAD—A consortium led by Italian energy giant **Eni** SpA on Monday signed an initial pact to develop Iraq's Zubair field, one of several deals moving forward this week aimed at boosting the war-torn country's oil output.

On Tuesday, Iraq is scheduled to sign a $15 billion final agreement with **BP** PLC and **China National Petroleum** Co. to develop the super giant Rumaila field, the only contract awarded in the country's historic bid in June. A delegation from Japan's **Nippon Oil** Corp. is also in Baghdad this week to finalize terms on an $8 billion deal to develop the Nassiriyah oil field, which wasn't part of the first oil auction.

Eni, along with partners **Occidental Petroleum** Corp. and **Korea Gas** Corp., signed the initial 20-year agreement at a ceremony at the oil ministry. The deal will now be sent to the Iraqi cabinet for approval and a final pact should be signed shortly afterward.

Workers at the Zubair oil field

The Eni group will be paid $2 per barrel of oil extracted above current production levels at the field, but will be liable for a 35% tax on those profits. Oil Minister Hussain al-Shahristani said the consortium would make capital investments of $20 billion in the field.

Eni had proposed a $4.80 a barrel payment in the first bid round on June 30, when Iraq auctioned development licenses for eight oil and gas fields. Most companies balked at the ministry's tough pricing terms, and only the Rumaila field was awarded, although the BP consortium had to cut its payment in half to $2 a barrel.

Mr. Shahristani said in an interview that companies like Eni reconsidered the payment terms after the oil ministry clarified they would be taxed only on the profit they make from the payments, and not on billions of dollars spent on investments in the field.

Eni Chief Operating Officer Claudio Descalzi told analysts last week that the tax terms on the Zubair contract show the consortium is liable only for oil profit. Mr. Shahristani said in talks after the auction, the ministry realized the oil firms also overestimated their security costs.

The ministry added that it is close to choosing a bidder for the West Qurna 1, another field that wasn't awarded in the first bid round because companies rejected the ministry's suggested $1.90 per barrel payment. A consortium led by Russia's **Lukoil**, a group led by **Exxon Mobil** Corp. and a CNPC-led consortium, which have now accepted the ministry's payment proposal, are competing for the field.

Considering the new contracts for Zubair, Rumaila and West Qurna 1, Iraq will produce a total of about seven million barrels of oil a day in six years, compared with about 2.5 million now, Mr. Shahristani said.

He said he realizes oil companies won't make a big profit with these contracts and that they need very competitive bids to work in Iraq. A second bid round for 10 unexplored oil and gas fields will be held in December, and Mr. Shahristani said companies will likely see tough pricing terms for that auction as well.

Dubai's ENOC to acquire rest of Dragon Oil

LONDON—**Emirates National Oil** Co. on Monday agreed to buy out the shares of **Dragon Oil** PLC that it doesn't already own for $1.15 billion, underscoring the race to develop Turkmenistan's vast oil and gas reserves.

By Jason Douglas, Benoît Faucon and Tahani Karrar

Dubai-based Emirates National Oil, or ENOC, agreed to pay 455 pence ($7.47) a share in cash to acquire the remaining 48.5% of Dragon Oil shares. The offer represents a 35% premium to the share price June 3—the day before Dragon Oil said it had received an approach—and values the whole company at $2.36 billion.

The independent oil and gas company, which is listed in Dublin and London, managed to extract a significant premium despite ENOC's majority ownership limiting the chances of a rival bid.

The operation also represents a rare merger-and-acquisitions foray into emerging oil and gas producer Turkmenistan. The principal asset of Dubai-based Dragon Oil is the Cheleken contract area, in Turkmenistan's Caspian Sea section. The contract area, operated and 100%-owned by the company, contained proven and probable reserves of 645 million barrels of oil and contingent gas resources of 96 billion cubic meters, as of June 2008.

International oil companies are trying to enter the Central Asian nation after a consultant's study last year identified a natural-gas field there as the fifth-largest in the world. Dragon Oil also owns minority interests in exploration in Yemeni fields.

ENOC has agreed not to accept any offer for its Dragon Oil shares for a 12-month period started Aug. 10, making any counterbid for the company impossible during this time.

Dragon Oil said its independent committee, which consists of directors not appointed by ENOC, unanimously recommends the offer.

Dragon Oil shares were up 8.9% each in Monday trading in London.

For ENOC, the transaction will increase a diversification away from energy-distribution assets and into oil exploration and production. It owns refining, marketing and gas-processing assets in the United Arab Emirates.

EDF to finalize deal to buy assets of Constellation

BY GERALDINE AMIEL

PARIS—French state-controlled power company **Électricité de France** SA said Monday it is starting the process to finalize its acquisition of nearly half of the nuclear-power business of U.S.-based **Constellation Energy Group** Inc.

The statement followed news reports Friday that the French government, which owns 85% of EDF, was pressuring the French company to drop the deal. The government-designated incoming chairman and chief executive of EDF, Henri Proglio, told lawmakers last week he had doubts about whether the investment in Constellation was in EDF's best interests.

EDF spokeswoman Carole Trivi said Monday the transaction could be finalized "soon," but declined to elaborate. On Friday, Maryland regulators approved the French bid for nuclear assets of Constellation, clearing the final regulatory hurdle for the $4.5 billion deal.

The ruling came with conditions, including financial protections for Constellation's Baltimore Gas & Electric, or BGE, a $250 million capital infusion at the utility by Constellation, and a $110.5 million rebate for its customers. The conditions apply solely to Constellation, and the EDF board doesn't need to meet again over the transaction, Ms. Trivi said.

Maryland regulators in June decided to take a closer look at the deal after determining the French state-controlled company could have "substantial influence" over Baltimore Gas & Electric. The commission ordered the additional review to determine if the deal was in the public interest.

Constellation struck the deal with EDF in December in an effort to remain a publicly traded company.

—Mark Peters in New York contributed to this article.

Denbury will purchase Encore for $3.25 billion

BY JEFFREY MCCRACKEN

Denbury Resources Inc. agreed to purchase **Encore Acquisition** Co. in a transaction valued at about $3.25 billion that will combine two independent oil exploration and production companies in North America.

Under the terms of the deal, Denbury will pay $50 for each Encore share—$15 in cash and $35 in Denbury common stock. Encore shares closed Friday at $37.07, signaling Encore holders will receive a 35% premium. On Monday, the shares were up another 21% at $45.01 each.

The companies put the transaction at $4.5 billion, a calculation that values Encore at about $2.8 billion and includes about $2.8 billion in equity value of Encore Acquisition as well as the assumption of about $1.24 billion of Encore's debt. As part of the transaction, Denbury will also acquire Encore's minority stake in Encore Energy Partners, which is valued at $440 million.

Encore, based in Fort Worth, Texas, acquires and develops oil and natural-gas fields in the Rockies, Texas and Oklahoma. Denbury, based in Plano, Texas, is a slightly larger player, mostly developing fields in Texas, Louisiana, Alabama and Mississippi.

Denbury Chief Executive Phil Rykhoek estimated the combined company will have about 426 million barrels in crude-oil reserves.

Denbury is building an infrastructure to move carbon dioxide around the U.S. to connect industrial emitters with older oil fields. The gas is used to help coax more oil out of the rocks. The procedure is gaining interest because it frees more oil for sale as well as potentially storing away CO_2, a contributor to global warming. Encore's Rocky Mountains assets could benefit from using a CO_2-enhanced oil recovery program.

Denbury has received a commitment letter for an underwritten financing from J.P. Morgan for a new $1.6 billion bank revolving credit facility and a $1.25 billion in bridge financing. J.P Morgan also advised Denbury on the deal. Barclays Capital advised Encore.

—Russell Gold contributed to this article.

Origin to buy Woodside's stake in project

BY DAVID WINNING

SYDNEY—**Origin Energy** Ltd. agreed to buy **Woodside Petroleum** Ltd.'s 51.55% stake in the Otway natural gas project in Australia for 712.5 million Australian dollars (US$641.4 million), the companies said.

Origin will have an 82.3% stake in the Otway gas project on completion of the deal, which is due to take place by the end of this year.

The deal includes some exploration permits next to the project in Victoria state, as well as pipelines, production facilities and an onshore gas-processing plant.

Origin also will take over as operator in the quarter ending July 2010 if **Benaris International** NV and **CalEnergy Gas (Australia)** Ltd., which are the joint-venture partners of the Otway project, and regulators approve the deal.

The deal will be funded from Origin's balance sheet, which included A$4.4 billion of cash reserves and undrawn bank facilities at the end of September.

Woodside has been seeking to concentrate on its pipeline of major projects.

China oil firm weighs battery-changing hubs

Stations would be part of broader push to boost electric cars

By Shai Oster

BEIJING—**China National Offshore Oil** Corp. is considering building battery-changing stations for electric vehicles, part of a broader push by the state-owned oil giant that could give a boost to alternative vehicles in China's huge market.

Shan Lianwen, director of corporate strategy at China National Offshore, one of three big government-owned oil companies, said it is looking into the possibility of building a nationwide network of battery-changing stations, where drivers of electric vehicles could swap out an empty car battery for a full one.

"We can't build a car, but we can supply the energy," Mr. Shan, whose company is the parent of Cnooc Ltd., which lists shares in Hong Kong and New York, told reporters on the sidelines of a conference Monday.

China National Offshore in July invested 5 billion yuan ($732 million) in **Tianjin Lishen Battery Joint-Stock** Co., a Chinese company that makes lithium batteries for electric vehicles.

Lishen said it would use the investment to build 20 battery assembly lines at a new facility in the port city of Tianjin. Lishen has a joint venture with **Coda Automotive**, a California-based company that is planning to sell an all-electric car powered by Lishen's batteries in California in late 2010.

China National Offshore's foray into battery-powered car technology comes amid similar moves by Western oil majors like **Exxon Mobil** Corp.

The battery "filling stations" concept for electrified cars seems similar to the business model pursued by **Better Place** PLC, a Palo Alto, Calif., company. Better Place is developing battery-swapping stations in Israel and Denmark, and last year announced plans for a $1 billion network of recharging stations for electric cars in the San Francisco Bay Area as part of a broad push into the U.S.

The closely held company also has announced plans to expand into Australia.

Chinese oil companies have undertaken a number of alternative-energy initiatives, encouraged by a government mandate to reduce greenhouse gas emissions and dependence on foreign oil.

China National Offshore is also building an offshore wind farm. **China National Petroleum** Corp., the country's biggest oil-and-gas producer by volume, is a partner in a fledging carbon exchange market in Tianjin. And Sinopec Group, or **China Petrochemical** Corp., the country's biggest oil refiner, is involved in making cleaner-burning gasoline out of coal.

Mr. Shen of China National Offshore said the feasibility of developing battery-filling stations in China depends on electric vehicles getting popular enough to support the new business.

Mr. Shen said Chinese consumers will buy electric vehicles if gasoline prices stay above eight yuan a liter, or about $4.44 a U.S. gallon—about 20% higher than current levels. Another factor is the ability of manufacturers to make inexpensive and reliable batteries.

Mr. Shen said his company believes Chinese consumers would buy electric vehicles as a supplement to conventional gas-powered cars, to use on city commutes and other local travel.

—Norihiko Shirouzu contributed to this article.

Bloomberg News

China National Offshore is one of several Chinese oil companies undertaking alternative-energy projects.

Tokyo considers raising cigarette tax, in threat to Japan Tobacco

By Mariko Sanchanta

TOKYO—Japan's new administration is considering raising cigarette taxes to European levels to help pay for an ambitious domestic spending plan, in a potential threat to partially state-owned **Japan Tobacco** Inc.

Shares of Japan Tobacco—the world's third largest cigarette company by sales volume, after **Altria Group** Inc. of the U.S. and **British American Tobacco** PLC of the U.K.—fell more than 4% Monday before recovering and ending down 0.9% to 254,300 yen, or $2,824.93.

The sharp moves followed comments Sunday by a top Japanese health official during a television interview that raised the possibility of the tax increase.

"Tobacco poses health problems. It may be necessary to raise [the tobacco tax] to the levels in Europe," said Akira Nagatsuma, minister of health, labor and welfare.

The health ministry already has asked the government's tax panel to increase the tobacco tax as part of tax reforms for fiscal 2010.

An increase of 10 yen per cigarette—10 times the amount of previous increases—is currently being debated.

Cigarettes in Japan are among the cheapest of any developed nation, with a pack of Marlboro Lights costing 320 yen ($3.55). That compares with about 600 yen to 800 yen in the European Union.

For the Japanese government, a cigarette tax increase is a tricky proposition. While Tokyo has an incentive to reduce smoking to reduce national health-care expenses, the government also owns a 50% stake in Japan Tobacco.

The government also could hurt tax revenue if consumption drops too sharply.

"We believe the current excise tax is already at a high level," a Japan Tobacco spokesman said. "This is based on the fact that in the past, excise increases have shown that there hasn't been a corresponding increase in revenue, because sales volumes have declined."

Japan Tobacco, which sells the Mild Seven, Camel and Salem brands, has a 65% market share in Japan.

For decades, Japan has resisted imposing big tax increases on cigarettes, going against the global trend.

As a result, in an era where smoking rates have plunged in the developed world due to health concerns and cost, nearly 40% of all men in Japan still light up, according to Japan Tobacco.

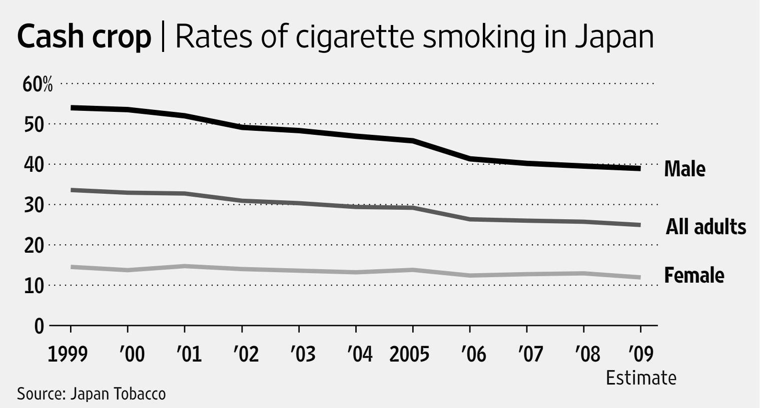
Smokers still puff away in restaurants and bars in Tokyo, unlike most states in the U.S. and most countries in the EU, which have imposed indoor smoking bans.

After the government raised cigarette taxes by one yen per cigarette in July 2006, sales volume at JT declined by 14.5 billion cigarettes to 174.9 billion in 2007, according to the company.

But the company offset the sales decline by raising prices on some of its top-tier brands, such as Mild Seven, by 10 yen per pack.

Reuters

A pedestrian looks at the cigarettes on offer in vending machines in Tokyo.



Ryanair's CEO vents at Boeing

Budget airline, amid price talks, gripes about leadership vacuum at plane maker

By Daniel Michaels
And Quentin Fottrell

DUBLIN—Management changes at Boeing Co. are distracting executives and threatening a big potential jetliner order from Ryanair Holdings PLC, the Irish budget airline's Chief Executive Michael O'Leary said Monday in an interview.

Ryanair is one of Boeing's biggest airline customers and has been negotiating a possible order for 200 of its 737 model for more than a year, Mr. O'Leary said. If the order doesn't go ahead, the carrier will slow its growth, he said.

The talks are stalled over "a very small amount of money," Mr. O'Leary said.

Mr. O'Leary said that an order from Ryanair could give Boeing a big boost in a year that demand has plunged.

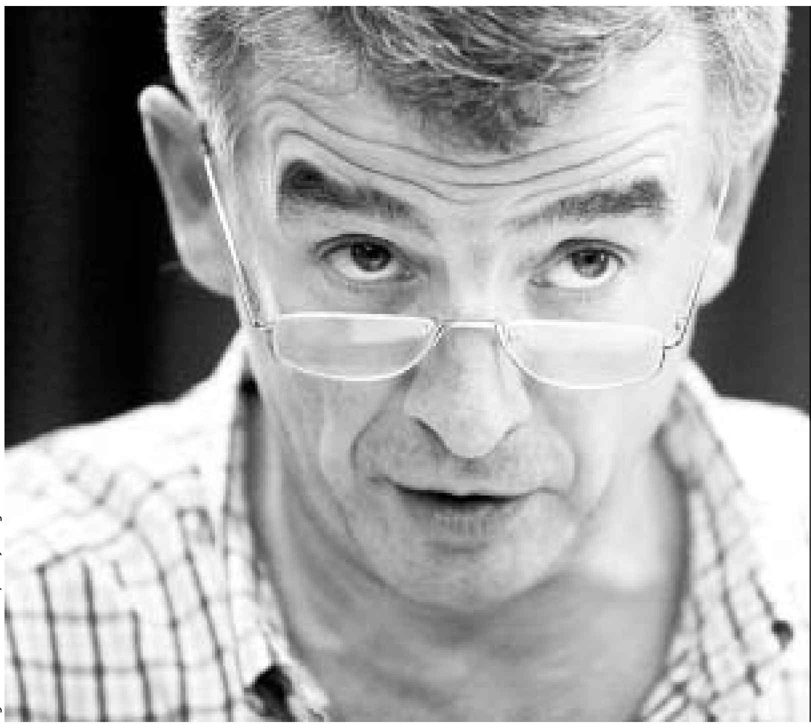
"We're feeling frustration at the lack of decision-making going on at Boeing," Mr. O'Leary said.

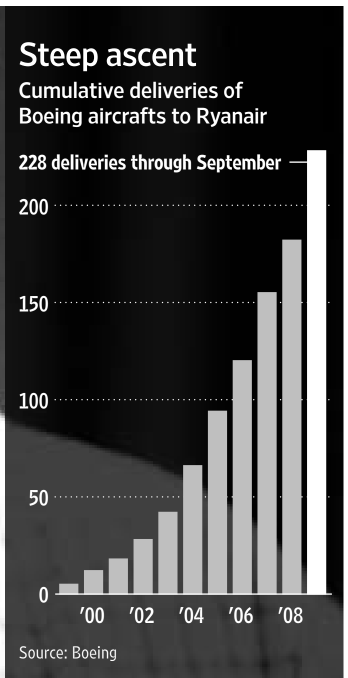
A Boeing spokesman declined to comment, citing company policy of not discussing continuing customer negotiations.

"We're not going to continue trashing our yields for growth ... if Boeing isn't prepared to share with us in the form of lower prices," Mr. O'Leary said. "We have a Plan B," although he called it "the less-favored alternative."

Boeing on Sept. 1 replaced the chief executive of its jetliner division, Scott Carson, with Jim Albaugh, a company veteran who had been running its defense-and-space unit. The company has also been focused on fixing technical glitches dogging its new long-range 787 Dreamliner and an update of its venerable 747 jumbo jet.

Mr. O'Leary said these issues have distracted Boeing managers from closing a deal. "There's a leadership vacuum at Boeing," he said. "It's very hard to know who's making decisions there."





◀ Michael O'Leary, Ryanair CEO

On Monday Ryanair reported that net profit for the three months ended Sept. 30 rose 35% from a year earlier, to €250.5 million ($368.7 million), on substantially lower fuel prices. Unit costs excluding fuel fell 5%; including fuel, which fell 42%, overall costs fell 27%. Revenue slipped 1% to €992 million.

The airline maintained its full-year forecast for net profit to come in at the lower end of a range of €200 million to €300 million.

Ryanair's passenger traffic has grown more than 15% annually for the past decade and its profitability is pegged to its ruthless pressure on costs. One ingredient of that is big, low-priced orders it placed with Boeing during slumps in the cyclical aviation market. In 2002, when the industry was in crisis following the terror attacks of Sept. 11, 2001, Ryanair ordered 100 737s. Terms weren't disclosed, but the airline received exceptionally good terms, according to people familiar with the deal.

Ryanair's low costs allow it to boost traffic by cutting fares. In the recent quarter, its average fare, or yield, fell 17%, Ryanair said.

If the airline and Boeing can't strike a deal by year-end, Mr. O'Leary said, Ryanair will throttle back on its expansion plans. As part of this, it will defer deliveries from Boeing of several 737s ordered in recent years, cancel options to buy ten 737s, and distribute cash to shareholders. Beyond 2012, the company would largely stop growing for the foreseeable future, Mr. O'Leary said.

Deputy CEO and Chief Operating Officer Michael Cawley said on a conference call no decision had been made on whether there would be a dividend payout or share buyback, although he said a dividend is an "inefficient" way of returning value to shareholders. Ryanair has more than €2.5 billion in cash.

Through Oct. 27, Boeing booked orders for 84 planes after cancellations.

Lupus drug shows promise in latest study

By Thomas Gryta

Human Genome Sciences Inc. and **GlaxoSmithKline** PLC said their experimental drug Benlysta met the goal of a second late-stage study in treating lupus, making it likely to be the first treatment in decades for the autoimmune disease.

The study showed that patients benefitted from a higher dose of Benlysta, which the companies are co-developing, while a lower dose failed. Along with the success of the first Benlysta trial in July, the results position the companies to file for regulatory approval, which could come as soon as late 2010, with analysts projecting annual sales eventually exceeding $1 billion a year.

The success of Benlysta has transformed Human Genome, based in Rockville, Md., into a company with a multibillion-dollar market capitalization.

Human Genome's stock was up 28% at $23.91 Monday afternoo. That stock price gives Human Genome a market cap of $3.25 billion,far from when shares traded at 45 cents in March amid pessimism ahead of the two trial results. Glaxo's American Depositary Shares were off 1.4%, or 59 cents, at $40.57.

"The relative benefit was similar across both studies," Barry Labinger, Human Genome's chief commercial officer, said Monday. He added that Benlysta showed about a 30% improvement in response rate.

But the study only met its goal using the higher dose, making it more likely that the company will pursue that usage in making regulatory filings in the first half of 2010. Human Genome hopes for a six-month review in the U.S. and said a European launch is possible in the first half of 2011.

"Despite some disappointment in the data, we believe the entirety of the data package will be sufficient for the drug to be approved and successfully marketed," Sanford Bernstein analyst Geoffrey Porges wrote in a note to clients.

However, Andrew Baum, a Morgan Stanley analyst in London, said the lower response in all arms of the study, and the failure to show a reduction in the need for steroids, a secondary goal, could raise questions about the expected high price of the drug and its ultimate usage. He projects $1.5 billion to $2 billion in peak global sales.

Adding to Human Genome's stock gains Monday was continued chatter that GlaxoSmithKline might acquire the company in order to have full rights to the drug. Mr. Labinger declined to comment on any such talk and stressed that Human Genome is planning to proceed with selling Benlysta under its current relationship with Glaxo.

As planned, the 819-patient study will continue for 24 more weeks, and the companies hope to present the full details of the data in the first half of 2010.

The study showed success in patients at a higher dose, based on a patient's weight, when used with standard care, in comparison with the placebo group that received standard care alone.

Lupus occurs when the body attacks itself, causing inflammation and tissue damage virtually anywhere in the body.

—Jeanne Whalen contributed to this article.

British Airways plays down strike threat

By Kaveri Niththyananthan

LONDON—British Airways PLC on Monday tried to play down the threat of a walkout just before Christmas, as a person familiar with the matter said that the union representing BA's cabin crew was in the process of notifying the carrier about when a ballot on strike action would take place.

The Unite union, which represents 14,000 British Airways cabin crew, hasn't officially opened a ballot on whether to take strike action but will do so shortly, the person said. Notifying BA is a legal requirement before a ballot can be conducted, the person added.

The next meeting of BA's cabin crew will be Dec. 14, when the result of the ballot is expected to be announced. Depending on the result, a strike could hit British Airways as soon as Dec. 21.

"Holding a ballot does not mean that any industrial action will take place," a British Airways spokesman said. "We remain available to talk with the unions at any time."

Strikes are dangerous to airlines because, in addition to hitting revenue, they also can damage a carrier's reputations and deter from passengers flying with the airline again. "All of our flights are operating normally and it is very much business as usual," the British Airways spokesman said.

On Friday, Unite applied for a High Court injunction to stop British Airways from making changes to cabin crew's working practices from Nov. 16. The airline is planning to reduce crews on long-haul flights from London's Heathrow to 14 from 15 but says the contracts of current cabin crew won't be changed.

"They will not take a pay cut," BA said. "In fact some 75% of crew will receive a pay scale increase worth between 2% and 7% this year and again next year."

Changes in onboard cabin-crew numbers had allowed it to accept staff requests for voluntary redundancy, switch to part-time work and transfer staff between fleets, BA said.

BA is planning to recruit new cabin crew at market rate plus 10% and said it has agreed to listen to alternative proposals from Unite.

The union has previously said it has proposed alternative measures, which could have saved £175 million ($287.3 million). However, a British Airways spokesman said "there is no basis to suggest that the package proposed by the union would have saved anything close to that figure.

Independent analyst PricewaterhouseCoopers assessed the package in the summer and the savings would be far less than the union was suggesting."

Mideast media firm plans film on Muhammad

By Margaret Coker

ABU DHABI—A new Middle Eastern media company is raising capital for a planned new feature-length film about the Prophet Muhammad.

Doha-based Alnoor Fund has signed producer Barrie Osborne of "Lord of the Rings" fame to steer what fund officials say is expected to be a $150 million project.

The undertaking doesn't have a screenwriter or director attached to it yet, but the fund has signed on a religious adviser, Sheikh Yusuf al Qaradawi, a well-regarded Islamic scholar. He is expected to help the production walk the tricky line between religious devotion and controversy that has plagued other Islamic-themed art, books and media.

Strict Islamic religious interpretations say it is prohibited to depict Muhammad in a human form, an injunction that artists have ignored to their peril.

Author Salman Rushdie, for example, was for many years the target of a fatwa, or Islamic religious ruling, calling for his death for his depictions of the Prophet Muhammad in his book "The Satanic Verses." More recently, the artists responsible for drawing cartoons in a Danish newspaper depicting Muhammad were threatened by some Islamic scholars with death.

Previous movies about the early days of Islam, including the 1976 film "The Message," skirted the prohibition by featuring Muhammad's uncle Hamza as the main character.

The Alnoor Fund, a division of newly created Qatar media company Alnoor Holding, is raising capital among private investors in the Middle East to finance the English-language film. It has $50 million already in hand and plans to raise the additional funds and start production by January 2011, according to a spokesman for the fund.