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Breaking news at europe.WSJ.com

Bloomberg News

In Frankfurt Thursday, ECB President Jean-Claude Trichet said some liquidity measures introduced to fight the recession will be withdrawn.

Central banks' split paths

BOE plans $41.22 billion increase in rescue efforts while ECB holds steady

By Neil Shah And Brian Blackstone

Both the European Central Bank and the Bank of England struck cautious tones Thursday, but it is clear the ECB has started to take a modestly more optimistic stance.

As the Bank of England tries to pump more stimulus into its economy, European Central Bank President Jean-Claude Trichet signaled that the ECB will slowly roll back its support of the financial system. He also issued a stern warning to euro-zone governments to get their finances in order and, in an implicit reference to the freshly elected German government, resist cutting taxes until they can afford to.

The ECB talked gingerly about eventually winding down its emergency relief efforts while the Bank of England announced that it would step up its own rescue moves.

The U.K. central bank said it will expand its so-called quantitative easing program by £25 billion ($41.22 billion) to £200 billion. Just a few weeks ago, economists had expected the Bank of England to pause the money-printing program.

Such sentiment flipped on the heels of surprisingly bad economic readings, including a negative third-quarter gross domestic product report that contrasted with positive growth news from other big economies. By the time the Bank of England bank met Thursday, some feared it would boost the money-printing program by as much as £50 billion. Coming in well shy of that figure helped to give U.K. stocks a boost. The pound held up reasonably well against the euro, despite the seemingly divergent views of the two central banks.

Currency traders mostly shrugged off Thursday's battery of European central bank news, opting to focus on Friday's looming October employment report in the U.S. The U.K. pound jumped initially after the Bank of England announced it was expanding its bond-buying program, as investors expressed relief more wouldn't be needed to heal Britain's economy. But the pound eventually fell back down to $1.6563, nearly unchanged from $1.6567 late Wednesday. The euro stood at $1.4860 compared with $1.4872 Wednesday.

The increased rescue effort suggests the Bank of England remains concerned about the severity of Britain's economic challenges. Some

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U.S. insider-trading probe nets 14

By Chad Bray And John Kell

NEW YORK—Prosecutors in New York charged 14 people with crimes Thursday, including lawyers, a former Moody's analyst, an executive at **Atheros Communications** Inc. and the founder of trading firm **Incremental Capital**, in an insider-trading case that allegedly netted $20 million in improper profits.

Five of those charged have pleaded guilty and are cooperating, including Roomy Khan, prosecutors said. People familiar with the matter say she is the tipster who touched off the recent insider-trading case involving hedge-fund firm **Galleon Group**, one of the largest such cases in recent years. She is the aunt of a friend of a former Moody's Investors Service analyst, Deep Shah, who was among the nine charged Thursday who haven't pleaded guilty, prosecutors say.

Prosecutors didn't name Mr. Shah in the Galleon case brought last month, but alleged a former Moody's analyst—identified by people familiar with the investigation as Mr. Shah—passed on information about Blackstone Group LP's $26 billion takeover of Hilton Hotels. Mr. Shah previously has denied any wrongdoing.

The arrests are the latest in an ongoing probe into insider-trading by hedge funds on Wall Street. In October, Raj Rajaratnam, founder of Galleon, and five others were charged criminally with insider trading. More arrests for insider trading were expected after that.

The Federal Bureau of Investigation said agents had taken eight people into custody, including individuals in New York, New Jersey, Connecticut and California.

The charges outlined in three criminal complaints against nine of the individuals include insider trading and conspiracy and revolve around tips about pending mergers and acquisitions.

The individuals charged include Zvi Goffer, the founder of Incremental Capital and a former employee at Galleon and Schottenfeld Group; Arthur Cutillo, an intellectual-property lawyer at **Ropes & Gray** LLP; Jason Goldfarb, another New York attorney; Craig Drimal; Atheros executive Ali Hariri; and three individuals associated with Incremental Capital: Emanuel Goffer, Michael Kimelman and David Plate.

All of those eight except Mr. Hariri were charged by the Securities and Exchange Commission. Also charged by the agency was Gauthan Shankar, a proprietary trader at Schottenfeld. Mr. Shankar has pleaded guilty in the criminal case and is cooperating, prosecutors say. He allegedly received and provided tips

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U.K. aide urges EU to revamp economy

By Laurence Norman And Stephen Fidler

BRUSSELS—The European Union needs to reshape its budget and redesign state-aid rules to focus on strategic, high-growth sectors if it hopes to compete with the U.S. and China, U.K. Business Secretary Peter Mandelson is expected to say Friday.

"We are approaching a decisive break with the economic past—a totally reordered global economy," Mr. Mandelson, a former EU trade commissioner, plans to tell an audience in Brussels. "Will we drive the agenda, or become a subsidiary of a process driven and shaped elsewhere, above all by the G-2, meaning the U.S. and China? We need policies and structures for this changed world."

Mr. Mandelson's expected remarks mirror comments this month from the British foreign secretary, David Miliband, suggesting that without leadership Europe could become globally irrelevant in the wake of changes to the world economy following the financial crisis.

They will reprise some familiar themes, arguing that the 27-nation bloc should not slip back toward government domination of economies and warning that a proposed EU directive aimed at reining in hedge funds risks curbing in-

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Inside

Lobster safari

Clawing for adventure on a Swedish seafood cruise
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	10005.96	+2.08
Nasdaq	2105.32	+2.42
DJ Stoxx 600	240.52	+0.58
FTSE 100	5125.64	+0.35
DAX	5480.92	+0.67
CAC 40	3708.73	+1.05
Euro	$1.4889	+0.36
Nymex crude	$79.62	-0.97

Looking to wean Britain off quantitative easing

Pausing the program would be interpreted as tighter policy

By Neil Shah

Analysts predict that the Bank of England's latest expansion of its quantitative easing program could be the last one, at least for now.

Bank officials may be trying to wean the market off the extraordinary stimulus program, whose scope is comparable to efforts by the U.S. Federal Reserve. As a result of their money printing, the U.K. and U.S. central banks have seen their balance sheets balloon to a similar level relative to gross domestic product, according to Barclays Capital.

Many observers are concerned about Britain's heavy levels of consumer debt in particular, since this is likely to crimp consumer spending, by far the largest driver of demand in the U.K. economy. Recent surveys show U.K. consumers and companies are paying off debts rather than spending.

"The markets might have taken fright had we seen an abrupt end," says George Buckley, chief U.K. economist at Deutsche Bank in London. "By dragging out a smaller amount of asset purchases over the next three months the bank is effectively signaling an end to asset purchases early in the new year."

The British economy has also yet to respond significantly to the bond-buying program, which aims to increase the supply of credit for households and companies and raise spending by putting more cash in bond-sellers' accounts. Last month, a key broad measure of money in the economy actually fell.

Before Thursday, many analysts saw further expansion as highly likely. That is because pausing the program would have effectively tightened monetary policy, since government bond yields would have risen, raising U.K. borrowing rates. The end of quantitative easing will also likely boost the value of sterling, hurting Britain's economic recovery by making U.K. exports less competitive in the global marketplace.

The U.K. economy has yet to respond significantly to the program.

A key driver of the Bank of England's policy decisions is its quarterly inflation forecast, which the bank will release Nov. 11.

Meanwhile, London futures exchange Liffe announced new offerings that will allow it to further tap into the new trading opportunities have emerged from the U.K.'s debt issuance and quantitative easing—as well as from uncertainty about future interest-rate moves.

Liffe, owned by **NYSE Euronext**, said Thursday it plans to introduce long-planned two- and five-year U.K. government bond, or gilt, futures Nov. 23. The new contracts will allow market users to speculate on or hedge their exposure to U.K. government bonds.

—Adam Bradbery contributed to this article.

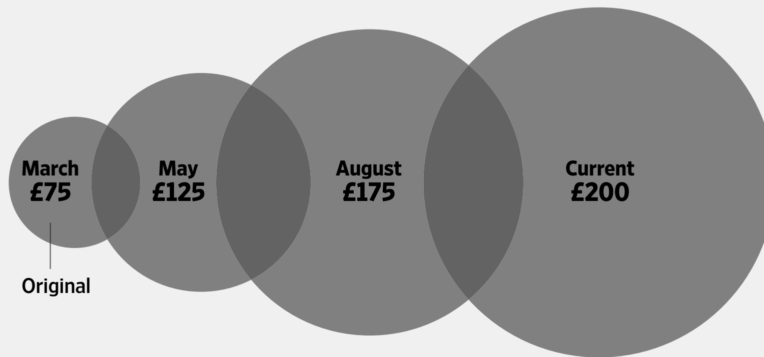
Economy & Politics

Towering issue

Swiss referendum on minarets stirs a debate about Islam > **Page 10**

More money-pumping | The BOE's bond-buying program has more than doubled since March

Proposed assets to be purchased in the quantitative-easing program, in billions



Source: Bank of England

Breakdown of asset-purchase program as of Oct. 29, in billions

Gilts	£172.78
Corporate bonds	£1.36
Commercial paper	£0.67

ECB, BOE take different courses

Continued from first page

noted, however, that the £25 billion boost in the quantitative easing program is just half the size of similar boosts back in May and August.

"It's an insurance policy," says Stuart Thomson, portfolio manager at Ignis Asset Management in Glasgow, Scotland. "It's an extra bit of stimulus to make sure there's no backsliding in the economy."

ECB officials held their key interest rate at 1% as widely expected, and at a news conference Mr. Trichet repeatedly deferred any concrete decisions on their bank lending operations until the ECB's next "rendezvous" in early December.

Still, he suggested changes are in store. In light of improved market conditions, "not all our liquidity measures will be needed to the same extent as in the past," he said.

The ECB's one-year loan program, widely viewed as successful in easing liquidity strains at the height of the crisis, appears likely to end after next month. The first two—in June and September—were done at a full allotment, meaning any eligible bank with the right collateral could get cheap financing at the 1% policy rate.

Investors interpreted recent remarks by ECB Governing Council Member Axel Weber, who heads Germany's Bundesbank, as an indication that next month's one-year loan will be the last of that maturity.

The ECB and the BOE held their benchmark short-term rates at very low levels, citing the fragile economy.

Saudi forces hit Yemen border rebels

By Mohammed Aly Sergie, Summer Said and Margaret Coker

RIYADH, Saudi Arabia—Saudi Arabia launched extensive bombing raids Thursday against Yemeni rebels along the border between the two countries, marking a significant escalation in efforts to stamp out an insurgency that Yemen has struggled for months to contain.

The raids followed the killing of a Saudi soldier when a border patrol was fired on by "infiltratrors" Wednesday, according to Saudi state media. The Saudis warned of a fierce retaliation.

The protracted conflict between the Yemen army and Houthi rebels has destabilized parts of the nation's long, rugged border with Yemen. Troubles on the porous border have raised fears that al Qaeda, which has found refuge in Yemen, could take advantage of the situation to move more freely.

The Houthis, who aren't connected to al Qaeda, are fighting against what they call an ineffectual and corrupt central Yemen government. The Yemeni government calls the uprising treasonous.

Saudi Arabia is a strong supporter of the Yemeni president and is a major financial donor to the impoverished country. A top Saudi official recently reiterated Riyadh's commitment to ensuring Yemen's internal security.

Details of the Saudi military response Thursday were difficult to confirm. The territory involved in located in a remote, mountainous area, and the Saudi government declined to comment on the military action or confirm details.

Residents in the Saudi town of Jizan, 70 kilometers from the Yemeni border, reported hearing squadrons of fighter planes roaring toward the border before daybreak Thursday. The sorties continued until the end of the day, said one resident, who said he also saw Saudi infantry troops moving toward the border.

Inside Yemen, rebel leaders told the Associated Press that Saudi bombs had hit their positions well inside Yemeni territory and caused numerous civilian casualties.

Saudi-owned television network Al Arabiya, which has a reporter on the Saudi-Yemen border, reported that the Saudi military was bombing rebel positions along the border as well as inside Yemen.

Yemeni diplomats denied that Saudi forces had entered Yemeni airspace or moved across the border into Yemen.

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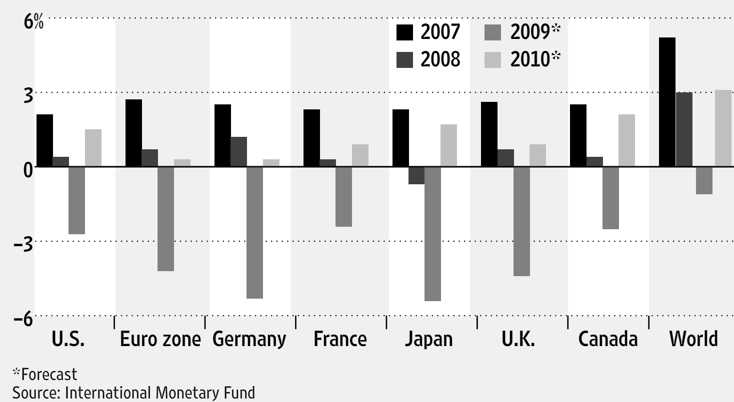
France issues rules on pay for top bankers

Lagarde aims to get matter on G-20 table at weekend summit

By Gabriele Parussini And Laurence Norman

Gradual recovery

IMF's October economic forecasts show global growth lifting back into positive territory in 2010 after this year's slump. Gross domestic product, change from previous year



Christine Lagarde, France's finance minister

Bloomberg News

PARIS—French Finance Minister Christine Lagarde unveiled plans for tougher regulation of bankers' pay, aiming to make the issue a priority for the Group of 20 leading economies at their meeting in Scotland this weekend.

Ms. Lagarde said Thursday that the rules for French banks—which include a stipulation that banks publish some details of employee bonuses annually—will apply both at home and abroad.

A second set of broader principles, establishing more general rules about transparency and the reinforcement of internal audits on pay, will apply to all banks operating in France, Ms. Lagarde said.

France is concerned that the implementation of rules aimed at limiting compensation in the financial sector isn't happening fast enough, and that some countries may want to stick to general guidelines rather than enforce more precise rules.

The French rules include two sets of regulations. A government decree will apply to all banks operating on French soil, and sets the wider guidelines. It provides for more transparency in the yearly publication of banker remuneration, a split between the fixed and the variable parts of pay, as well as a ban on guaranteed multiyear bonuses.

"This will allow us to have a strong say in demanding other G-20 members do the same thing," Ms. Lagarde told a news conference. "We need a level playing field."

This weekend, G-20 finance ministers and central bankers meet in a bid to step up cooperation amid uncertainty over whether an incipient global economic recovery will take root.

One issue on the agenda will be when to start withdrawing extraordinary fiscal and monetary measures enacted over the past year to stir stricken economies. But with the U.S. economy recording 3.5% growth in the third quarter, Japanese output expanding and Germany and France recently notching their second consecutive quarters of expansion, the anxiousness of earlier meetings may have receded.

A U.K. official said the G-20 is likely to stick to similar language on exit strategies it used at the Pittsburgh leaders' summit in late September. That communiqué promised to sustain anticrisis policies "until a durable recovery is secured" and to avoid "any premature withdrawal."

The meeting is expected to set out more details on the G-20's proposed mutual-assessment framework for sustainable growth. The initiative aims to coordinate economic policies better and set up a policy of peer review—pursued in part through the International Monetary Fund—to ensure G-20 nations' policies don't threaten global economic stability.

Eventually, the process may involve discussions about the global imbalances that helped to cause the financial crisis, currencies and the role of the dollar, as well as efforts to control budget deficits in many advanced countries. This weekend's focus, officials indicated, is defining how the process will work.

That has some skeptics wondering whether the G-20 can overcome resistance by many governments to being lectured—or dictated to—on fiscal, currency and monetary policies.

"One problem is that the novelty of bringing representatives of all the world's major powers together in order to save the global economy is beginning to wear thin," said Stephen Lewis, chief economist at Monument Securities. "In what, at least temporarily, is a less fraught environment, the differences between participants are likely to become more apparent than their common purpose."

Nowhere is that more true than on the subject of currencies. Foreign-exchange matters are unlikely to be formally on the agenda but with China's economy growing strongly again, there could be renewed calls for appreciation of the yuan—not least to puncture the risk of an overheating Chinese economy. China has steadfastly resisted international pressure on its currency policy in the past.

At the weekend meeting, policy makers also are expected to focus on paying for climate change before next month's Copenhagen summit on global warming.

The other major agenda item is the funds that advanced nations will agree to give to emerging nations to mitigate the effects of climate change.

EU Parliament agrees on telecom regulation

By Peppi Kiviniemi

BRUSSELS—European Union lawmakers reached a deal early Thursday on a long-delayed overhaul of European telecommunications rules, following a breakthrough agreement that guarantees people suspected of illegally downloading copyright material will get a hearing before they are cut off by Internet service providers.

The last-minute compromise paves the way for wide-reaching telecom reform laws to come into force starting early in 2010. The reforms are aimed at creating more unified telecom regulation across Europe, and giving national regulators and the European Commission increased powers to punish anticompetitive behavior at telecommunications firms. The new laws will also boost consumer rights and privacy protections, and aim to spur investment in faster fiberoptic broadband services.

In a breakthrough, members of the European Parliament and representatives from EU member countries agreed that people suspected of using the Internet for illegal activity, such as downloading copyright material, can't be cut off from the Web without a "prior, fair and impartial" hearing. It didn't specify any venues for such hearings, leaving that to national governments.

The issue had held up the legislation since May, when the Parliament voted down the previous proposal on concerns that it didn't adequately safeguard the rights of Internet users.

Governments still maintain the right to immediately cut off access to the Web in cases where users are suspected of illegal behavior such as terrorism, organized crime and child pornography.

Viviane Reding, the European Commission's top telecommunications policy maker, said the package is the first time world-wide that lawmakers have inserted such Internet-freedom language in legislation, and is a "strong signal that the EU takes fundamental rights very seriously."

Most EU national governments initially preferred a system allowing the police or a regulatory body to stop Internet service right away, with a right of appeal by individuals only after the fact.

Thursday's agreement ensures that a "three strikes" law—under which people found illegally downloading copyright material on three occasions could be cut off without warning—"will certainly not become part of European law," Ms. Reding added. France and the U.K. have considered implementing such a law.

Because the compromise was unanimous, the package is unlikely to face further resistance, though the Parliament and European national telecommunications ministers will have to vote on it before it can come into force.

The Parliament is to vote on the compromise legislation during its next session at the end of November, after which the telecom ministers will have their final say. EU member countries will then have 18 months to pass the legislation into national law.

Companies and industry associations broadly welcomed the breakthrough, saying it was good for investment in new technologies.

"This marks the end of a long period of uncertainty for the telecoms sector," said ETNO, the Brussels-based industry association representing the interest of big European telecoms companies such as **Deutsche Telekom** AG and **Telefónica** SA.

EU telecom reform

- Consumers win right to change in one day their mobile or fixed operator while keeping their old phone number
- Consumers rights to stay connected to the Internet protected
- Guarantee of a "neutral" Internet where service providers can't slow some services to benefit others
- Greater independence for national telecoms regulators
- New centralized telecoms authority to supervise consistency of EU regulation across national borders
- Power at the European Commission to review national telecoms decisions

Source: European Commission

Greece outlines spending cuts aimed at reining in its deficit

By Alkman Granitsas

ATHENS—Greece's newly elected Socialist government unveiled its first budget Thursday, aiming to cut the country's fiscal deficit by a third by scaling back spending and raising new taxes.

"This is a budget that reorganizes, this is a budget that redistributes," Finance Minister George Papaconstantinou said. Greece is facing intense scrutiny from the European Commission, credit-rating firms, and international markets after the country said last month that its budget deficit will be double the previous forecasts.

With the draft 2010 budget Mr. Papaconstatinou is aiming to reduce Greece's budget deficit to 9.4% of gross domestic product next year—from an estimated 12.7% this year—through a combined €7.8 billon ($11.6 billion) in spending cuts and new taxes. It also forecasts an economic contraction of 0.3% next year, compared with a predicted drop of 1.5% this year.

Since the budget deficit announcement, Fitch has cut Greece's rating to single-A-minus from single-A and warned of further downgrades ahead. Moody's also cut its outlook for Greece last week.

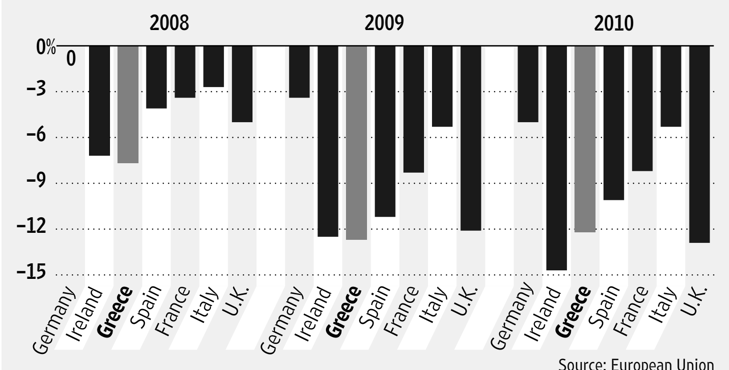
Both cited the country's deteriorating public finances as the reason for their actions, which led to a widening in Greek government bond spreads over their benchmark German counterparts—a move reflecting Greece's increased credit risk.

"The macroeconomic forecasts are realistic, and the revenue estimates are also realistic," said Nikos Magginas, an economist at National Bank of Greece. "Where I have reservations is the size of the adjustment. Reducing the deficit by €7.8 billion has never been done before."

However, economists also criticized the budget for a series of one-off measures—including spending cuts and new taxes—that, while helping cut the deficit next year, won't be repeated in subsequent years. The 2010 budget also foresees the collection of more than €1 billion in uncollected back taxes as one of its key revenue measures.

Cutting back

Greece's government is trying to reduce its fiscal deficit in 2010 and beyond. Net government lending or borrowing as a percentage of GDP



A new route for natural gas to Europe

Sweden and Finland clear way for pipeline that avoids Ukraine

By Guy Chazan

Nord Stream, an $11 billion pipeline that would pump natural gas from Russia to Germany and bypass Ukraine, cleared its last major regulatory hurdles on Thursday when Sweden and Finland both gave the green light to a project that could redraw Europe's energy map.

The two countries' governments said they had granted consent for the pipeline to pass through their exclusive economic zones in the Baltic Sea. Denmark approved the project last month. That leaves only Russia and Germany, whose consent is seen as a formality.

Once up and running, Nord Stream could spell the demise of Ukraine's status as a big gas-transit country. The European Union gets 80% of its Russian natural-gas supplies via Ukraine, but the long-term viability of the route has been called into question, especially after a pricing dispute between Moscow and Kiev last January led to a cutoff of Russian gas to hundreds of thousands of Europeans in the middle of winter.

Russian Prime Minister Vladimir Putin warned last month of possible new supply disruptions, amid signs that a cash-strapped Ukraine was struggling to pay its bill for the gas it imports from Russia. On Thursday, European Commission President José Manuel Barroso urged Ukraine's President Viktor Yushchenko to prevent delays in payments to Russia.

Reuters

A barge holds sections of pipe in a handout photo from Nord Stream, which plans to build a gas pipeline under the Baltic Sea.

For years, Russia has been seeking to reduce its dependence on Ukraine and come up with alternative export routes. Nord Stream, backed by a consortium that is led by Kremlin-controlled gas giant OAO **Gazprom**, was one. Another was South Stream, a pipeline that would run under the Black Sea into Eastern Europe.

Some analysts have questioned whether the huge investments required to build such infrastructure will pay off, amid creeping doubts about long-term demand for gas. The projects were conceived at a time when the EU was forecasting big increases in its demand for the clean-burning fuel and worrying about energy security.

In recent months, however, a deepening oversupply of gas and predictions that climate-change policies to limit carbon-dioxide emissions could damp demand for all fossil fuels, including gas, has led many to scale back their forecasts.

"Nord Stream will be completed by 2012, a time when Europe won't need the additional gas because of the supply glut," said Mikhail Korchemkin, head of the Pennsylvania-based consultancy East European Gas Analysis and an outspoken critic of the project.

That is disputed by **Nord Stream** AG, the Swiss-based joint venture that will build and operate the pipeline. It says that by 2025, as domestic production declines, 81% of the gas the EU consumes will be imported—compared with 58% in 2005. That means the bloc will have to import nearly 200 billion cubic meters of gas a year more than it does now, and so will need not only Nord Stream but also several other new import routes to ensure adequate supply.

"Even if the demand for additional imports doesn't grow as quickly as predicted, the import gap will still be significant and much bigger than Nord Stream's capacity," said Sebastian Sass, head of Nord Stream's EU representation.

As well as doubts about future demand, Nord Stream also had to deal with countless objections from Baltic Sea nations, which feared the possible negative impact that construction of the pipeline might have on local fisheries, shipping traffic and the marine environment. There were also fears that construction could disturb unexploded chemical weapons and other munitions scattered on the seabed. It has taken four years for the project to receive the key permits it needs, after an exhaustive consultation process.

The joint venture, in which Gazprom has a 51% stake, Germany's BASF/Wintershall AG and E.ON Ruhrgas AG 20% each, and NV Nederlandse Gasunie of the Netherlands 9%, will start building the first of two 1,220-kilometer-long parallel pipelines next year. The first is to be operational in 2011 and the second a year later.

The project would for the first time directly link Russia's vast gas fields in Siberia to the country's largest European customer, Germany. The pipelines would run from the Russian port of Vyborg to Lubmin in northern Germany, and have a capacity of 55 billion cubic meters a year—enough to supply more than 26 million households.

The joint venture partners will pay 30% of the €7.4 billion ($11 billion) price tag themselves, with the rest coming from banks. A spokesman for Nord Stream said it received bids from banks to provide the first tranche of €3.9 billion in funding last month.

Group led by Exxon, Shell wins Iraq contract

By Gina Chon

BAGHDAD—The Iraqi Oil Ministry on Thursday said it has awarded a consortium led by **Exxon Mobil** Corp. and **Royal Dutch Shell** PLC the right to develop the West Qurna-1 oil field, representing the first American-led team gaining access to the country's oil patch.

The pact is the latest in a series of deals Iraq has recently signed or initialed with some of the world's biggest oil companies. Earlier this week, Iraqi officials completed a final agreement with **BP** PLC and **China National Petroleum** Corp. and an initial agreement with a consortium led by Italy's **Eni** SpA. U.S. oil company **Occidental Petroleum** Corp. participated as a junior partner in the Eni-led team.

The Exxon-Shell team, combining two of the world's biggest publicly listed oil companies, had been seen as the favorite to win the contract, which calls for the consortium to boost production at the already-pumping field in southern Iraq in exchange for a per-barrel fee.

Among the three competitors, it offered the highest production target for the field, the Oil Ministry said.

An initial pact is expected to be signed on Thursday. The deal will then go to the Iraqi cabinet for approval before a final agreement can be signed, Oil Ministry spokesman Assem Jihad said.

Shell referred media calls to Exxon.

"We have agreed with the Ministry of Oil on the principles of the rehabilitation and development of the West Qurna field and look forward to completing the contract," said Exxon spokesman Patrick McGinn.

The Exxon-Shell team beat out bids by a consortium made of Russia's OAO **Lukoil** and **ConocoPhillips**, and another one led by CNPC.

After rejecting the Oil Ministry's payment terms as too stingy during a June auction, the three competitors for West Qurna later accepted the ministry's original $1.90-per-barrel payment for additional oil extracted above current production levels.

Originally, Exxon asked for $4 a barrel, while the Lukoil consortium proposed $6.49 a barrel. The CNPC team proposed $2.60 a barrel.

West Qurna-1 is believed to have about 8.7 billion barrels in oil reserves.

The BP-CNPC group was the only consortium that didn't walk away from the summer bidding round, agreeing to cut its own proposed fees drastically to secure an early deal for Iraq's huge Rumaila field.

Since the summer auction, the Oil Ministry continued talks with several companies regarding their bids. On Monday, Eni, along with partners Occidental and **Korea Gas** Corp., of South Korea, signed an initial agreement to develop the Zubair field in southern Iraq.

Iraqi officials hope the contracts for the Rumaila, West Qurna-1 and Zubair fields will help bring Iraq's oil production to seven million barrels a day in six years, compared with the current production level of about 2.5 million barrels a day. Iraqi officials have struggled for years to lift production.

Baghdad, even with foreign help, still faces major hurdles once work begins. Security across the country is still poor, though overall violence has fallen since the worst of Iraq's sectarian violence, following the 2003 U.S.-led invasion.

Another possible hurdle is the health of the oil fields themselves. Iraqi oil officials have complained for years that Saddam Hussein pushed them to produce too much oil too quickly, without needed investment. Oil analysts have worried that may have damaged reservoirs irreparably.

Iraq will hold a second bidding round in December for 10 unexplored oil and gas fields. Exxon Mobil, Lukoil, CNPC and other oil giants are among the more than 40 companies that are eligible to participate in that auction.

—Jabbar al-Obeidi contributed to this article.

Associated Press

An Iraqi worker operates valves at the Nahran Omar oil refinery near Basra.

Royal Mail, union reach tentative accord, averting new strikes

A WSJ News Roundup

The latest wave of strikes by U.K. postal workers has been called off after the Communication Workers' Union struck an interim agreement with Royal Mail in their dispute over the company's modernization plans, the CWU confirmed Thursday.

"We've suspended the strike action that was planned for Friday and Monday," said Dave Ward, deputy general secretary of the CWU.

The interim agreement will guarantee no strikes before Christmas to allow for "a period of calm," during which it is hoped the two sides can reach a final, long-term deal.

Business Secretary Peter Mandelson welcomed the news.

"I hope very much indeed that we will not see further strikes," he said, adding that he also hoped that "if there are wrinkles in the modernization process—which is absolutely vital for Royal Mail—that these wrinkles will be smoothed out by discussion and negotiation without resorting to further strikes in the future."

The British government, which owns 100% of Royal Mail's shares, has urged the two sides to settle their differences without work stoppages. Labor relations at Royal Mail have been strained for several years, with management and unions clashing over efforts to modernize the company in the face of falling postal volumes, greater competition and a crippling multibillion-pound pension deficit.

Renault, France enter car-battery venture

Japanese auto maker Nissan also will participate in project designed to advance electric vehicles

By Sebastian Moffett

FLINS, France—**Renault** SA will make electric-vehicle batteries in a joint venture with France's government, the latest sign of the state's active support for the country's industrial sector.

The French car maker and its Japanese partner, Nissan Motor Co., on Thursday signed a letter of intent to set up the joint venture with French government agencies. These include the national wealth fund, the Fonds Stratégique d'Investissement, which will contribute €125 million ($186 million) to the project. The total investment by all partners in the first phase of the project would be about €600 million, and production would eventually reach 100,000 batteries a year, Renault and the other parties said.

"The public authorities have a responsibility...to back up the technological and industrial changes linked to the development of electric vehicles, a new driver of industrial growth," France's industry minister, Christian Estrosi, told a news conference.

Electric-vehicle development depends on government support, since the high price of batteries has prevented companies from making the new cars a mass-market product. Auto makers hope the cost will fall once the batteries are mass-produced. "Zero-emission mobility needs special collaboration between the private and public sectors," Carlos Ghosn, chief executive of both Renault and Nissan, said at a news conference at Renault's Flins factory, west of Paris.

Reuters

Renault aims to start battery production at the Flins plant, near Paris, in 2012. CEO Carlos Ghosn at the plant Thursday.

France, with its traditional fondness for nurturing national champions, sees this as an opportunity. So far, the government has pledged to give €5,000 to anyone who buys an electric vehicle by 2012 and is trying to arrange the purchase of 100,000 electric vehicles for government and business fleets by 2015. It will also put €900 million into developing infrastructure such as recharging points.

Renault is betting that early investment in technology will give it a head start in electric vehicles, which might eventually reduce the demand for its core product, gasoline engines. The car company aims to start battery production at the Flins plant in mid-2012. Some of the batteries would be sold to other automobile makers, Renault said.

Renault also plans to make the most important vehicle of its planned electric-car range at Flins. On Thursday, it said the Zoé Z.E.—equivalent in size to the current Renault Clio—would eventually account for some two-thirds of Renault's electric-vehicle sales and would be manufactured at Flins from 2012.

GM will pick new management for Opel unit soon

By Sharon Terlep

DETROIT—**General Motors** Co. Chief Executive Frederick "Fritz" Henderson said Thursday he will pick a new management team for the auto maker's Opel/Vuaxhall unit within "weeks or days."

Mr. Henderson also told reporters he is confident GM can secure financing for its €3 billion ($4.5 billion) plan to restructure the European operations after GM's board dropped plans to sell a majority stake in the business.

Fritz Henderson

Also Thursday, several thousand Opel employees in Germany walked off their jobs to attend a mass rally at the auto maker's headquarters there, protesting GM's decision to abandon the unit's sale.

Mr. Henderson, who had backed the Opel sale before GM's new board voted Tuesday for its retention, reiterated that GM is prepared to repay emergency Opel loans provided by the German government.

While GM is seeking support from European governments to help pay for Opel's revamping, Mr. Henderson said funding options included reducing the royalties the European unit pays to its parent.

GM also could use funds provided by the U.S. Treasury, which controls the auto maker following its bankruptcy restructuring this summer.

The CEO said the board decided to drop the sale to a group led by Canadian car-parts supplier Magna International Inc. after a "very vigorous" discussion. Now, GM will move quickly to begin restructuring the unprofitable European operation. Mr. Henderson said. Among GM's biggest challenges in the region are sharply declining sales in Russia, until recently one of the world's fastest growing markets.

Agence France-Presse/Getty Images

Opel workers demonstrate with a mock coffin in Germany on Thursday.

Mr. Henderson acknowledged the long and contentious Opel process damaged relationships with labor groups in Europe. "We have some fence-mending and repair that needs to be done," he said.

Thousands of the 25,000 employees from Opel's four German factories vented their frustration and anger Thursday at GM over the terminated sale.

"Our trust [in GM] is now zero, and that is the heart of the problem," Klaus Franz, the head of Opel's employee council, told workers gathered at Opel headquarters in Ruesselsheim, Germany. Mr. Franz called on GM to come up with a viable plan for the car maker. "We are starting over again from zero," he said.

GM's reversal has been heavily criticized by German politicians, who had given strong backing to the Magna deal. The employees fear GM's decision to restructure Opel on its own could result in bigger layoffs and job cuts.

Toyota reports surprise profit and predicts better times ahead

By Yoshio Takahashi

TOKYO—Toyota Motor Corp. posted a surprise quarterly profit Thursday and became the latest car maker to offer an improved outlook, as cost-cutting and government car-buying incentives look to lift sales after nine months of losses.

But the recovery at the world's No. 1 auto maker by sales volume appears to be trailing those of Japanese rivals **Nissan Motor** Co. and **Honda Motor** Co., and the company still expects to report a loss of at least $2 billion this fiscal year.

Toyota continues to cut costs as it grapples with a higher yen, which damps revenue from sales aboard, and the possibility that governments could ease back on consumer incentives as the economy recovers.

The maker of the Camry, Prius hybrid and upscale Lexus brand reported a net profit of 21.84 billion yen ($241.1 million) in its fiscal second quarter ended Sept. 30, down 84% from 139.81 billion yen a year earlier, as the yen's strength and slack sales in most major markets dented its bottom line.

Sales sagged 24% to 4.542 trillion yen in the quarter from 5.975 trillion yen.

Still, Toyota managed to finish the quarter in the black despite market expectations that it would post a loss. The company attributed the profit to reduced provisions for its car-leasing business.

The company also released an improved forecast for the fiscal year ending in March, citing such factors as better-than-expected progress in cost cutting and stronger sales spurred by government steps to boost demand for fuel-efficient cars.

Toyota now expects a net loss of 200 billion yen for the fiscal year, much narrower than its previous forecast of a loss of 450 billion yen, as it expects to achieve cost cuts of 1.25 trillion yen.

The latest outlook "reflects booming demand sparked by government [measures] as well as hot sales of hybrid cars," said Yoichiro Ichimaru, a Toyota executive vice president.

Toyota expects an operating loss of 350 billion yen this fiscal year compared with its previous projection for an operating loss of 750 billion yen.

Honda and Nissan both expect to return to operating profitability in their current fiscal years.

Mr. Ichimaru said he is also wary about a possible dent in demand after subsidies are terminated in some markets and warned that foreign exchange remains a risk.

Toyota expects the dollar to average 90 yen in the second half, roughly in line with its current level. This means that if the dollar weakens further against the yen, the company's overseas income could fall short of its expectations.

A stronger yen deflates profits earned abroad when translated into yen and raises the cost of exporting products to other countries. Honda and Nissan base their latest forecasts on a rate of 85 yen.

Toyota—steered by President **Akio Toyoda**, grandson of the company's founder, who took the helm in June—is in the midst of turnaround efforts after posting its first annual net loss in 59 years in the previous fiscal year.

Mr. Toyoda has said the company aims to return to profitability in the next fiscal year.

Toyota is grappling with excessive production capacity, which is squeezing profitability. It is closing an unprofitable California plant it jointly owned with the former General Motors Corp. and will temporarily halt a production line at a Japanese plant starting in the spring.

For this fiscal year, Toyota lifted its sales outlook to 18 trillion yen from 16.8 trillion yen as it raised its global sales target to 7.03 million vehicles from 6.6 million, based on firmer sales in Asia, North America and other markets except Europe.

For Boeing chief, a bumpy ride

Jim McNerney faces behind-schedule airplanes and military-program cutbacks

BY PETER SANDERS

Boeing Co. has had a difficult year, and the economy was only part of the problem.

Its 787 Dreamliner, the company's latest entry in the commercial aircraft market, is more than two years behind schedule and still has engineering difficulties. The launch of its revamped 747 jumbo jet also has been delayed.

BOSS TALK

The holdups have stretched Boeing's credibility with customers and investors and hurt the bottom line. In the third quarter, the company had a $3.5 billion write-down—due in part to the delays—and a $1.6 billion loss.

Despite a solid backlog of orders for commercial planes, Boeing faces another turbulent year in 2010, including new pressures as the Obama administration cuts spending on many of the high-tech military programs the company has championed.

Jim McNerney has led Boeing since June 2005, following stints as 3M Co.'s chief executive and an executive at General Electric Co. He arrived on the heels of a major ethics scandal involving a Boeing bid to build the Air Force a refueling tanker and an inappropriate relationship between the previous CEO and a female executive.

In late August, Mr. McNerney shook up the company's top managerial ranks in an effort to fix some of the problems at the commercial airplanes unit.

In a recent interview at Boeing's Chicago headquarters, just before announcing that Boeing would build a factory in South Carolina, Mr. McNerney discussed the challenges the company faces and how he hopes to meet them.

Excerpts:

WSJ: What are some of the biggest challenges of running this company in this economy?

Mr. McNerney: First of all, there are significant market pressures to be dealt with on both the commercial and defense sides of the business. We are challenged with getting two major commercial [airplane] development programs done.

Bloomberg News

Jim McNerney, Boeing's CEO, addressed shareholders at the annual meeting in Chicago last April. He recently shook up the company's top managerial ranks.

One is a very innovative, new-to-the-world airplane, the 787, and as I've characterized it before, we've been on the bleeding edge of this development for awhile. And we are close to getting it done.It's been a management challenge, but we've got a wonderful group of people in this company who are absolutely committed to getting this innovation out in the marketplace.

Also, the pressure of the defense budget on our programs. It's hard to go to a team of aerospace engineers and program managers who represent literally the best and brightest in this country and all they've done is a great job and now talking to them and scrambling to figure out a way to redeploy them. That's the hard part of this job.

WSJ: You've announced 10,000 layoffs, and those have been under way most of the year. How has that process been for you?

Mr. McNerney: Layoffs are never fun—and then you combine that with wrestling with the market pressures. But these kinds of situations are always opportunities because they force you to think fundamentally about your company: It forces you to think, do you have the right balance on these development programs between what you're doing in house versus what you're putting out there.

And it forces you to ask the fundamental competitiveness question: Are we building the right airplanes? The one thing I'm really convinced of is that we're building the right airplanes.

WSJ: With the 787, the company made a decision to outsource nearly the entire production of the airplane, a decision that you have said may have been too aggressive. Going forward, how are you going to handle outsourcing?

Mr. McNerney: I think the strategy, per se, was not wrong. In the sense of leveraging global capability, whether it's engineering or other forms of partnership, that's not a bad strategy.

But when combined with a completely new airplane made in a completely new way and a schedule that was pretty aggressive, it was a bridge too far.

It's one of those things that was great on paper but outran our ability to execute it as well as we should have.

And so I see [outsourcing] as a matter of redrawing the lines and rebalancing. We're creating sort of a virtual program across all our partnerships but doing a little bit more of it ourselves. And "a little bit more of it" means a little deeper in the engineering before handing it off to our partners, and perhaps fabricating a little bit more.

WSJ: Boeing suffered a debilitating strike last year at its commercial airplane unit. Given how the auto industry has fared—and how the major unions have had to deal with the struggles in that industry—do you think there will be a different configuration between management and labor at the end of all this?

Mr. McNerney: We've got some great workers in Puget Sound who can build airplanes like nobody else. Now, [Boeing and the machinists' union] have struggled and the market pressures and program pressures have accentuated the struggle. We've got to find a better way. Our customers are fed up with the combination of, admittedly, some missteps of our own but also some missteps in terms of work continuity with the union that I don't blame all on the union. But we just haven't figured it out. What I do know is we have to—or we're going to continue losing competitiveness.

We've either got to find a very different way of working together in Puget Sound, or we've got to find another base to work from and then pull the best from both over time.

South Africa cancels order for 8 Airbus A400Ms

BY DAVID PEARSON

PARIS--The South African government Thursday said it was cancelling its order for eight Airbus A400M planes, a big blow to the problem-plagued military airlifter program.

Airbus said that it "very much regrets" the South African government's decision, the first cancellation for the program that is already running more than three years late and is incurring billions of euros in extra costs for Airbus's parent company, **European Aeronautic Defence & Space** Co.

"It certainly isn't the death knell" for the A400M," said CM-CIC analyst Harald Liberge-Dondoux. "But clearly the cost of the plane is rising steeply, and this could discourage other potential export customers."

Airbus, EADS and their customers are currently renegotiating the terms of the 2003 contract that launched the A400M program, which EADS officials have acknowledged can't be profitable for decades. They have set a deadline of reaching an agreement by year end, and defense ministers from the seven European nations that have ordered planes are scheduled to meet this month to review progress.

Airbus officials said they remain confident that the A400M will make its first flight before the end of the year. That's an important milestone for EADS, as it would receive a large sum of cash from its customers.

EADS already has set aside €2.3 billion ($3.4 billion) in provisions for the A400M program, which has been plagued with problems chiefly related to the engine-management software. Analysts expect that it will have to take an additional financial hit of several hundred million euros in its second-half accounts.

South Africa ordered the planes in 2005 to replace its aging fleet of C-130 Hercules airlifters, saying it wanted to use the four turboprop-engined planes for peacekeeping, disaster relief and military missions. At that time, the government estimated the cost of the eight-plane order at €837 million.

The cancellation "came totally out of the blue," Airbus spokesman Stefan Schaffrath said in a telephone interview. The surprise was all the greater "at a time when the program is making very good progress toward a first flight before the end of the year," he said.

Airbus "is studying the possible financial impact of this announcement," Mr. Schaffrath said.

Officials familiar with the situation said the South African government had given no indication that it was thinking about cancelling its contract. They noted that the two sides had been talking about increasing the amount of work that South African companies had been allocated on the A400M program, as compensation for the extra costs.

South African government spokesman Themba Maseko said South Africa wouldn't incur any penalties because of the delays in the delivery deadlines stipulated in the contract, and added that Airbus will have to repay advances of 2.9 billion rand (about $380 million) under the terms of its contract.

—Robb M. Stewart in Johannesburg contributed to this article.

U.S. airlines push lobbying for JAL deal

BY MARIKO SANCHANTA

TOKYO—**AMR** Corp.'s American Airlines ratcheted up its lobbying effort for a stronger alliance with **Japan Airlines** Corp., telling policy makers and industry executives that a deal could offer $80 million to $100 million in new annual revenue and cost savings beginning next summer.

Meanwhile, people familiar with the matter said rival **Delta Air Lines** Inc. is willing to assume costs JAL would incur if it left its current alliance with American and joined Delta. Those costs could total $15 million to $20 million, these people said.

The pressure for both Delta and American to seal a deal with JAL is intensifying as a new government-led task force rushes to come up with a fresh plan to restructure the debt-laden carrier. Edward Bastian, Delta's president, has been in Tokyo for five of the past six weeks, said one of the people familiar with the matter.

Delta is a member of the SkyTeam airline alliance. JAL, like American, currently belongs to the oneworld alliance. The alliances allow the airlines to more easily share passengers, and JAL's membership in an alliance would offer members access to its lucrative Asian routes.

American has been showing government officials and JAL senior management a presentation entitled the "Oneworld Total Value Proposition," according to people who have seen the document. It shows that an American-JAL alliance would significantly boost JAL's revenue should the U.S. and Japan reach a new open-skies deal. It also underlines the fact that several oneworld members are keen to expand their relationship with JAL, including British Airways, which has expressed an interest in a joint venture with JAL.

American also estimates a switch to the Delta alliance would cost JAL more than $500 million in lost revenue in the first two years from disentangling frequent-flier agreements and lost traffic shared with other airlines, according to the presentation.

It is unclear what the actual financial impact of a JAL switch to SkyTeam from oneworld would be, but the process could be complex.

"If JAL had been starting from zero, a SkyTeam alliance would have made more sense," said Yoshihisa Akai, the managing director of Japan Aviation Management Research, a think tank. "But extricating itself from oneworld will be a massive task."

Both U.S. airlines are offering to buy minority equity stakes in JAL, which could give the cash-strapped carrier some badly needed funds. The airline on Thursday said it would scrap a total of 17 unprofitable domestic and international routes by June. The route cuts—including 13 announced previously—will enable the company to improve its operating income by 12.2 billion yen ($135 million), according to a spokeswoman.

Both airlines have also stepped up their campaigns as the U.S. and Japan are close to agreeing to a framework for an open-skies deal that would liberalize air travel between both countries.

Unilever projects volume growth

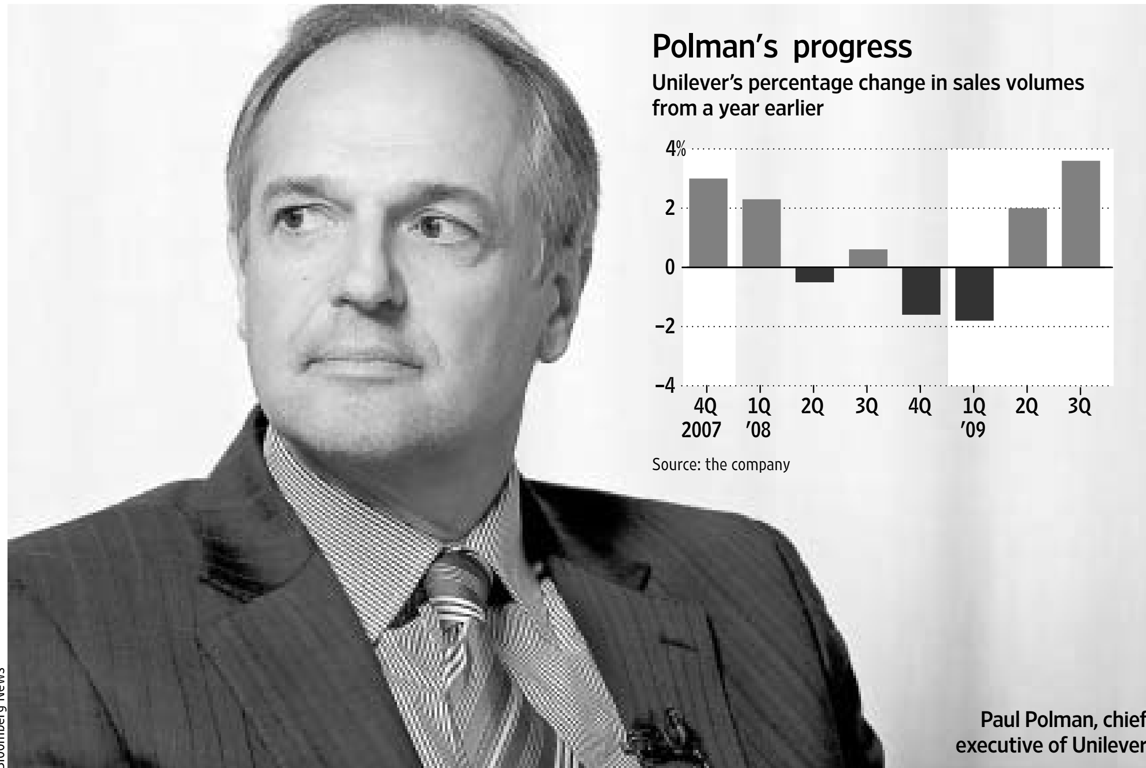
Third-quarter net slid 36% as sales fell on disposals

BY MICHAEL CAROLAN

LONDON--Unilever said Thursday that third-quarter net profit fell 36% but its third-quarter sales beat expectations, as lower prices and higher advertising spending boosted volumes for the second quarter running.

The company said it expects further volume growth in the fourth quarter as lower prices continue to drive demand.

The results are a fillip for new Chief Executive Paul Polman, who identified volume growth as his key focus for the group when he joined earlier this year from Nestlé SA. Prior to Mr. Polman's arrival, Unilever had been criticized for allowing volumes to slip as it aggressively raised prices to preserve margins.



Paul Polman, chief executive of Unilever

The maker of Ben & Jerry's ice cream and household products such as Dove soap and Cif cleanser said underlying sales—which strip out acquisitions, disposals and currency movements—grew 3.4% in the third quarter from a year earlier, ahead of analysts' forecasts. The measure is closely watched because it directly compares how well the company's products are selling.

The sales rise was wholly a result of a 3.6% increase in volumes, which followed a 2% volume rise in the previous three months. Mr. Polman said all the company's regions and categories showed volume growth.

Unilever posted a net profit of €1.05 billion ($1.56 billion) for the three months ended Sept. 30, down from €1.64 billion a year earlier, when a number of disposals boosted the bottom line. Sales dropped 2% to €10.2 billion because it sold some business units.

Operating margin was up 0.7 percentage points in the period. The company said earlier this year its margins would return to growth in the second half as commodity prices fall from their record high levels of last year.

Unilever's prices were down 0.2% in the third quarter and Mr. Polman said he expects steeper cuts of between 2% and 3% in the last three months of the year because of last year's high comparatives.

The company increased prices by more than 9% on average in the fourth quarter of 2008, partly to offset higher commodity costs. However, it was criticized by some analysts and industry experts for raising prices too much just as many of its markets were tipping into recession.

Mr. Polman acknowledged that the company had been too aggressive in raising prices last year and Chief Financial Officer Jim Lawrence said prices were "now about where they should be."

However, prices will continue their year-to-year falls until the middle of next year, when Unilever starts to lap the price increases of early 2009, Mr. Lawrence said.

Unilever's price cuts come in contrast to U.S. rival Procter & Gamble Co., which saw its volumes fall 3% in its latest quarter as it raised prices in some markets to offset currency devaluations.

Andrew Wood at Sanford Bernstein said that the company was set to continue benefiting from the lower commodity prices. Strong gross-margin growth is supporting a large increase in advertising and promotion spending, yet still allowing good operating margin growth and driving strong volume momentum.

"We expect more of the same in the fourth quarter," he said.

Delhaize posts higher net, raises outlook

BY CAROLYN HENSON
AND MAARTEN VAN TARTWIJK

BRUSSELS–Belgium-based supermarket operator Delhaize Group on Thursday raised its full-year outlook after reporting a 28% rise in third-quarter net profit.

Sales fell in the U.S. amid a price war among grocers, but the company said it had managed to offset the drop with cost cutting and had outperformed the market by using targeted promotions and price reductions and ensuring its stores were as efficient as possible.

Delhaize makes about 70% of its profit and sales in the U.S., mostly in the Southeast where it operates the Food Lion, Hannaford and Sweet Bay chains.

Grocers have proved resilient during the economic downturn as consumers have continued to spend on food, even as they traded down to less-expensive goods and stores. However, the U.S. is now experiencing price deflation, stoking competition among retailers there.

"While price pressure in the U.S. continued to impact sales, we were encouraged to see that targeted promotions and outstanding store execution resulted in improving volume trends for the third consecutive quarter," Chief Executive Pierre-Olivier Beckers said.

Delhaize said its third-quarter net profit rose to €128 million ($190.3 million) from €100 million a year earlier, helped by cost cuts. Mr. Beckers said the company expects to cut costs by €100 million this year.

Sales rose 4.8% to €4.89 billion, lifted by a 5.2% rise in the dollar against the euro compared with 2008. Stripping out currency fluctuations, sales increased 1.9%. The price war with the likes of discount giant Wal-Mart Stores Inc. hit revenue in the U.S., where sales dropped 1.2% to €3.3 billion.

Delhaize's comments about U.S. prices echo those of Netherlands-based peer **Ahold** NV, which earns about 60% of its revenue in the U.S. where it runs the Stop & Shop, Giant-Landover and Giant-Carlisle chains. Last month, Ahold blamed price deflation, trading down by customers and increased promotional activity in the U.S. for missing expectations with a 4.3% rise in third-quarter sales.

On Thursday, Ahold said it would break up its two U.S. units into four so it can better integrate acquisitions and allow decisions on customer needs to be taken at a more local level. Stop & Shop, Giant-Carlisle and Giant Landover will be separated into Stop & Shop New England, Stop & Shop Metro New York, Giant-Landover and Giant-Carlisle.

In recent quarters, the company has benefited from a revamp of its U.S. operations that it started about two years ago. It had begun reformatting and modernizing its stores and lowering its prices before the economic downturn hit. It has said it hopes to acquire stores that are sold by rivals during the downturn.

Delhaize did better in its home market than in the U.S. during the third quarter. Comparable sales in Belgium rose 4.6%, helped by extra shopping days on the calendar compared with last year.

The company has 2,697 stores across the U.S., Belgium, Greece, Romania and Indonesia. More than half of its stores are in the U.S.

Delhaize said it now expects operating profit for 2009 to rise between 1% and 4% at identical exchange rates, up from previous expectations for between 0% and 3% growth.

U.S. retail spending perked up in October, but results were mixed

BY KAREN TALLEY

On the cusp of the holiday buying season, U.S. retailers are finding consumers still exercising restraint.

U.S. retail-sales figures for October came in below expectations, with same-store sales rising 1.8%. Department-store results were mixed while teen retailers failed to make the grade. Overall, a 2% rise had been expected.

Still, a number of retailers saw margin improvement and lifted third-quarter earnings expectations.

And on a bright note, U.S. consumers took a more gilded path in October, with upper-end retailers finally ridding themselves of some tarnish by posting better-than-expected same-store sales while their lower-end counterparts languished a bit. **Saks** Inc., for instance, logged a better-than-expected result.

Gap Inc.'s same-store sales rose 4%, and the casual-clothing retailer said it expects fiscal third-quarter earnings above Wall Street's expectations. The teen-apparel category, which had been a relative pocket of strength, faltered. **Abercrombie & Fitch** Co., which only recently dropped its no-markdown mantra, posted a 15% same-store-sales decrease in October, slightly worse than expected.

L'Oreal says sales outlook is improving

BY CHRISTINA PASSARIELLO

PARIS—**L'Oreal** SA, the world's largest cosmetics company, painted a prettier sales picture, reporting only a slight decline for the third quarter and saying that a new low-price strategy was beginning to bear fruit.

L'Oreal, home to labels such as Lancome and Garnier in addition to its namesake brand, said sales totaled €4.24 billion ($6.30 billion) in the third quarter, down 0.7% from €4.27 billion a year earlier. Like-for-like growth, excluding exchange-rate and acquisition effects, was 0.8%, the first time this year it moved back into positive territory, and the company said it anticipates stronger growth in the fourth quarter.

"Division by division, it was a real improvement compared to the first half," chief executive Jean-Paul Agon said. In the first half, like-for-like sales were down 3.2%.

Like many consumer-goods companies, L'Oreal has slashed prices to win back consumers who cut back on spending during the economic crisis. Yet L'Oreal has been slower to herald an uptick than competitors such as Unilever and Procter & Gamble Co. Analysts say L'Oreal is paying the price for years of stingy spending on advertising, which has caused it to lose market share.

L'Oreal's strategic shift, which includes increasing advertising, began to show some good effects in the third quarter. Garnier Essentials, a new line of low-priced lotions costing less than €5, helped the mass-market consumer products branch to be the only division posting sales growth, up 3.2%. The strongest demand came from emerging markets including Brazil and India, though L'Oreal also grew and gained market share in the U.S., according to Mr. Agon.

"We've seen good acceleration in growth in the consumer division," Mr. Agon said. However, L'Oreal lost market share in Europe, where L'Oreal is facing stiff competition from cheap private label products, Mr. Agon said.

At the opposite end of the spectrum, the luxury-products division of Armani perfumes and Lancome skincare continued to decline, down 5.4%.

L'Oreal's hair salon business, which Mr. Agon regards as the group's most accurate economic indicator, narrowed its sales decline in the third quarter compared with the first half of the year.

A new ammonia-free hair dye, Inoa, has helped L'Oreal win new business with salons, the company said.

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Adecco cites firmer jobs market

Staffing titan's profit sinks 46%, but demand for blue-collar workers limits drop

By Goran Mijuk

ZURICH–**Adecco** SA's third-quarter net profit fell 46%, but the world's largest temporary-employment company said Thursday that a pickup in demand for blue-collar workers in the U.S. and France helped limit the earnings decline.

The result raised hopes that global employment markets could recover slowly after months of persistent weakness that has catapulted jobless rates to record levels and has triggered concerns that hiring will remain low even as the global economy moves out of recession.

Although the Zurich-based company's net profit fell to €90 million ($134 million) from €168 million a year earlier, the result easily beat analysts' calls for a bottom-line result of €50 million as Adecco was able to cut costs and slow the steep sales decline of the past.

While sales still dropped 27% to €3.72 billion, the decline was less severe than in previous quarters when revenue fell more than 30% amid sluggish job demand in the U.S., France and Germany.

"We are very pleased with the evolution of the market [in the U.S. and France]...and our cost-cut efforts", said Chief Executive Patrick de Maeseneire. He added that the improving market trend has continued into October.

The company said demand has risen for the temporary placement of industrial workers in the U.S. and France, two key markets for Adecco that generate more than half of the company's annual revenue.

In the U.S., sectors such as car manufacturing, transport and telecommunications increased hiring, Adecco said. In France, the automotive, chemical and transport sectors increased temporary hiring.

Analysts and investors welcomed the results as a first signal of a potential job-market turnaround but warned that the coming quarters will remain challenging, as some market segments are still weak.

Demand for permanent placements, meanwhile, remained slow, as did the hiring of specialized workers such as lawyers, financial advisers and medical staff. However, the company suggested that these professional-staffing segments could improve at a later stage.

"Demand for professional-staffing services as usual is expected to pick up later in the cycle," said Chief Financial Officer Dominik de Daniel. Adecco declined to make a specific forecast for the turnaround of this market segment.

Many economists in the U.S. are concerned that the jobless rate will remain close to 10% in the months to come even as the U.S. economy is growing again because companies will continue to curb costs and consumers will limit spending.

Similar fears exist in Europe, where jobless rates are expected to rise through 2010 as many companies that have introduced short-time working hours are expected to return to normal working hours before hiring new staff.

Zürcher Kantonalbank analyst Marco Strittmatter shared this view and said Adecco will have to pay close attention to costs as pricing pressure will remain high. Adecco's closest competitors—including the world's No. 2, Manpower Inc., and Randstad Holding NV, the third-largest staffing company by sales—have already warned that margins would stay depressed. Adecco said it would continue to reduce costs.

Bloomberg News

An Adecco branch in Zurich. The firm pointed to rising demand for temporary industrial workers in France and the U.S.

Europe telecoms post higher net, back forecasts

By Archibald Preuschat And Giada Zampano

Major European telecommunications companies Deutsche Telekom AG and **Telecom Italia** SpA posted higher third-quarter earnings and confirmed their forecasts.

Still, the results weren't without their weak spots; guidance for 2010 was patchy and much of the improved performance came amid sharp cost cutting.

Deutsche Telekom posted a 7.2% rise in its third-quarter net profit to €959 million ($1.4 billion), up from €895 million a year earlier. Revenue rose 5.2% to €16.26 billion. The results were boosted by the consolidation of Greece's Hellenic Telecommunications Organization as well as tight cost control, but the U.S. remained a weak spot.

T-Mobile USA's subscriber base shrank by 77,000 in the quarter to 33.42 million, the first time it has lost customers since it entered the market at the start of the decade. Revenue at the unit was down to $5.38 billion from $5.51 billion.

Telecom Italia, meanwhile, agreed to sell its German broadband unit Hansenet to Spain's Telefónica in a €900 million deal.

Telecom Italia reported a third-quarter net profit of €741 million, up from €626 million a year earlier, despite a 5.6% fall in revenue to €6.7 billion

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ITV projects ad revenue will edge up in December

By Kaveri Niththyananthan

LONDON—**ITV** PLC, the U.K.'s largest commercial-television broadcaster, forecast its first expected rise in advertising revenue in nearly two years, for December.

"Whilst our visibility is limited, the outlook for the fourth quarter has continued to improve and ITV is continuing to outperform the market," Chief Operating Officer John Cresswell said. "With further cost savings and a strong schedule in 2010, including the World Cup, we are confident that ITV is well-positioned to benefit from any market recovery," he added.

For the whole of 2009, net advertising revenue is expected to be down 12% from the previous year. However, ITV expects net advertising revenue to be up 4% in December, after a 3% drop in October and a 1% decline in November. That would mark the first increase since the first quarter of 2008, according to RBS analyst Paul Gooden.

Mr. Cresswell said the expected December rise was skewed by favorable comparisons and it was too early to say if positive advertising trends would continue.

The U.K.'s largest terrestrial commercial broadcaster by sales saw revenue and profit dive as companies cut back on advertising and rates tumbled amid the credit crunch and economic downturn. The company has also faced increased competition from online and digital outlets and regulatory pressures.

ITV also has had to contend with management succession crisis. On Thursday ITV said it continues to search for a nonexecutive chairman, a role it has been struggling to fill since Michael Grade announced his departure earlier this year. Only once that role is filled can ITV appoint a new chief executive.

The original front-runner for CEO was Simon Fox, head of HMV Group Ltd. Tony Ball, the former head of British Sky Broadcasting Group PLC, was also mentioned but his bid for the job collapsed in September.

ITV's succession woes later intensified as candidates for the chairmanship, former Reed Elsevier Chief Executive Crispin Davis and Michael Bishop, former head of Channel 4, pulled out of the running.

ITV said Thursday that revenue fell 11% in the first nine months of the year to £1.31 billion ($2.2 billion) from £1.47 billion a year earlier. Online and external revenue from ITV Studios were the only areas where revenue increased.

The company said it is on track to deliver £155 million of savings in 2009 and has strengthened its balance sheet by repaying £75 million of its existing £125 million loan following its convertible-bond issue in October.

Separately, U.K. communications regulator Ofcom Thursday said Terry Burns had been appointed the next chairman of Channel 4, which operates under government license. Lord Burns, 65 years old, succeeds Luke Johnson, who retires Jan. 27.

—Adrian Kerr contributed to this article.

ECONOMY & POLITICS

Mozambique emerges as diamond hub

International regulator assigns monitor to neighboring Zimbabwe in an effort to curb rampant smuggling

BY SARAH CHILDRESS

MANICA, Mozambique—This dusty border town in southern Africa has become a major hub for trading rough diamonds, but there is a problem: Mozambique doesn't produce any of the sparkling stones.

The diamonds come from neighboring Zimbabwe, smuggled illegally along a pipeline that Mozambican officials say they are powerless to stop.

But the Kimberley Process, an international regulatory body that polices the diamond trade, decided Thursday at a meeting in Namibia not to suspend Zimbabwe's membership. So the country will be allowed to keep saying its diamonds are conflict-free. Earlier this year, regulatory body investigators documented human-rights abuses by the Zimbabwean military against diamond miners in some fields, which the military and government have denied.

Thursday's meeting decided to assign a Kimberley monitor to Zimbabwe to supervise the country's production of diamonds, according to a participant. The Kimberley Process will also impose a rolling timeline for reforms.

Because the group didn't rule against Zimbabwe, the country will maintain its Kimberley certification, an internationally recognized stamp of approval sought by middlemen, retailers and consumers as a way of avoiding so-called blood diamonds—gems mined amid violence, sold to fund conflict, or both.

Even if the certification had been withdrawn, however, the rampant smuggling through Mozambique, could undermine any sanctions the Kimberley Process put on Zimbabwe. The smuggling route is complicating regional efforts to clean up the image of African diamonds.

Other nearby Kimberley Process members—such as Botswana, South Africa and Namibia—have been at pains to assure consumers that their own gems are conflict-free. Smuggled Zimbabwean stones can be sold as if they came from some of these neighbors, confusing buyers who might stay away from Zimbabwean stones no matter what Kimberley officials rule this week.

Prior to Thursday's meeting, Murisi Zwizwai, Zimbabwe's deputy mining minister, declined to comment on allegations made by the Kimberley Process, including complicity in the smuggling trade. "Our diamonds are not blood diamonds," he said.

Starting late last year, the Zimbabwean military and police moved into diamond fields near the Mozambican border. Zimbabwe said the operation was aimed at relocating hundreds of thousands of artisan miners who had swarmed the region.

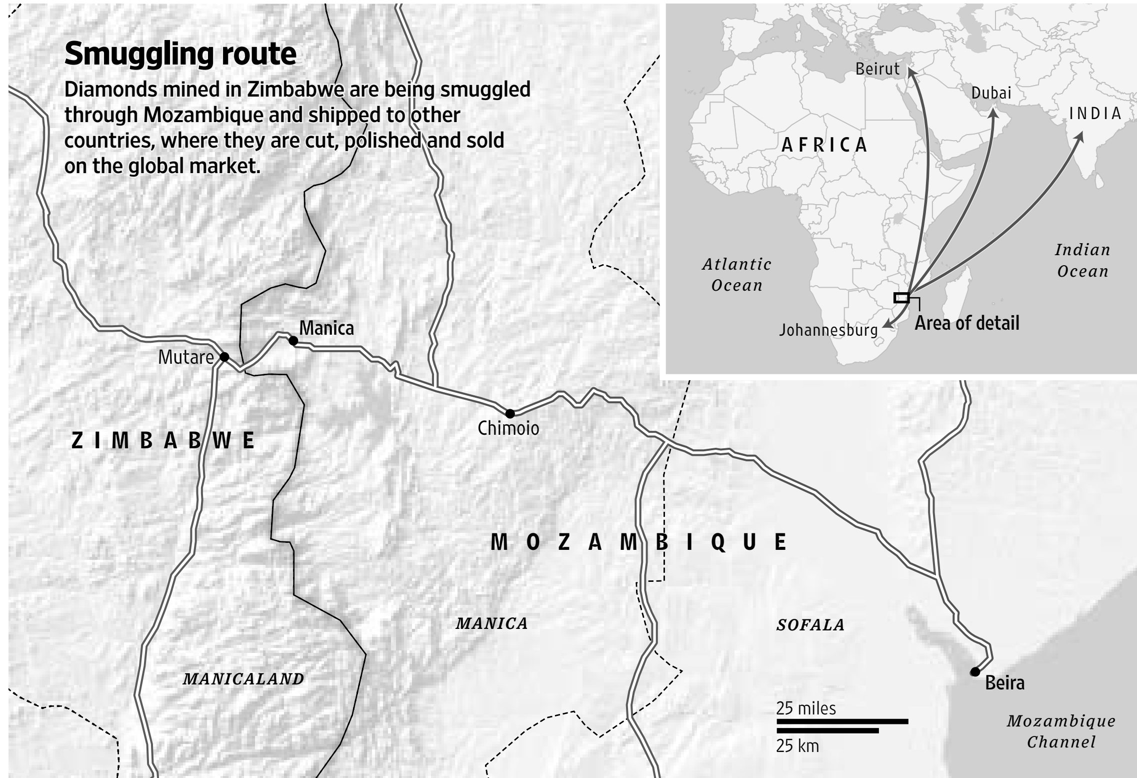
But human-rights groups said the authorities forced miners to dig for the benefit of senior government officials or military commanders under the threat of violence, allegations the government has denied.

Many of these stones are smuggled across the border, Mozambican officials say. Here, middlemen resell them to dealers, who then ship them out of Mozambique to be cut, polished and sold on the world market.

It is difficult to know how many diamonds are being smuggled through Mozambique. Kimberley Process investigators said that according to government statistics, 59% of Zimbabwe's production in 2008 wasn't exported through official channels.

Pedro Jemusse, a Mozambique district police spokesman in the provincial capital of Chimoio, about an hour away from Manica, said it is hard to crack down on the trade because foreign buyers usually have appropriate immigration papers, and it is difficult to catch smugglers in the act.

Mr. Jemusse also acknowledges police and border guards can be bribed. The first point of sale for rough Zimbabwean diamonds is Manica, according to interviews with the Mozambican government, police and border officials, as well as some diamond buyers.



Diamond traders from Lebanon, Israel, Somalia and West African nations like Nigeria and Guinea have flocked to the town, dotted with traditional mud-and-stick homes. Driving shiny new cars, they rent elaborate, freshly constructed houses, painted in pastels.

Zimbabweans and Mozambicans carry rough stones across the border checkpoint near Manica. They hide them in their mouths or in bandages wrapped around their legs.

One Mozambican man who lives in Zimbabwe said he walks across the border nearly every day, introducing Zimbabwean diamond sellers to mostly Lebanese buyers, who wait on the shaded terrace of the Flamingo Restaurante and Bar. Marked by a giant white flamingo signboard along one of Manica's main streets, it is one the town's best-known spots for meeting black-market diamond dealers.

On a recent afternoon, several men gathered around a plastic lawn table at another fixture of the smuggling route, the Manica Lodge, holding up stones to the light. Deals range from a paltry $1 a carat to $3,000 or $4,000 a carat for a good stone. One buyer said that they can make as much as $100,000 a month in the trade here.

Around midnight on a recent Friday at Coquiero, a popular nightclub outside town, three locally well-known Lebanese diamond buyers settled into the red couches in the VIP lounge, mixing vodka tonics from a bottle of Smirnoff on the mirrored tabletop. They scrolled through their BlackBerrys as they checked out girls on the dance floor.

One of the buyers told a reporter that he and his companions had been buying diamonds for the past one or two years, but said they weren't doing anything wrong. "I'm just trying to make a living," he said.

—Farai Mutsaka in Harare contributed to this article.

Reform effort took clear path after 'window dressing'

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 German Communists embarked on a desperate attempt to retain control of the country yesterday even as the movement to reunify Germany gained remarkable momentum—perhaps too much momentum, say worried U.S. officials," the Journal wrote in its Nov. 9, 1989, edition.

East and West
As the Berlin Wall Fell

The nation's Communist Central Committee had purged half of the ruling Politburo and added new members more sympathetic to the reform movement. "But the moves... appear to be mostly window dressing: Egon Krenz, the party leader, is still in power and the political complexion of the Politburo was not appreciably altered," the Journal wrote. "Most East Germans, as well as many western analysts, therefore believe the country's reform movement and attendant mass demonstrations, may actually be spurred, not quelled, by the developments."

In the U.S., the Bush administration feared upheaval was progressing so rapidly that it might lead to a "premature and dangerous form of reunification." Upon news of the Politburo's revamp, one diplomat in West Germany admitted, "We consider ourselves pretty well plugged in, but events are occurring at a pace that even we can't track." West Germany, meanwhile, stepped up its call for reunification.

Meanwhile, "in a scene that would have been unimaginable a few weeks ago," hundreds of people debated the future of their country outside the Community Party's headquarters in East Berlin, the Journal wrote. One student standing in front of the massive government building pointed toward a video camera on the roof and said: "They are watching us. But this time, the whole world is watching, too."

WSJ.com

WSJ.com wants to publish your personal photos and stories on the 20th anniversary of the fall of the Berlin Wall. Please send submissions to **berlinwall@wsj.com**

Associated Press

Berlin Shake-Up

Purge of Hard-Liners In East Germany Stirs Unification Hope, Fear

U.S. Wants Europe's '92 Plan In Place First, but Events Move at Unexpected Pace

Street Debates on the Future

By TERENCE ROTH And WALTER S. MOSSBERG
Staff Reporters of THE WALL STREET JOURNAL

East German Communists embarked on a desperate attempt to retain control of the country yesterday even as the movement to reunify Germany gained remarkable momentum—perhaps too much momentum, say worried U.S. officials.

In the latest convulsion in the political crisis sweeping East Germany, the coun-

At left, demonstrators hold a sign that reads, 'Who lies once cannot be trusted.' At right, a Nov. 9, 1989, Wall Street Journal article.

Switzerland debates role of Islam in society

Referendum to be held on building minarets on nation's mosques

By Deborah Ball And Anita Greil

ZURICH—An emotional debate over the role of Islam in Switzerland is heating up as a referendum approaches that would ban the construction of minarets on mosques.

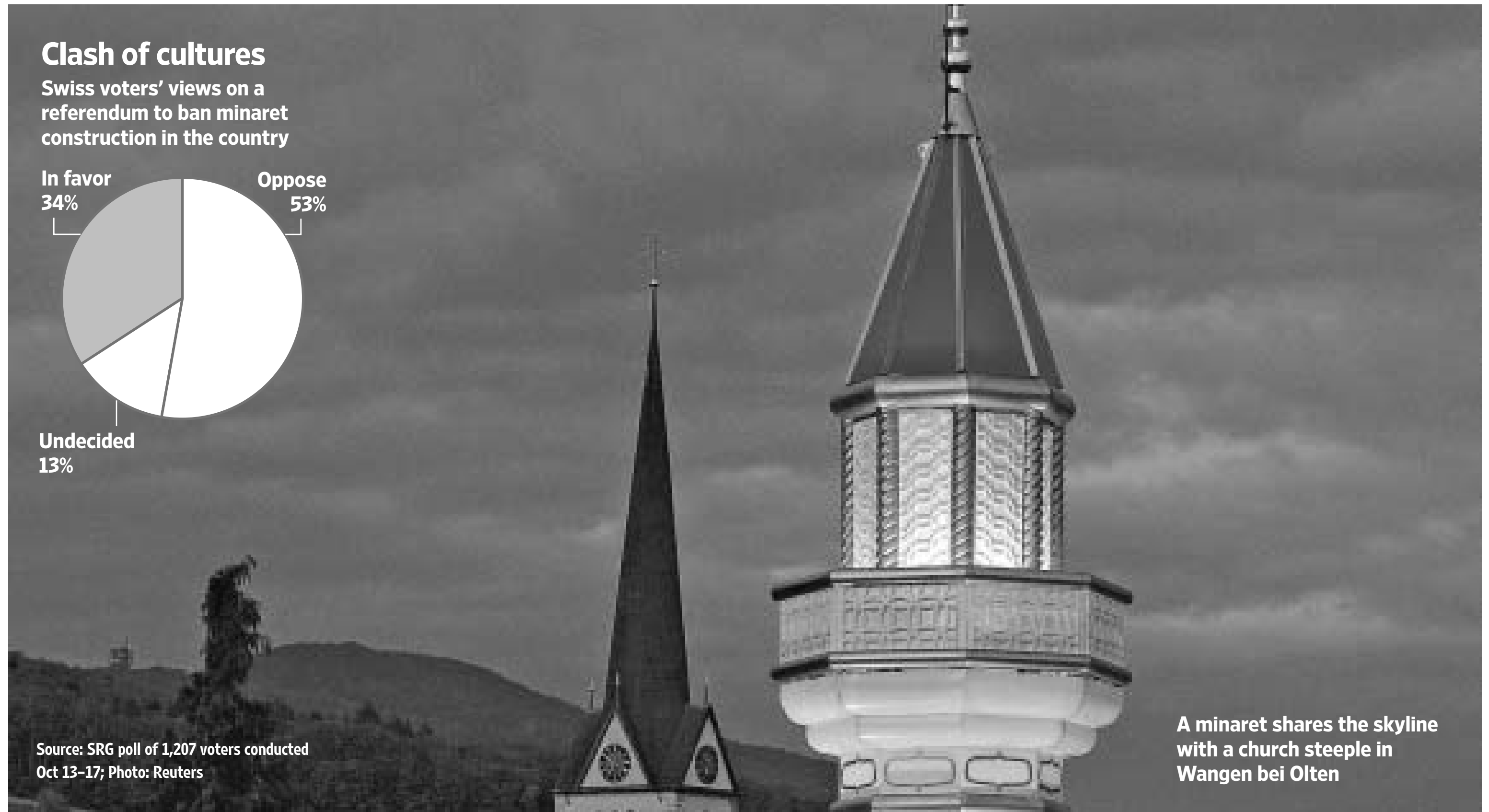
On Nov. 29, the Swiss will vote on a referendum to ban the construction of minarets, an initiative promoted by the right-wing Swiss People's Party, who argues that a minaret is a symbol of Islamic intolerance. Minarets are tower-like structures capped with crowns; while the structure has no special religious significance, it is often used for the call to prayer for Muslims.

The debate comes in a country that has prided itself on integrating its large immigrant population and that largely avoided the clashes over the rights of Muslim minorities seen elsewhere in Europe. Business and political interests are especially worried about a possible backlash from the Muslim world.

For example, Swiss watchmaker **Swatch Group** Ltd. is worried that its relations with Muslim countries—an important destination for its goods—will be imperiled if the initiative passes. "The brand 'Swiss' must continue to represent values such as openness, pluralism and freedom of religion," said Hanspeter Rentsch, member of the executive group management board at Swatch. "Under no circumstances must it be brought in connection with hatred, animosity towards foreigners and narrow-mindedness."

The Swiss People's Party gathered twice the required signatures needed to call a vote. Its campaign used posters depicting a woman in a burqa in front of a row of minarets shaped like missiles. Some cities, such as Basel, have banned the posters, while Zurich and others have allowed them in the name of free speech.

The party, the country's largest political group and a fierce critic of immigration, drew international criticism for a campaign poster two years ago showing a white sheep kicking a black sheep out of Switzerland.



Source: SRG poll of 1,207 voters conducted Oct 13–17; Photo: Reuters

A minaret shares the skyline with a church steeple in Wangen bei Olten

A national poll by state-owned media group SRG shows that 53% of voters oppose the ban and 34% support it. Muslim leaders, who have taken a low-key approach to the controversy, are nonetheless worried.

"This initiative gives a message that Muslims are not welcome here," says Elham Manea, a lecturer in political science at the University of Zurich. "If it passes, it raises the possibility of radicalization of some young people. It would be a big disappointment."

Some say that even defeating the referendum won't dissolve the tension. "It won't end with this," says Hisham Maizer, head of the Federation of Islamic Organizations in Switzerland. "The debate about Islam in Switzerland has just begun."

The controversy is unusual in a country where 20% of the population are counted as foreigners, and which has taken a pragmatic approach to integrating its immigrants. About 400,000, or roughly 5%, of Swiss residents are Muslim. Most are of Turkish or Balkan origin, with a small minority from the Arab world.

According to a government poll in 2000, less than 15% of Swiss Muslims actively practice their faith. Indeed, only four of the roughly 150 mosques in Switzerland have minarets. Laws against sound pollution forbid mosques from using minarets to hold speakers for the call to prayer.

Controversies have erupted in Switzerland over Muslims' place in society in recent years, but haven't been nearly as incendiary as in France or the Netherlands. In 2004, the demand of a cashier at Swiss supermarket chain Migros to be permitted to wear a headscarf at work sparked debate, but when Migros and a rival, Coop, set a policy banning headscarves for employees who deal with the public, the controversy faded.

Lately, however, conservative Muslims have pushed for greater recognition of their faith. One group has successfully appealed to Swiss courts to allow parents to dress their children in full-body swimming suits during co-ed lessons.

The Swiss government has come out strongly against the minaret referendum, fearful of a radicalization of Muslims at home and reprisals against Swiss interests abroad. A yes vote "could make Switzerland a target for Islamic terrorism," said Foreign Minister Micheline Calmy-Rey.

Swiss diplomats are working to reassure their counterparts in Muslim countries that Bern opposes the initiative. A working group is also monitoring the media in those countries for signs of backlash. So far, Bern hasn't detected a rise in anti-Swiss sentiment, according to one official.

Swiss businesses, many with large interests in Muslim countries, have come out against the referendum, for fear of a boycott like one that hit Denmark in 2005 following a controversy over published cartoons of the prophet Muhammad.One possible target of anti-Swiss sentiment is food giant **Nestlé** SA, which has about 50 factories and 5.5 billion Swiss francs ($5.36 billion) of sales in Muslim countries, has declined to take a stance on the referendum.

According to Economiesuisse, Switzerland's main business association, about 7% of Switzerland's total exports go to predominantly Muslim countries. In 2008, those exports rose 14%, compared with a rise in overall Swiss exports of 4.3%. Switzerland is still bruised from an ongoing spat with Libya that led that e North African country to cut off oil exports to Switzerland for a time.

"The possible economic impact must not be used as a way to kill this debate," said Martin Baltisser, general secretary of the Swiss People's Party. "A backlash against Swiss foreign economic relations has been exaggerated."

Turkey says it won't arrest Sudan president during visit

Turkey will receive Sudanese President Omar Hassan al-Bashir next week and has no plans to arrest him, despite his indictment by an international court for war crimes in Sudan's Darfur region, senior Turkish officials said Thursday.

*By **Nicholas Birch** in Konya, Turkey, and **Sarah Childress** in Nairobi, Kenya*

Turkey, a member of the North Atlantic Treaty Organization, will be the most Western country Mr. Bashir has been able to visit since the International Criminal Court in The Hague issued a warrant for his arrest in March. The senior Turkish officials, who declined to be identified, said the warrant wasn't binding on Turkey as it isn't a signatory to the ICC. They also said an arrest could upset the peace process in Darfur.

Mr. Bashir has visited Turkey twice in the past three years, triggering debate within Turkey over the propriety of hosting him each time. Next week's visit would also come less than a month after Ankara canceled routine military exercises with Israel, triggering concerns that Turkey is shifting its focus from long-term allies in the West to neighbors in the Middle East. The government has denied any such strategic shift.

Turkey has also been pushing to secure entry to the European Union.

Analysts say Ankara's latest welcome for Mr. Bashir is as much about economic interests as ideology. Since 2006, trade volume with the African continent has tripled to $18 billion from $6 billion. In February, President Abdullah Gül became the first Turkish president to pay an official visit to sub-Saharan Africa when he visited Kenya and Tanzania. "The Turkish Republic will be the spokesman for Africa at the U.N.," Mr. Gül said, referring to Ankara's new nonpermanent seat on the 20-seat United Nations Security Council.

Hassan al-Bashir Omar

Turkish interest in Sudan's fast-growing economy has been particularly high. During a visit to Khartoum in October, Turkish Minister of Agriculture Mehdi Eker said trade volumes between the two countries had quadrupled over the past three years. "But that is not enough. Sudan must become a strategic partner for Turkey," Mr. Eker said.

Turkish businessmen close to the ruling Justice and Development party, or AK party—which has its roots in political Islam—are at the forefront of efforts to increase trade with mainly Muslim Sudan.

One company employs 1,100 workers in factories in Khartoum that provide uniforms to the Sudanese army. Another is building the Sudanese capital's tallest skyscraper, the 29-story National Telecommunication Corporation tower. Turkish companies are also lobbying hard to win an estimated $1.5 billion contract to build a new international airport in Khartoum.

"Turkey has an active Africa policy and Sudan is an important African country," says Soli Özel, a leading Turkish foreign-policy analyst. "I think [the government] believes it can get away with what is essentially an immoral approach towards Khartoum."

Mr. Bashir's prosecution has also divided the U.S. and Europe from the Arab world and much of Africa. The African Union, currently headed up by Libyan President Moammar Gadhafi, in July called for members to defy the ICC's arrest warrant, in part because the ICC had declined an African Union request to defer the case. Only a few African countries, including Uganda, South Africa and Botswana, have indicated that they would honor the warrant.

So far Mr. Bashir has played it safe, avoiding travel to prominent events in Uganda and South Africa. But he received a warm welcome in Qatar at the Arab League summit shortly after the warrant was issued. Qatar, like the U.S. and Turkey, isn't a signatory to the ICC, but still could have chosen to act on the warrant. At the meeting, the league issued a statement supporting Mr. Bashir and rejecting the warrant.