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Bank bonuses make a comeback

Major U.S. financial firms on track to pay employees about $140 billion this year

By Aaron Lucchetti
And Stephen Grocer

Major U.S. banks and securities firms are on pace to pay their employees about $140 billion this year, a record high that shows how fast compensation is rebounding despite regulatory scrutiny of Wall Street's pay culture.

According to an analysis of securities filings for the first half of 2009 and revenue estimates through year end by The Wall Street Journal, workers at the investment banks, hedge funds, asset managers and stock and commodities exchanges can expect to earn even more than they did in 2007. That was the peak year for the stock market, and Wall Street earnings hadn't yet been battered by the financial crisis that pushed some firms into bankruptcy and left the survivors with sharply lower compensation in 2008.

Barring a reversal of the surge in trading, investment banking and other businesses that is expected to be on display as major financial firms report third-quarter results this week, total compensation and benefits at the 23 publicly traded firms analyzed by the Journal are on track to increase 20% from last year.

The rebound also reflects growing confidence by Wall Street firms that they can again pay top dollar to attract or keep valued employees, especially once they have paid back the taxpayer-funded capital infusions that helped keep them going during the worst of the crisis. So far, regulators and lawmakers have focused largely on making sure pay practices discourage excessive risk-taking, leaving the question of how much is too much to companies.

The Journal's analysis includes banking giants **J.P. Morgan Chase** & Co., **Bank of America** Corp. and **Citigroup** Inc., securities firms such as **Goldman Sachs Group** Inc. and **Morgan Stanley**, asset managers **BlackRock** Inc. and **Franklin Resources** Inc., online brokerage firms **Charles Schwab** Corp. and **Ameritrade Holding** Corp. and exchange operators **CME Group** Inc. and **NYSE Euronext** Inc.

Business has returned to usual in many parts of Wall Street. Firms still feel compelled to pay large sums, often 50% of their revenue or more, in order to keep the peo-

Please turn to page 31

Paul O'Driscoll for The Wall Street Journal

Czech Prime Minister Jan Fischer, left, supports the Lisbon Treaty, unlike his president, Vaclav Klaus. After meeting Mr. Fischer, European Commission President José Manuel Barroso, right, was warning that Mr. Klaus's opposition could bring consequences.

Barroso pressures Czechs on Lisbon

By Stephen Fidler

BRUSSELS—The head of the European Commission sought to increase pressure on the Czech Republic to ratify the Lisbon Treaty so that the agreement to overhaul the 27-nation European Union can come into force by year-end.

Following Ireland's ratification of the treaty in a referendum on Oct. 2 and Poland's ratification over the weekend, the Czech Republic and its president, Vaclav Klaus, are the only obstacles in the

Please turn to page 31

Moody's questions losses at Spanish banks

By Thomas Catan
And Christopher Bjork

MADRID—Spanish banks are failing to recognize the true scale of their losses during the deep slump in Europe's fifth-largest economy—something that could hamstring the sector's growth for years, Moody's Investors Service said Tuesday.

In a report, the credit-rating firm said Spanish financial institutions weren't setting aside enough capital to cover surging bad loans. Moody's said the banks set aside less than half the €108 billion ($159.65 billion) in loan losses it estimates they will suffer during the course of the downturn. At the current rate they are provisioning, it would take Spanish banks five years to fully cover those losses, it said.

"We remain concerned that many banks appear to be avoiding recognizing the true scale of the asset quality deterioration in their books, which could result in the banking sector remaining weak unless this is addressed more decisively," said María Cabanyes, lead Spanish banking analyst at Moody's.

Spanish banks deny they are concealing any losses. A spokeswoman for Spain's banking association said its members, which include Spain's listed banks, continued to report strong earnings and had moved to bolster their capital. She added that the Bank of Spain had performed stress tests on the banks and hadn't detected any irregularities.

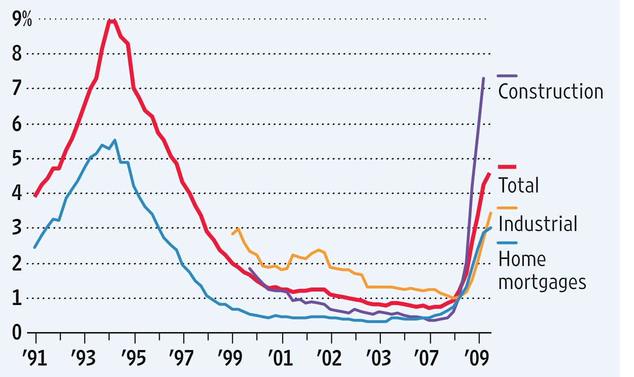
An official at the Bank of Spain said the Spanish regulator "certainly doesn't allow banks to hide any losses, and will continue to act with rigor."

Spanish banks have emerged reasonably intact from the first phase of the crisis, largely thanks to tight regulation by the Bank of Spain. The Spanish regulator steered them away from "toxic" financial instruments and forced them to build up big capital cushions to cover losses in a downturn.

However, an economic downturn in Spain is fast eroding those buffers as

Please turn to page 31

Bad loans | Spain's non-performing loan ratio



Source: Bank of Spain

What's News

China and Russia signed bilateral trade agreements and healed relations during Putin's visit to Beijing, but made no breakthrough on protracted negotiations to forge an accord for Russia to supply gas to China. Page 4

■ **Russia and the U.S.** agreed, during Clinton's visit to Moscow, that it is too early to consider tougher sanctions on Iran. Page 4

■ **The pound came under** new pressure after Britain's annual inflation rate slumped to a seven-year low in September. Pages 2, 32

■ **U.S. stocks ended** little changed for a second consecutive session, while European shares declined. Page 18

■ **U.K. union leaders said** they reached a deal with Magna that offers improved prospects for GM's two Vauxhall auto plants. Page 8

■ **Cisco agreed to acquire** wireless-gear maker Starent for $2.9 billion, the latest deal in the rapidly consolidating tech industry. Page 8

■ **Iraq said** several firms that rejected terms in the nation's first auction for oil-field rights have dropped demands for higher payouts. Page 5

■ **Britain diluted proposals** to force major airport operators to shore up their balance sheets. Page 6

■ **UBS Global's veteran head** of Europe, Middle East and Africa is leaving as part of a restructuring. Page 17

■ **Romania's government fell** in a parliamentary vote, making it harder to meet the IMF's loan demands. Page 10

■ **A Dutch lawmaker won** a legal battle to be allowed into Britain, having been banned over fears he would provoke Muslim protests. Page 10

■ **Brown will announce** Wednesday the U.K.'s likely deployment of about 500 more troops to Afghanistan. Page 5

■ **Pakistani jets bombed** militant targets along the Afghan border ahead of an expected ground offensive there.

■ **Police detained** two more North African suspects in a bomb attack on a Milan army barracks that injured a guard.

■ **A Russian court ruled** against Stalin's grandson in a libel suit over a newspaper article that said the dictator sent thousands to their deaths.

EDITORIAL&OPINION

Tajik Dark Ages
Banning the bulb in one of the world's poorest countries. Page 11

Breaking news at europe.WSJ.com

Inside

Tax write-off
U.S. shelves a plan to change how to treat overseas assets
News in Depth, pages 14-15

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9871.06	-0.15
Nasdaq	2139.89	+0.04
DJ Stoxx 600	241.94	-0.98
FTSE 100	5154.15	-1.08
DAX	5714.31	-1.19
CAC 40	3801.39	-1.15
Euro	$1.4825	+0.11
Nymex crude	$74.15	+1.20

THE WALL STREET JOURNAL.

LEADING THE NEWS

Low U.K. inflation drags the pound down

A weak reading gives Bank of England room to keep interest-rates low and to continue quantitative easing

By Natasha Brereton And Katie Martin

LONDON—The pound came under new pressure Tuesday after Britain's annual consumer-price inflation rate slumped to a seven-year low in September, indicating that the Bank of England will keep interest rates down for an extended period.

The U.K. currency hit a fresh six-month low against the euro and a four-month low against the dollar after data showed consumer prices rose 1.1% in September from a year earlier, below economists' expectations for a 1.3% rise. Prices were flat on a month-to-month basis, below expectations for a 0.3% rise.

The news pushed the euro higher to more than 94 pence for the first time since March, closing the European day at 93.36 pence. The pound sank by a similar degree against the dollar to trade at an intraday low of $1.5718, before ending the day at $1.5883.

Many economists said September's inflation reading will probably be the lowest point in the data for now. But some still believe the BOE could all the same announce a further extension of its £175 billion ($277 billion) quantitative-easing policy of buying bonds with freshly created central-bank money at its meeting in November, when it will also have its new forecasts for inflation and growth.

"The current environment is the best of bad circumstances for the Bank of England," said Simon Derrick, a senior currencies analyst at the Bank of New York Mellon.

"There are no signs of rising inflation. Sterling is falling, but not collapsing. Therefore the Bank of England can use all the tools it has to keep things as accommodative as possible for as long as possible," he said.

Indeed, Charlie Bean, the bank's deputy governor for monetary policy, said the central bank will at some stage have to gradually start removing policy stimulus to prevent inflation overshooting its 2% medium-term target.

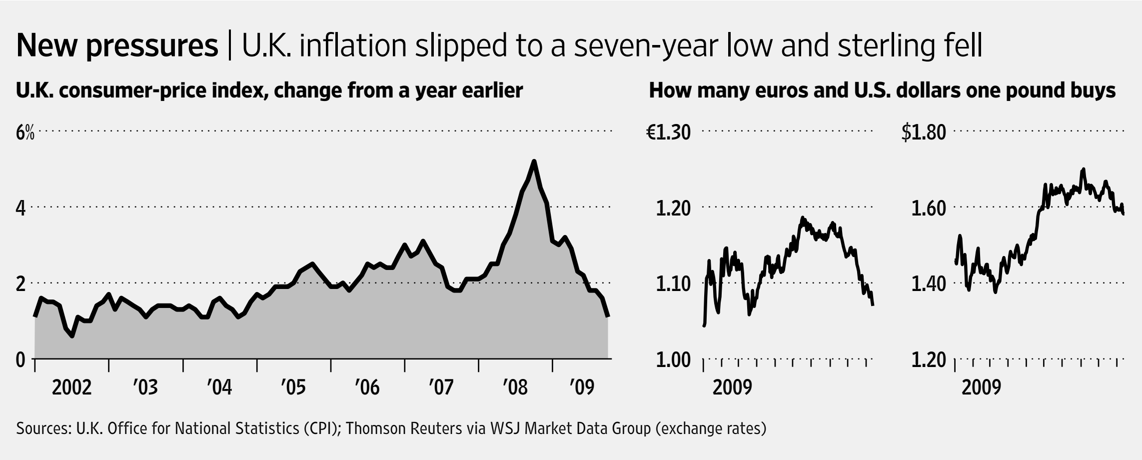
In a speech to accountants Tuesday that dealt heavily with the technicalities of the bank's unconventional bond-buying policy, Mr. Bean said the fund is currently making a profit, but that it is "quite plausible" that the asset purchase facility could end up in deficit by its conclusion.

But any costs or profits from the scheme can't be used to assess the effectiveness of the £175 billion quantitative-easing policy, since they won't accurately reflect the overall impact on the public sector by, for example, pushing down the cost of debt repayments and benefit payments and increasing tax receipts by boosting economic output, he said.

"Gilt price movements necessarily all wash out once the public accounts are compiled on a consistent basis, at least so long as the assets are retained within the public sector. We do not, however, expect to retain all the purchased assets in the asset purchase facility to maturity," Mr. Bean said.

"At some stage, as the recovery proceeds, the Monetary Policy Committee will need gradually to remove the large monetary stimulus that we have imparted to the economy, otherwise we will be in danger of overshooting our 2% inflation target," he said.

A fall in the inflation rate to below 1.0% would require BOE Governor Mervyn King to write an explanatory letter to the government, although the monetary policy committee has said it expects inflation to start rising again from October.



New pressures | U.K. inflation slipped to a seven-year low and sterling fell

Sources: U.K. Office for National Statistics (CPI); Thomson Reuters via WSJ Market Data Group (exchange rates)

Economic data show euro-zone recovery could be bumpy

By Geoffrey T. Smith And Terence Roth

MANNHEIM, Germany—Reports from some of the euro zone's biggest economies underscored warnings that the region's path to economic recovery could be laced with setbacks.

Economic expectations in Germany fell in October for the first time in four months, according to a survey of investors published by the ZEW research institute.

Also Tuesday, Germany's machinery and engineering companies now expect 2009 production to drop by a fifth from 2008 levels in the key industry sector, costing 60,000 jobs.

In France, another fall in consumer prices indicated that companies still lack pricing power. Another drop in Spanish house prices showed that a recovery in the once-buoyant sector from its 2008 collapse remains elusive.

The data supported predictions from the European Central Bank and other euro-zone policy makers that the 16-nation economy faces a long, bumpy recovery, despite signs of returning to growth in the third quarter.

Germany's ZEW institute said its latest survey reflects the prevailing opinion that the economy will improve only slowly.

The ZEW economic expectations index fell 1.7 points, to 56.0 points from 57.7 points in September. Economists had forecast the expectations index to be unchanged from the previous month.

"We have mixed signals from the real economy concerning industrial production, exports and so on, and I think this is reflected in the indicator," said ZEW senior economist Peter Westerheide.

The VDMA German industry group for machinery and plant builders said production is expected to fall 20% this year, but VDMA expects a return to mild growth sometime in 2010.

French consumer prices fell 0.2% in September, reversing a 0.5% increase the previous month, pulled by declining energy and services costs, state statistics office Insee said. Consumer prices fell 0.4% from September a year ago, making the fifth straight month of lower prices from the previous year.

Spanish home-sales transactions fell in August after rising in the three preceding months, as the summer holiday caused a drop in activity, data from Spain's National Statistics Institute showed.August home sales fell 8.2% from July, and were down 9.9% from August 2008. Sales activity is usually weak in August because many Spaniards take the month off as vacation.

The Spanish market has shown signs of stabilization in recent months, though economists point out that housing starts continue to decline sharply, depressed by huge numbers of unsold homes.

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

LEADING THE NEWS

Skilling's appeal advances

Top U.S. court agrees to review conviction of former Enron CEO

By John R. Emshwiller

The one clear-cut courtroom victory from the Justice Department's Enron Corp. investigation was called into question Tuesday when the U.S. Supreme Court agreed to hear the appeal of former company Chief Executive Jeffrey Skilling, who is trying to overturn his 2006 fraud conviction and 24-year prison sentence.

The justices agreed to look at two issues in the Skilling appeal. Both could have broader repercussions in criminal cases, say legal observers. One has to do with the government's contention that Mr. Skilling violated his legal obligation to provide "honest services" to Enron shareholders because he lied to the public about the energy-trading company's financial condition before it collapsed into bankruptcy in December 2001. Mr. Skilling's attorneys maintained that prosecutors misapplied the honest-services statute, arguing that their client hadn't lied and had done nothing to cheat Enron or its shareholders.

The second issue involves Mr. Skilling's claim that he wasn't able to get a fair trial in Houston, site of Enron's headquarters, because of anger in the community over the company's collapse.

Daniel Petrocelli, Mr. Skilling's lead attorney, said the Supreme Court's decision means the defense "will finally get an opportunity for a full, frank and fair hearing" of issues that led to "Jeff's wrongful conviction." The Justice Department declined to comment.

The Supreme Court earlier accepted for review another appeal related to corporate honest-services fraud. That case involves the conviction of former Hollinger International Inc. Chairman Conrad Black. Oral arguments in Mr. Black's Supreme Court case are scheduled to take place in December. No date has been set for oral arguments in the case of Mr. Skilling, who is in federal prison in Colorado.

The question of what constitutes honest-services fraud has been a topic of debate in legal circles. "The lack of clear guidance" on the statute "has been a problem in this area of criminal law for years," said Mark Biros, a former federal prosecutor and now a partner in the Washington office of Proskauer Rose LLP. "It would be helpful to everyone if the Supreme Court steps in and gives more guidance."

Mr. Biros said the court might be considering treating the Skilling and Black appeals as "companion" cases. The justices could use the two cases to provide a broader interpretation of the honest-services issue, he said.

The court's agreement to hear Mr. Skilling's arguments regarding the location of his trial surprised Columbia Law School professor John Coffee. "The area of venue is something the Supreme Court hasn't touched for a long, long time," Mr. Coffee said. If the court agrees with Mr. Skilling, whose attorneys vociferously argued for a venue change before the 2006 trial, it could have a wide impact.

Aside from the possible broader legal repercussions, the court's decision to accept the Skilling appeal provides another moment of drama in the Enron saga. Following the company's collapse, the Justice Department set up a task force to look for crimes at the company. Over the next four years, the Enron Task Force engaged in what has widely been viewed as the biggest federal criminal investigation ever into a single company.

The probe resulted in more than a dozen guilty pleas from former Enron officials. However, prosecutors had a mixed record when they took defendants to court.

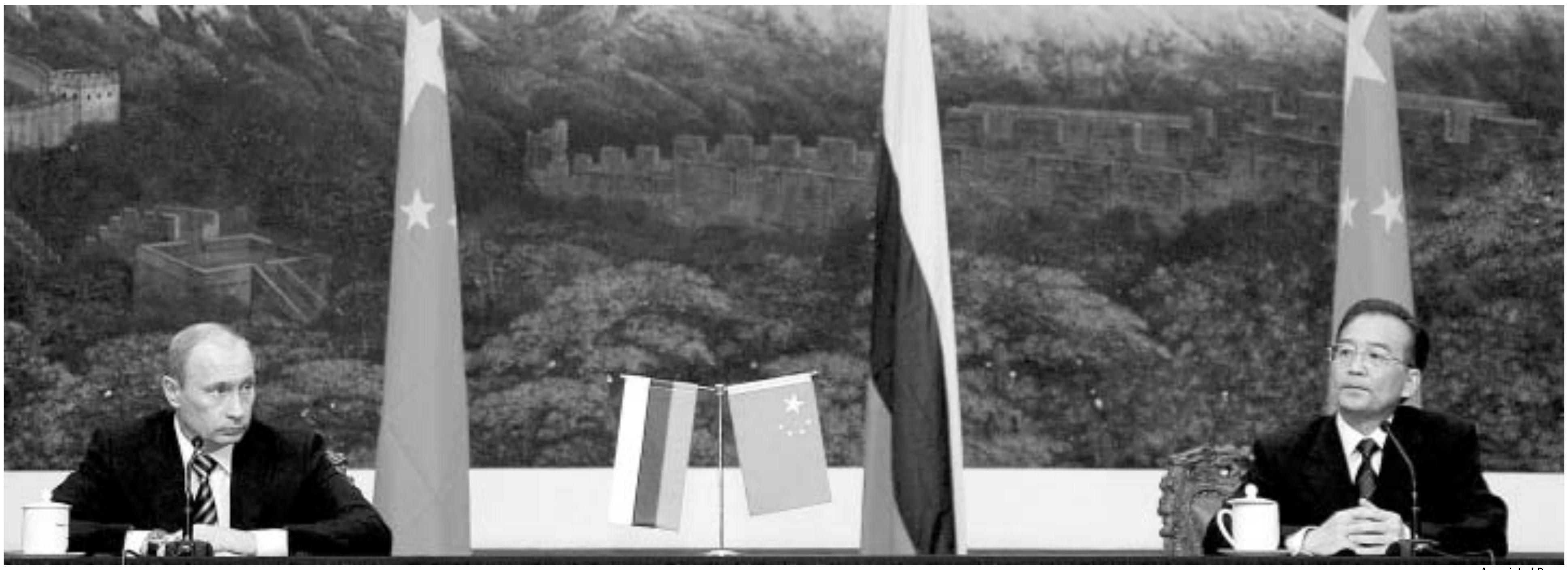
In the 2006 trial, Mr. Skilling and former Enron Chairman Kenneth Lay were convicted of fraud and conspiracy. Mr. Skilling was also convicted of insider trading. Shortly, after the trial, Mr. Lay died of heart-related problems and his conviction was vacated.

—Jess Bravin contributed to this article.

Agence France-Presse/Getty Images

Former Enron Chief Executive Jeffrey Skilling, shown in 2006, is serving a 24-year prison sentence after being convicted of fraud, conspiracy and insider trading.

LEADING THE NEWS



Associated Press

Russian Prime Minister Vladimir Putin, left, and Chinese Premier Wen Jiabao hold a news conference after signing a joint statement on bilateral cooperation at the Great Hall of the People in Beijing on Tuesday.

China, Russia sign pacts, aim to heal ties

Sides agree on trade but run into hurdles to final energy deal

By Shai Oster

BEIJING—China and Russia, in a bid to repair ties strained by a trade spat this summer, signed contracts valued at several billion dollars but didn't reach a breakthrough in protracted negotiations on a deal to supply Russian gas to China.

Among the issues discussed during a visit to Beijing by Russian Prime Minister Vladimir Putin was the prospect of settling trade between the two neighbors in their domestic currencies—part of China's efforts to bolster the yuan as a regional currency.

China and Russia are eager to reinforce relations that frayed in past months after Russia accused Chinese traders of selling smuggled goods, and shut down a wholesale market near Moscow where about 60,000 Chinese merchants worked. The two say they want to focus on common ground: China is hungrily eyeing Russia's natural resources, and Russia, battered by last year's collapse of oil prices and credit, wants Chinese investment to develop its economy.

"China is willing to work together with Russia to achieve greater developments in bilateral ties," Chinese Premier Wen Jiabao said Tuesday. One way to foster cooperation is "to create major projects in crude oil, natural gas and nuclear power," he said.

The nuclear powers also view each other with suspicion. Russia fears China's rise and is concerned about the influx of Chinese traders to its sparsely populated east, while China is wary of Russia's influence over the resource-rich Central Asian countries of the former Soviet Union.

Tensions rose this summer, when Russian officials abruptly shut the Moscow market dominated by Chinese merchants, highlighting a multibillion-dollar gray-market trade between the two countries. The crackdown drew accusations from Chinese of Russian bullying. A Chinese vice minister was sent to Moscow to negotiate the release of billions of dollars of impounded goods.

On Tuesday, officials discussed cleaning up trade at a forum on the sidelines of Mr. Putin's visit. China and Russia should crack down on "gray customs clearance," where Russian companies help Chinese goods dodge import duties, said Chinese Vice Premier Zhang Dejiang. Mr. Putin wraps up his visit Wednesday.

Mr. Zhang said the two countries are working on ways to eventually settle bilateral trade in Chinese yuan and Russian rubles. China wants to expand the yuan's use for regional trade to replace the dollar or euro. China and Russia already allow such trade in a limited scope in some border towns, but merchants still prefer the more flexible-to-use dollar, and officials said it would take a long time to expand the experiment.

China has such an arrangement with Malaysia, but it remains small in scope, in part because most trade is transacted in dollars.

The discussion of settling trade in yuan and rubles rather than dollars isn't likely to become a reality anytime soon, economists say. Rather, the talk fits with sporadic proposals by nations such as China and Russia for a global economic order less dominated by the U.S. and other wealthy nations.

Earlier this year, China's central bank governor, Zhou Xiahochuan, made headlines with an essay proposing the creation of new currency to eventually replace the dollar as the world's standard. However, enormous political and technical hurdles would have to be cleared to implement the recommendation.

For years, Russia has called for reducing the dollar's international dominance, talking up the ruble's prospects as a potential alternate reserve currency, but there is little sign the Kremlin is ready to go beyond rhetoric on the issue, given Russia's large holdings of dollar assets and dependence on dollar-denominated commodities such as oil.

In recent months, as relations with Washington have begun to warm up, Moscow has dialed back its antidollar rhetoric. Even Russia's efforts to shift trade with its former Soviet neighbors into rubles have made little progress, economists say, given the Russian currency's turbulent track record.

Two other factors work against the possible currency arrangement between China and Russia: Many traders are loath to accept rubles, which they consider a volatile currency; traders also aren't enthusiastic about receiving yuan, because it isn't a freely traded currency and can be used only to purchase goods in China.

The two countries announced that they signed \$3.5 billion of bilateral trade pacts. As part of that, **China Development Bank** and the **Agricultural Bank of China** Ltd. agreed to extend more than \$1 billion in credit to state-controlled Russian counterparts **Vnesheconombank** and OAO **Bank VTB**.

The two countries signed another tentative pact—between state-run companies **China National Petroleum** Corp. and OAO **Gazprom**—reiterating the desire to bring Siberian natural gas to China's industrial northeast. However, they failed to resolve a disagreement on price that has delayed a final contract for three years.

—Gregory L. White in Moscow and Wan Xu and Terence Poonin Beijing contributed to this article.

U.S., Russia discuss Iran sanctions

By Gregory L. White

MOSCOW—Russia and the U.S. said it is too early to consider tougher sanctions on Iran, but showed no sign of agreement on the thornier issue of what measures to take if that time comes.

Even the threat of new sanctions would be "counterproductive" now, Russian Foreign Minister Sergei Lavrov told reporters Tuesday, after a visit with U.S. Secretary of State Hillary Clinton. Mrs. Clinton, who met separately with Russian President Dmitry Medvedev, said both sides agree there still is room for negotiations with Tehran.

"We are not at that point yet," she told a joint news conference with Mr. Lavrov, referring to the imposition of additional sanctions.

Before the visit, U.S. officials said Mrs. Clinton would be seeking clearer signals from Moscow on what measures the Kremlin would be prepared to support if talks with Iran don't yield results. However,Russian officials weren't showing their cards on Tuesday, officials said.

Washington and its Western allies have called for tough new sanctions against Iran unless Tehran allays international concerns that it is seeking nuclear weapons. Mr. Medvedev last month seemed to soften Moscow's traditional opposition to such measures, saying sanctions are sometimes inevitable.

That apparent shift came as the Obama administration has reached out to Russia in an effort to "reset" relations that had become chilly. Moscow has been cautiously supportive of the push, especially after the U.S. last month shelved plans for missile-defense installations in Poland and the Czech Republic.

U.S. officials described Mrs. Clinton's two-day visit as an effort to sustain the positive momentum and to get a clearer indication of what steps Russia would support to pressure Iran if diplomatic efforts fail. The U.S. has been quietly discussing possible options for sanctions with European and other allies in recent weeks, including the possibility of pursuing sanctions with individual countries, rather than through the United Nations, where there is less support.

Last week, the U.S. convened a meeting in Washington with 10 close strategic allies to identify new ways to pressure Tehran financially.

The absence of Russia and China, however, signaled that Washington was preparing to have to confront Tehran without significant support from Moscow and Beijing, said participants in the meeting. The 11 nations discussed targeting Iran's energy supplies, its financial system, and the assets of its elite military unit, the Iranian Revolutionary Guards.

Mr. Lavrov said the situation is "very far" from one where sanctions become inevitable. In recent weeks, Tehran has appeared more conciliatory, offering to allow international inspectors into a newly revealed nuclear facility and agreeing for the first time to discuss uranium-enrichment operations with the West.

Associated Press

Russian President Dmitry Medvedev, left, and U.S. Secretary of State Hillary Clinton shake hands during their meeting outside Moscow on Tuesday.

Mr. Lavrov also opposed the possibility of any sanctions outside the U.N. Security Council, potentially complicating U.S. efforts to line up supporters on a country-by-country basis.

Mrs. Clinton got a warmer reception on other issues, including from Mr. Medvedev, who welcomed the improvement in relations. Mr. Lavrov noted "considerable progress" in talks on a new U.S.-Russian treaty on reducing nuclear arms and called for closer cooperation on the war in Afghanistan.

LEADING THE NEWS

Oil firms are changing course on Iraq bids

Rejected tough terms in June are pondered, revitalizing talks

By Gina Chon

BAGHDAD—Several oil companies that rejected tough terms in the country's first auction for oil-field rights this summer have dropped their demands for higher payouts, said Oil Minister Hussein al-Shahristani at a news conference Tuesday.

The reversal has revitalized talks over a handful of oil-development deals between Iraq and international oil companies. The June auction was seen as a disappointment because just one international consortium agreed to the tough terms set out by the ministry.

Mr. Shahristani said that companies such as **Exxon Mobil** Corp., Russia's **Lukoil** and **Eni** SpA of Italy have withdrawn their earlier resistance to what the industry saw as unreasonably low payments for helping Iraq develop some of its existing oil fields.

Translating negotiations into actual deals is critical for Iraq, which relies on oil sales for 90% of government revenue.

International oil companies have been clamoring to get a foot into Iraq, where developing costs are low. But they balked at the low fees Iraq proposed to pay them during the June 30 auctions.

Reuters

Iraq's Oil Minister Hussein al-Shahristani said on Tuesday that the government is close to deals with foreign oil concerns.

Mr. Shahristani said that the ministry has been continuing discussions with some of the companies, and that Baghdad is now closing in on deals after some companies relented on terms. In the proposed contracts, the oil ministry would pay companies for developing new production at some of Iraq's large, existing fields.

Exxon and Lukoil had been eyeing Iraq's large West Qurna oil field in the June bidding. Exxon had initially proposed a payment of $4-a-barrel for new production. Lukoil, bidding in partnership with **ConocoPhillips**, had offered $6.49 per barrel.

Exxon and the Lukoil-Conoco consortium have now accepted the $1.90-per-barrel fee that Iraq initially proposed for that field, Mr. Shahristani told reporters.

A Lukoil spokesman confirmed the agreement on fees. An Exxon spokesman declined to comment on its negotiations, saying only "we continue to assess business opportunities in Iraq."

Mr. Shahristani also said a consortium led by Eni has accepted the Iraqi oil ministry's proposed $2-a-barrel payment for the Zubair field. Eni had originally proposed a $4.80-a-barrel fee for the field.

An Eni spokeswoman declined to comment on discussions over the field in detail, but she said the company accepted the $2-a-barrel fee because some other conditions had changed, making the lower price more acceptable. The original 20-year contract, which includes Eni's consortium partners **U.S. Occidental Petroleum** Corp. and **Korea Gas** Corp., could be extended to 25 years, according to an Eni statement.

Mr. Shahristani said terms of the deals offered to international oil companies hadn't changed.

Both the Zubair and West Qurna fields were initially part of the historic June 30 auction, Iraq's first opening to foreign oil firmsin some 30 years. In that auction, a consortium made up of **BP** PLC and the **China National Petroleum** Co. won the giant Rumaila field after cutting its proposed fees by half, to just $2 per each additional barrel of production beyond current levels.

Iraq will host a second bid round for 10 unexplored oil and natural-gas fields in the first half of December, Mr. Shahristani said.

—Ben Casselman in Dallas contributed to this article.

Iraqi lawmakers pass security pact with U.K.

By Gina Chon

The Iraqi parliament, after several months of delays, passed a security agreement with Britain on Tuesday aimed at protecting crucial oil terminals in southern Iraq, among other duties.

About 100 members of the British Navy will train and support Iraqi Navy forces responsible for protecting Um Qasr port, the country's only link to the Persian Gulf and the second-largest source of revenue for the Iraqi government, after oil. The agreement now heads to Iraq's presidency council, which is expected to approve the pact.

The security pact is similar to one with the U.S. passed in parliament last year that calls for all American troops to leave by the end of 2011.

Most of Iraq's two million barrels a day of oil exports is shipped through the two main oil terminals off the coast of Basra. Iraq also faces oil smuggling, border disputes with Iran and other issues in that area. The British and Iraqi navies, along with some American forces, had been responsible for patrolling that area.

The small remaining British force in Iraq had to pull back to other areas in the Middle East over the summer after a British security mandate ended in July. About 4,100 British troops left Iraq by June, and combat operations officially ended in April. They were replaced by more than 5,000 American forces.

"The agreement is evidence of our mutual commitment to building the capability of the Iraqi Navy to undertake protection of Iraqi territorial waters and installations," British Ambassador Christopher Prentice said.

Iraq's navy has been struggling to rebuild since it was found in shambles after the U.S.-led invasion in 2003. The navy now has some 2,000 personnel, and aims to expand to 3,000 by the end of 2010. The navy also wants to purchase combat patrol boats and other vessels to help secure the waters around Basra and in the Persian Gulf.

The British security pact failed to pass during parliament sessions in July partly because of protests from lawmakers loyal to anti-American cleric Moqtada al-Sadr.

Parliament also failed to achieve a quorum then because many Kurdish lawmakers were out campaigning for Kurdish regional elections that were held at the end of July.

On Tuesday, dozens of Sadrist lawmakers walked out of parliament. But there was still a quorum, which allowed passage of the bill.

British lawmakers fight back against auditors' demands

By Neil Shah
And Alistair MacDonald

For months, British politicians have been pushed to atone for dubious expense claims that reimbursed them for everything from mortgage payments to gardening services and toilet seats. Now, some members of Parliament are starting to push back.

After an auditor called on many members of Parliament to repay taxpayers for their claims, a move intensified Tuesday among some MPs who don't believe they should have to comply with the auditor's demand.

The growing tempest was the latest twist in the months-long expenses saga that has roiled British politics in recent months. The scandal is rooted in revelations that the Parliamentary expenses system allowed many politicians to be reimbursed for a wide range of expenses—some of them trivial, but others appearing to bend or break expenses rules or the law.

In the wake of the scandal, U.K. Prime Minister Gordon Brown and Parliament retained a former civil servant, Sir Thomas Legg, to audit all expenses between 2004 and 2009. Sir Thomas's preliminary findings were sent individually this week to MPs, who now have three weeks to respond.

Party leaders are calling for parliamentarians to comply with the requests for repayment. Mr. Brown, for example, agreed to return to taxpayers more than £12,000 ($18,972) that had been reimbursed to him for cleaning, gardening and other services.

But some politicians are complaining that the audit isn't fair, and are considering ways to challenge it. The complaint is that the audit doesn't judge MPs based on whether they followed the law, but rather on a wholly new criteria: Sir Thomas's judgment of what constituted reasonable limits for certain kinds of expenses.

Some U.K. lawmakers attacked the legal basis of Sir Thomas's audit Tuesday, with some ignoring party leaders and vowing not to repay U.K. taxpayers for what they believe are justifiable claims.

Conservative lawmaker Ann Widdecombe told the BBC it was legally questionable to apply new rules retrospectively. Labour MP Bill Etherington told his local paper that if Mr. Legg "has decided I shouldn't have claimed something which I feel was justifiable under the rules at the time, then I won't pay it."

Austin Mitchell, an MP from Grimsby in northern England, said members are upset about such issues as the fact that they can't deal with Sir Thomas in person. He complained that, in the letter he received, it asked for more information about his mortgage payments and whether he used his expenses to pay down its capital, when the mortgage was an interest-only mortgage.

Despite the griping, it isn't clear whether any actual rebellion against Sir Thomas's demands will ever develop.

In Parliament "there is a lot of muttering and misery, and dark threats, and a lot of it is justified given that it [the Legg audit] changes horses midstream," Mr. Mitchell said, adding: "But there are always threats of rebellion in Parliament, and [MPs] rarely come through."

Brown to send additional troops to Afghanistan

By Alistair MacDonald

U.K. Prime Minister Gordon Brown on Wednesday will announce the country's likely deployment of several hundred more troops to the war in Afghanistan, a person familiar with the matter said.

In a statement to Parliament, Mr. Brown plans to unveil a decision "in principle" to increase the U.K.'s troop commitment by about 500, this person said. That will increase numbers from the current 9,000 to around 9,500. Of those 9,000 around 600 were part of a temporary surge to provide extra security during the Afghan election that Mr. Brown will make more permanent. Mr. Brown will lay out conditions for the increase, this person said, including evidence of a clear strategy across the North Atlantic Treaty Organization on Afghanistan and of the U.K. military having the right equipment for the troops.

The U.K.'s announcement comes as the U.S. deliberates how many extra troops it is going to send to Afghanistan. Britain has the second-largest NATO contingent in the country and, like the U.S., has complained that some other NATO allies haven't committed significant amounts of troops to fight in hostile parts of the country.

The prime minister has been criticized by some in the military and by opposition politicians for what they say is not equipping British forces properly, an accusation Mr. Brown rejects.

CORPORATE NEWS

U.K. weakens airport proposals

Britain's new terms scuttle plan that would have raised cost of financing projects

By Kaveri Niththyananthan
And Margot Patrick

LONDON—The British government Tuesday diluted proposals to force major U.K. airport operators to shore up their balance sheets, removing one of the obstacles for BAA Ltd.'s plans to move forward with developing London's Heathrow Airport.

The U.K. Department for Transport unexpectedly disclosed a slate of new initiatives to safeguard airport operations against disruption if operators suffer financial woes.

The initiatives scuttle a plan that would have raised the cost of financing airport development projects, such as the refurbishment of terminals and the possible construction of a third runway at Heathrow, the world's busiest international airport.

The financial elements of the review were brought forward because of the challenging environment the aviation industry is facing as demand for travel wanes. The new rules relate to the operation of top tier U.K. airports, namely London's Heathrow, Gatwick and Stansted airports, all of which are owned by BAA, a unit of Spain's Grupo Ferrovial SA.

Initial proposals for a special administration regime, which would ensure airports continue to operate should their owners collapse, have been dropped.

"The government has concluded that the implementation costs of introducing special administration would outweigh the benefits, and could significantly restrict airport operators' ability to commit to ongoing investment in the airport infrastructure, adversely affecting passengers," the Department for Transport said.

BAA welcomed the move and said it "removes key uncertainties for BAA and its creditors and underlines the need for the regulator to ensure airport operators have the necessary resources to operate and invest in their airports."

It now will be easier for BAA to tap markets for further funds, which it intends to do over the next couple of months.

"If the U.K. were to introduce legislation that made special administration possible in the airports sector, [it] would have to take security away from BAA Funding's bondholders and bank lenders, creating the risk of a technical default," said James Sparrow, a credit strategist at Royal Bank of Scotland Group PLC. "The Department of Transport's proposals look like a sensible solution and this is a positive result for BAA and for its lenders."

Bloomberg News

British Airways cabin crew walk through Terminal 5 in July at London's Heathrow Airport.

BAA Funding Ltd. is a vehicle whose bonds are backed by BAA's regulated assets.

The special administration regime "works for U.K. water and power utilities because they are essential services that have to be delivered to the public, and giving creditors' security over utility assets could potentially compromise that," Mr. Sparrow said. "The argument does not really apply to airports."

The transport department added it was giving additional duties to the industry regulator, the Civil Aviation Authority, which will be tasked with ensuring that airports can finance their licensed activities.

To meet the conditions of their licenses, operators now will have to ring fence parts of their funding to make sure they can continue to operate in times of financial stress and have to maintain an unspecified level of minimum credit-worthiness.

The so-called financial ring fence prevents an airport owner from using funds to leverage alternative operations. BAA's financial structure means that it isn't currently affected by those ring-fencing rules.

The transport department said it may introduce further measures still under consideration that include the prospect of requiring airport operators to create "continuity of service" plans that set how they would serve passengers in case of insolvency.

The government said it may also grant power to the Civil Aviation Authority to switch on or off operators' ring-fencing provisions should circumstances change.

Operators, however, retain some flexibility in their finances as ring fences might be worked around existing financing agreements where necessary.

The aviation authority said it will be responsible for encouraging efficient and economic investment by allowing reasonable returns over time.

It won't be required to adjust airport charges, service standards and investment levels as a result of an airport operator's particular financial arrangements.

--Mark Brown contributed to this article.

Big player

Number of passengers using BAA's U.K. airports in the year ended Sept. 30

Airport	Passengers, in millions	Percentage change from year earlier
Heathrow	65.7	-2.6%
Gatwick	32.2	-8.4
Stansted	20.2	-11.6
Glasgow	7.4	-12.1
Edinburgh	9	-0.6
Aberdeen	3.1	-9.2
Southampton	1.8	-8.7
Total	139.4	**-6**

Note: U.K. regulators have ruled that BAA must sell Gatwick, Stansted and either Edinburgh or Glasgow.
Sources: the company

Bombardier must step up anti-ice systems for jets

By Andy Pasztor

LOS ANGELES—European air-safety regulators Monday mandated enhanced inspections and installation of new onboard warning devices to protect against dangerous ice buildup on the wings of hundreds of popular Bombardier commuter jets.

Adopting a mandatory safety directive issued previously by Canadian safety regulators, the European Aviation Safety Agency agreed that within the next month, airlines operating certain Bombardier CL-600 models must step up maintenance of anti-icing systems that use hot air to keep ice from accumulating on the front edges of the wings. Such buildup, if it is severe enough or unduly affects wings on one side of the plane, can substantially reduce aerodynamic lift.

"In combination with maneuvers close to" stalling speed, according to the Canadian safety directive, ice accumulation "could possibly result in reduced controllability of the aircraft,"

Both European and Canadian government officials also have ordered that within the next 13 months, airlines must install upgraded devices on the affected jetliners, including sensors on the forward edges of the wings, designed to more reliably warn pilots if their anti-ice heating systems aren't working properly.

According to the Canadian directive, slated to become effective at the end of this week, several in-service incidents have "highlighted the inability of the existing system" to adequately detect potentially dangerous conditions.

The relatively short enforcement timetable for some of the safety enhancements indicates that Transport Canada, which regulates air safety in that country, considers the risk significant. **Bombardier** Inc.'s aerospace unit, which built the aircraft, issued similar but nonbinding safety bulletins earlier this year.

According to the company's Web site, it has delivered more than 700 of the regional jet models. The planes are used widely around the world, including fleets that fly commuter routes for **Delta Air Lines** Inc. and **AMR** Corp.'s American Airlines.

It is common for regulators to accept and enforce safety directives approved by their counterparts in other countries.

So far, the U.S. Federal Aviation Administration hasn't announced plans to follow the lead of European regulators on this issue.

Qatar Airways flies plane with a new fuel

By Stefania Bianchi

DUBAI—**Qatar Airways** said it completed the world's first commercial passenger flight powered by kerosene made from natural gas, highlighting the aviation industry's efforts to cut its dependence on oil-based fuel.

Industry analysts, however, called into question the fuel's relevance in light of its expensive and high-energy production process.

The flight from London's Gatwick airport to Doha, Qatar, Monday used an Airbus A340-600 aircraft powered by engines made by Rolls-Royce Group PLC that operated on a mixture of synthetic gas-to-liquids, or GTL, kerosene and conventional oil-based kerosene fuel developed by Royal Dutch Shell PLC, the airline said in an emailed statement.

"This milestone flight is the first step in making this alternative fuel available to airlines," Qatar Airways' Chief Executive Akbar Al Baker said in the statement.

The aviation industry has been looking for alternative-fuel sources that would make carriers less vulnerable to fluctuating oil prices.

A number of airlines, including Virgin Atlantic Airways Ltd., Continental Airlines Inc. and Air New Zealand Ltd. have been testing biofuels on commercial flights.

"From a quantitative point of view GTL kerosene will remain a marginal feature in the global market," said David Wech, head of research at consulting firm JBC Energy in Vienna.

"Due to the high costs involved based on the energy-intense production process,...we are very skeptical on further GTL expansion projects."

According to JBC estimates, the GTL kerosene potential by 2015 is about 40,000 barrels a day, or about 0.8% of global jet-fuel demand.

Others, meanwhile, said that, despite its shortcomings, the development of GTL kerosene was a step in the right direction.

"The industry definitely needs a less-expensive fuel solution," said Bill McKnight, aviation analyst at management consultancy firm A.T. Kearney.

"Experiments such as this are worthwhile because they continue pushing the thinking that, hopefully, will produce a viable alternative in the long-term," Mr. McKnight said.

The Persian Gulf state of Qatar, holder of the world's third-largest gas reserves after Russia and Iran, aims to become the world's leading producer of GTL kerosene when it is put into commercial production from 2012. I

Qatar is already the world's top exporter of liquefied natural gas, or LNG. By the end of the decade, Qatar estimates, it will have a total capacity of more than 77 million tons of GLT kerosene a year.

Shell and Qatar Petroleum are building the world's largest GTL plant in the Gulf state. The first phase of the Pearl GTL facility being built at Ras Laffan Industrial City is scheduled for completion by the end of next year.

The plant will produce around one million tons of GTL kerosene per year from 2012, enough to fuel a commercial aircraft for 500 million kilometers, the Qatar Airways' statement said.

CORPORATE NEWS

Kindle faces challenges in Europe

Amazon's e-reader boosts awareness but rivals flood in

By Archibald Preuschat

European publishers gathering in Frankfurt Wednesday for their biggest conference of the year are hoping some of the buzz around electronic books in the U.S. will rub off on them now that the international version of **Amazon.com** Inc.'s Kindle is on its way.

The reality, however, is that language issues and a divided wireless market mean the Kindle's arrival in Europe is likely to be slightly different than in the U.S.

U.S. sales of e-readers are growing. In a recent report, Forrester Research Inc. estimated that three million e-readers would be sold in the nation this year, and six million next year.

In Europe, the main e-book devices on offer, such as **Sony** Corp.'s Reader and the Cool-ER from U.K.-based **Interead**, can only retrieve books through a computer connection, rather than wirelessly, and sales of e-books have been slow. Sales for print books in Europe's major markets of France, Germany and the U.K. held flat from last year.

Research company GfK estimates that e-book sales in Germany totaled only €667,000 ($986,000) in the first half of this year.

Europe's e-readers also have less memory than the Kindle. Sony's Reader can hold 350 books, but the Kindle can hold about 1,500 for a similar price.

The U.S. market is scheduled to get a wireless version of Sony's e-reader before Christmas and one from Interead early next year, but both companies plan to make their wireless e-readers available for Europe later.

"Amazon's move to make the Kindle available outside the U.S. will boost visibility of e-readers in Europe and other countries," said Forrester Research analyst Sarah Rotman Epps. In Germany alone, the e-book, paper and magazine segment could be valued at more than €1 billion by 2014, said Mark Ritzmann, head of new-business development and innovation at **Vodafone Group** PLC's German unit.

The figure is based on a sales forecast by PricewaterhouseCoopers of six million e-readers in the next five years. Germans spend €24 billion a year on books, magazines and newspapers.

But in Europe, the Kindle also faces competition from wireless operators looking to sell books and other media through online platforms or with devices similar to the Kindle or through netbooks, which are smaller, lighter and more portable versions of laptop computers.

U.K.-based wireless operator Vodafone in Germany is in talks with major publishers and device manufacturers, among them South Korea's **Samsung Electronics** Co. Kai Lenk, a product manager for Samsung Electronics in Germany, confirmed the talks, but declined to provide further details. **France Télécom** SA's Orange plans to launch an online platform sometime next year that will be accessible to several different kinds of devices, the company said. It has been evaluating e-reader opportunities for more than a year under the project name "read and go," and wants to make content available on multiple devices including smart phones and netbooks.

Book publisher Random House Inc.'s German unit is in talks with industry partners about e-readers and sees the potential for those with wireless capability to provide a new source of revenue, said Chief Operating Officer Frank Sambeth.

He declined to provide further details of the talks but said wireless electronic books will make it easier for people to buy books spontaneously, while older customers without a computer may find these simpler devices more appealing.

"The more platforms that exist the better," Mr. Sambeth said, but he added that it is still to too early to say how revenue will be shared between publishers, network providers and device manufacturers.

Deutsche Telekom AG has no concrete plans for an e-reader platform, according to a T-Mobile spokesman, but he said the company is watching the area closely.

Outside of the U.S., **AT&T** Inc. will provide network access for Kindle based on its roaming agreements with international carriers. The device will cost $279, plus shipping charges from the U.S.

The Kindle will also have sparse offerings for those who don't speak English. Starting Oct. 19, it will be available in more than 100 countries and territories, but provides books only in English, though some newspapers and magazines are available in German, Italian, Spanish and French.

Expanding the book library to German titles is planned, an Amazon spokeswoman said, but she couldn't say when.

The Kindle works with an e-ink display that Amazon says reduces eye strain, even in sunlight, compared with other portable devices. Amazon offers all kinds of print products on the Kindle, ranging from blogs to newspapers. However, the newspapers and magazines available on Kindle outside the U.S. won't include photographs or other images, limiting the scope for advertisers.

Ulrich Schmitz, an executive at Germany media company **Axel Springer** AG, said e-readers are a new and interesting distribution channel though devices currently available are more suitable for books than newspapers.

Amazon.com founder and chief executive officer Jeff Bezos holds the new Kindle DX electronic reader.

J&J profit rises despite decline in sales of drugs

By Peter Loftus and Jon Kamp

Johnson & Johnson eked out a 1.1% increase in third-quarter profit as cost cuts and lighter currency headwinds helped offset generic competition for big-selling drugs.

A drop in pharmaceutical sales was partially offset by the company's medical-device unit. For the second quarter in a row, device sales were higher than pharmaceutical sales. J&J said, however, that it had delayed regulatory filings for a key drug-releasing heart stent.

"This year continues to present challenges to certain parts of our business due to the ongoing impact of the economy" and competition from generic drugs, Chief Financial Officer Dominic Caruso said on a conference call.

J&J, whose products include Band-Aids and the Procrit anemia drug, said profit rose to $3.35 billion, or $1.20 a share, from $3.31 billion, or $1.17 a share, a year earlier. The New Brunswick, N.J., company raised its forecast for annual earnings to between $4.54 and $4.59 a share from $4.45 to $4.55.

J&J this year has cut about 900 jobs from its U.S. pharmaceuticals unit, and in August the company consolidated its management structure. Mr. Caruso left open the possibility of further cost cutting, saying the company was evaluating its plans for next year.

Revenue fell 5.3% to $15.08 billion, with 2.5 percentage points of the decline coming from currency effects. U.S. sales fell 8.1%. International sales dropped 2.5% but rose 2.4% on a constant-currency basis.

Drug sales declined 14% to $5.3 billion, largely because of competition from generic drugs.

The formerly fast-growing consumer-health-care unit posted a 2.7% sales drop to $4 billion. Excluding currency effects, sales would have increased 1.1%.

But sales of drug-coated stents remained weak, falling 27%, amid increased competition in the U.S., where stent revenue slumped 10%. Stents are tiny scaffolds that prop open heart arteries. Medicated stents use drugs to fight scar tissue that can lead to clogged arteries and repeat procedures.

J&J on Tuesday said it now plans to file for European approval for its drug-releasing Nevo stent in the first quarter. The company had been aiming to file this year. Approval in Europe typically opens doors to other international markets that follow European Union rules. An application for U.S. approval was delayed until 2012 from a previous target of late 2011.

ITV says ad slump is beginning to ease

By Kathy Sandler

LONDON -- U.K. commercial broadcaster ITV PLC on Tuesday said the television advertising slump was beginning to ease and it expected just a 3% decline in ad revenue in October and November from a year earlier, the smallest fall since the start of the recession.

The company, whose profits slumped amid the downturn in advertising, said that it would bolster its coffers with a convertible-bond issue, and that it had called a halt to the sale of its digital-multiplex business, SDN, which would have helped to pay down some of its debt. It again ruled out a share-rights issue for the moment.

ITV, the U.K.'s largest terrestrial commercial broadcaster by sales, issued £135 million ($190 million) of convertible bonds, which will come due in 2016. They are convertible at a premium of 40% of the average ITV share price between the launch of the bond and its issue. The move will help to extend the maturity of the company's debt.

ITV had net debt of £728 million as of June 30, a hefty load for a company whose revenue has dropped substantially. Still, the broadcaster has repeatedly said it has no current plans for a rights issue, instead raising £225 million in new borrowing this year to prop up its balance sheet.

ITV has faced structural changes within the industry as advertisers migrate online or to the growing number of digital channels on offer. That has been compounded by the recession, which squeezed advertisers' budgets.

The company is also struggling to hire a new chairman and a new chief executive. Executive Chairman Michael Grade has said he intended to leave as soon as a new chairman was found, although ITV said on Monday that two leading candidates for the post had dropped out of the race.

Still, the advertising freeze seems to be thawing. ITV said Tuesday that the rate of decline in TV ad revenue continued to ease through the second half, although Chief Operating Officer John Cresswell said this doesn't amount to a recovery yet.

ITV's stable of terrestrial and digital channels is expected to see ad revenue down just 3% in October from a year earlier, the smallest fall since mid-2008.

Current forecasts for November suggest a similar level of decline and the company is on track to outperform the broader TV advertising market in the second half and full year.

ITV sees ads down just 3% in October, the smallest fall since mid-2008.

RBS analyst Paul Gooden had forecast that fourth-quarter ad revenue would be down 8%, so "things are looking better, faster," he said.

Mr. Gooden said he believed the bond issue could go down well. The news on SDN was also a small positive, he said, because a sale would have diluted earnings.

The SDN digital-multiplex assets, which analysts had valued at about £200 million, will now be used to back ITV's pension plan and reduce the pension plan's deficit. That would mean the assets remain consolidated in ITV's revenue and cash flow.

The company is in discussions with pension-fund trustees about the proposal, under which ITV would promise a future payment into the fund in eight to 15 years, according to an ITV spokeswoman. If the payment wasn't forthcoming for any reason, the pension plan would likely take control of SDN outright.

Such deals are an increasingly popular option for U.K. companies, as they struggle to afford cash bailouts for their pension plans in the depths of a recession. The most high-profile example was unwound recently at British Airways, which for a period gave its pension trustees an option over some of its older aircraft.

ITV said SDN is performing in line with expectations, with full-year revenue forecast at £40 million.

Shares of ITV rose 6.8% Tuesday, closing at 50.55 pence, up 3.2 pence.

—Mark Cobley contributed to this article.

Magna, workers in accord

Pact will preserve U.K. jobs as Opel, Vauxhall are sold

BY JONATHAN BUCK

Agence France-Presse

GM CEO Fritz Henderson says a deal for GM Europe may be finalized this week.

LONDON -- **Magna International** Inc., which is finalizing terms to acquire the European operations of **General Motors** Co., agreed not to make compulsory job cuts at its two Vauxhall plants in the U.K., union leaders said Tuesday.

Meanwhile, GM is expected to ink the sale of a majority stake in its Opel and Vauxhall brands Thursday, ratcheting up pressure on European governments to agree to provide of state aid to prevent the deal from turning sour. The Detroit car maker last month said it would sell a majority stake in its European operations to Austrian-Canadian car-parts maker Magna and Russian bank OAO **Sberbank**.

U.K. trade union Unite said Tuesday that after weeks of negotiations, it had secured a agreement with Magna that offers improved prospects for the plants in Luton and Ellesmere Port, which employ about 4,700 workers.

"It gives both plants job security and a future through to 2013, providing a good basis for a long-term future beyond that," said Tony Woodley, joint general secretary of Unite.

The union credited Prime Minister Gordon Brown and Business Secretary Peter Mandelson for helping it reach an agreement that would benefit Vauxhall and other companies that rely on the British car maker for business.

Under the pact, the plant at Ellesmere Port will produce the next-generation Astra in 2016, subject to maintaining its competitive position. Magna pledged to maintain two shifts at Ellesmere Port with volume agreed at 147,500 vehicles by 2011, irrespective of demand fluctuations, Unite added. The Luton van plant, meantime, will be maintained as a key site within Magna's U.K. portfolio, the union said.

In return, the work force will contribute cost-saving and efficiency measures, including a two-year pay freeze, although weekly working hours will rise, helping to bridge the earnings gap. At the same time, workers will make increased monthly contributions to a car-purchase plan.

Talks between Magna and the works councils of the other European nations continued, Unite said. Magna couldn't be reached immediately for comment.

GM employed about 54,500 staff in Europe in 2008. About 25,000 of those workers were in Germany, where four factories produce Opel-branded vehicles. Magna previously said it planned to cut about 10,500 jobs throughout Europe.

That sparked worries, especially in the U.K. and Belgium, that countries that are home to GM Europe plants but don't contribute state aid to the company's restructuring would bear the brunt of job cuts. An Opel plant in Antwerp, Belgium, employs roughly 2,700 people. Germany, which already has pledged billions of euros in state aid, has agreed to accept about 4,000 job losses.

The sale to Magna is nearing its finalization. Speaking to reporters during his first visit to China since GM's emergence from bankruptcy protection in July, Chief Executive Frederick "Fritz" Henderson said it is "quite possible" the U.S. car maker will finalize the sale this week.

Roland Koch, the premier of the central German state of Hesse, where Opel's headquarters and main plant are located, was more precise. "On Thursday, GM is expected to sign the deal," Mr. Koch said Tuesday in Berlin.

The deal, expected to close by the end of November, comprises a total investment of €5 billion (about $7.4 billion), including €4.5 billion in state-backed financing until 2015. Magna and Sberbank are providing €500 million in equity, including €50 million through a convertible bond.

Germany's rescue plan faces close scrutiny from European competition regulators. The European Commission, the European Union's executive arm, oversees the allocation of state aid to ensure that government intervention doesn't distort competition and trade between EU members. Opel has plants in Spain, Belgium and Poland. Vauxhall has plants in the U.K.

Mr. Koch defended the German government's financial commitment, saying, "We haven't bought any jobs; we will even carry out the largest part of the headcount reduction." He added that talks with the U.K. on state aid for Opel were at a very advanced stage and the German government also held talks with Spain.

—Christoph Rauwald in Frankfurt, Matthias Karpstein in Berlin and Patricia Jiayi Ho in Shanghai contributed to this article.

Cisco to purchase wireless-gear maker

BY BEN WORTHEN

Cisco Systems Inc. on Tuesday said it agreed to acquire **Starent Networks** Corp. for $2.9 billion, the latest deal in the rapidly consolidating technology industry.

Cisco will pay $35 a share for Starent, a Tewksbury, Mass., maker of software and gear for wireless carriers. That represents a 21% premium over Starent's closing stock price of $29.03 Monday on the Nasdaq Stock Market.

Cisco expects the transaction to close during the first half of 2010.

The acquisition is likely to increase Cisco's ability to help carriers manage the data moving across their wireless networks, said Ned Hooper, chief of Cisco's strategy office. The amount of data that travels on these networks is set to double each year until 2013 as people increasingly access the Internet via mobile devices, according to Cisco.

In order to accommodate the increased traffic, carriers have to buy and deploy new equipment such as the kind Starent sells. "The single biggest growth opportunity for networking companies is to be involved with wireless upgrades," said Zeus Kerravala, an analyst at research company Yankee Group.

Cisco, based in San Jose, Calif., was losing deals to rivals such as Alcatel-Lucent of France and Huawei Technologies Co. of China because it couldn't offer wireless equipment to go along with its traditional gear, Mr. Kerravala said. "This is a piece of business that will be very important to them over the long term," Mr. Kerravala added.

Historically, about 30% of Cisco's revenue comes from carriers, the company said. Cisco reported $36.1 billion in revenue for the fiscal year ended in July.

The deal follows Cisco's $3 billion acquisition of Norway's Tandberg ASA earlier this month. It also follows a wave of consolidation in the technology industry. In the past 30 days, Dell Inc. spent $3.9 billion to buy Perot Systems Inc., Xerox Corp. shelled out $5.6 billion for Affiliated Computer Services Inc., and Adobe Systems Inc. paid $1.8 billion for Omniture Inc.

During the depths of the recession, tech companies said that they didn't have much insight into customer-spending patterns. This made it difficult to get deals made, said Jeff Evenson, an analyst at Sanford C. Bernstein and Co.

Now that the economy seems to have stabilized "companies have a reasonable idea of what will happen in the next year or so," Mr. Evenson said. "They hear customers starting to spend more."

That has made acquisitions more attractive. As the economy improves "both buyers and sellers are feeling that it is comfortable to get together," Cisco's Mr. Hooper said in an interview.

Cisco Chief Executive John Chambers has said repeatedly that his company would be aggressive during the economic downturn. Cisco started the current quarter with $35 billion in cash, although $29 billion of that reserve was overseas and subject to taxes if used in the U.S. Mr. Hooper, the Cisco strategy chief, said that only cash from the U.S. was used in the deal.

Starent Networks was founded in 2000 and went public in 2007. The company reported revenue of $254.1 million in 2008, up 74% from the year earlier. It continued to grow during the recession, with revenue of $78.3 million in the June quarter, up 28% from the year-earlier period.

Cisco shares were up nine cents at $23.87 in midafternoon trading on the Nasdaq market.

Ford, union reach contract concessions

BY MATTHEW DOLAN

Ford Motor Co. has reached a tentative agreement with the United Auto Workers union that would freeze entry-level wages, implement a no-strike clause and pay a bonus to workers for agreeing to new concessions, according to people familiar with the matter.

The UAW confirmed Tuesday that the agreement will be presented to its national council delegates, who will decide whether to present the deal to its members for a unionwide vote.

The amended agreement would put the Dearborn, Mich., auto maker on a more-equal footing with cross-town rivals General Motors Co. and Chrysler Group LLC.

Ford was the first of Detroit's auto makers to reach a new accord with the UAW earlier this year, a step followed by GM and Chrysler before they emerged from bankruptcy protection. But inside Ford, which has about 41,000 employees represented by the UAW, officials had concerns that GM's and Chrysler's union agreements could put Ford at a competitive disadvantage in coming years.

Ford was especially concerned about gains GM and Chrysler won in restricting entry-level wages and reducing the number of job classifications.

None of the concessions reached by GM and Chrysler "have a near-term disadvantage [for Ford], but we have some concerns about what that means longer term," Ford group vice president for labor and manufacturing, Joe Hinrichs, told Wall Street analysts at a conference late last month.

For example, in its modified agreement, GM reduced the number of skilled trade classifications to three. Ford still has roughly 20, according to Mr. Hinrichs. Ford argues that having many job classifications leads to increased costs because the company often cannot use a single worker to handle multiple tasks.

Earlier this year, Ford sought to cut health-care benefits for UAW workers, but that concession couldn't be achieved and isn't part of the new, tentative agreement, according to a person familiar with the matter.

In a statement Tuesday, Mr. Hinrichs said the company wouldn't comment on details of the pact until the ratification process is complete.

The issue now is how the UAW's rank-and-file will receive the proposed concessions.

Some leaders of Ford's UAW locals have expressed reluctance to offer additional give-backs to Ford, since the auto maker received contract modifications in February. Other union officials have questioned why concessions are necessary when Ford is a viable company and didn't require a bankruptcy reorganization or U.S. bailout.

To allay some of those concerns, Ford agreed in the proposed pact to give workers a $1,000 performance bonus in March to represent the recent gains it has made in quality and productivity, said a person briefed on the talks.

Whitbread is cautious about hotel expansion

BY MICHAEL CAROLAN

LONDON—**Whitbread** PLC said Tuesday it is still too early to call the bottom of the market, despite some encouraging signs in its first-half results, and said it won't ramp up its expansion until the end of the year at the earliest.

The operator of Premier Inn hotels and the Costa Coffee chain said net profit for the six months to Aug. 27 was £73.6 million ($116.4 million), up 81% from the year-earlier period. Year-earlier results were hit by a £43.9 million deferred tax charge after the British government abolished a tax break for hotel buildings.

The momentum seen in the second quarter of the year had continued in the nine weeks since, it said, with Costa trading strongly, a robust performance in its pub restaurants and an improving trend at budget hotel chain Premier Inn.

"In the absence of a marked deterioration in the economic environment, we remain confident about the outturn for the year," said Chief Executive Alan Parker during a conference call with reporters.

Seymour Pierce analyst Hugh-Guy Lorriman said the update was reassuring with "trading going the right way in all divisions." He said the company had done a good job in concentrating on costs. Bank Of America Merrill Lynch agreed. "Whilst the economic environment remains tough Whitbread's focus on running its businesses more efficiently rather than going for aggressive room growth has paid off in margin terms," it said.

Last year, Whitbread was forced to scale back its expansion plans for Premier Inn, which contributes 70% of group profit, in the face of softening sales growth. It has instead focused on maintaining cash-flow neutrality and cutting costs until the recession is over.

Mr. Parker said it was far too early to call the end of recession. He said it was important for the company to be well prepared to increase the expansion of Premier Inn, however.

The company will open just 1,600 rooms in the U.K. this year, with a further 300 to 400 to open internationally. Premier Inn operates 42,500 rooms.

Cost cuts lift U.S. profits amid worries

As corporations dress up bottom lines, executives show concern over strength of recovery; reinvestment unlikely

BY MARK WHITEHOUSE
AND TIMOTHY AEPPEL

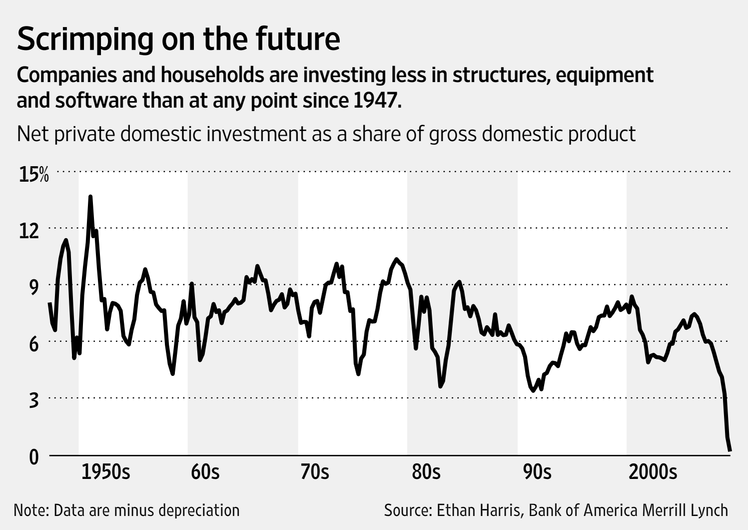
Stocks in the U.S. notched 52-week highs again this week, thanks to corporate America showing better-than-expected profits. But that optimism belies deep worries among company executives about the strength of the economic recovery.

Tool maker **Black & Decker** Corp. said earnings this quarter will be roughly twice its earlier forecast, while Dutch consumer-goods conglomerate **Philips Electronics** NV also reported an unexpected profit. The Dow Jones Industrial Average rose 20.86 points to 9885.80 on Monday, its highest close since Oct. 6, 2008, and it was holding near that level Tuesday afternoon.

Starting with aluminum giant **Alcoa** Inc., which Thursday reported its first profitable quarter in a year, 78% of the 32 U.S. companies that had reported as of Monday beat analysts' expectations. Even so, third-quarter earnings for S&P 500 companies are predicted to fall about 25% from a year earlier, according to data provider Thomson Reuters.

In an ominous sign for the economy, much of the profit is being eked out through cost cuts. Executives say they are hesitant to reinvest such profits into their businesses. With large portions of their factories, fleets and warehouses sitting idle, some say they probably won't see reason to do so for a year or more.

That means job growth and any significant rise in business spending could be a long time coming. That creates a chicken-and-egg problem at a time when the unemployment rate is already nearly 10%: Without more jobs, U.S. consumers will have a hard time increasing their spending; but without that spending, businesses might see little reason to start hiring.



Already, the economy is being starved of investment it needs to nurture growth. Net private investment, which includes spending on everything from machine tools to new houses, minus depreciation, fell to 0.1% of gross domestic product in the second quarter of 2009, according to the latest government data. That's the lowest level since at least 1947.

"Things have stabilized, but we're trying to be extremely cautious and not anticipate the recovery before it occurs," says William Zollars, chief executive of **YRC Worldwide** Inc., one of the biggest trucking companies in the U.S. "Like every other company in America, we're looking to cut back as much as possible."

Freight tonnage at YRC was down 35.3% from a year earlier in the second quarter. Mr. Zollars says he hasn't seen his clients, who range from retailers to heavy industry, doing much restocking to prepare for increased business.

In coming weeks, the details of earnings reports—including items such as capital expenditures, as well as revenues for companies that sell capital goods—will demonstrate the extent to which executives are turning their relative optimism and cash into actual investment.

Bellwether companies include **Intel** Corp., **International Business Machines** Corp. and **General Electric** Co., scheduled to report earnings this week, followed by heavy-equipment maker **Caterpillar** Inc. (Oct. 20) and conglomerate **Honeywell International** Inc. (Oct. 23). So far, the signs aren't good. Alcoa's $77 million profit came as the company slashed its research and development spending to $39 million, down 36% from a year earlier.

On Tuesday, **Johnson & Johnson** reported a 1% rise in third-quarter earnings, but its revenue slipped 5.3%, tempered by declining sales of three of its top-selling prescription drugs due to increased generic competition. The bottom line was helped by lower expenses across the board and a lower-than-forecast tax rate.

While companies are finding the credit-market thaw is making it easier to borrow money they would need to expand, many are stashing these funds rather than spending them. Of the 100 largest bond issues globally this year, only seven listed expansion, investment, capital expenditures or research and development as the purpose of the money-raising, according to Dealogic.

In industries ranging from apparel to heavy machinery, executives say they don't yet have enough faith in the recovery to take significant risks.

Guess Inc. President and Chief Operating Officer Carlos Alberini says the fashion company plans to open 17 stores in North America this year, compared with 60 last year. Guess intends to boost its store openings next year to develop new brands such as the G by Guess line, but the expansion plans are rare in an industry still dominated by caution, he says.

"The environment is more stable," says Mr. Alberini. "But most companies will probably take more time before they start investing in growth opportunities."

Even so, corporate executives on average say they are a lot more optimistic than they were a year ago, amid the financial turmoil that followed **Lehman Brothers Holdings** Inc.'s bankruptcy filing. In a recent survey conducted by the Conference Board, 51% of chief executives said they expect conditions in their industries to improve over the next six months, compared with 12% in the fourth quarter of 2008.

Economists are also more upbeat about the broader outlook for earnings. Consulting firm Macroeconomic Advisers expects corporate profits across the economy to rise 8.3% in 2010, after rebounding 27% this year from last year's 25.1% plunge.

One big obstacle: Many industries have excess capacity that, even if the economy perks up, will take many months to absorb. Mike Arnold, president of the bearings and power transmission group at **Timken** Co., says his company was running at only 35% of capacity as of the end of the second quarter.

Last month, Timken successfully raised $250 million through a bond issue, but the funds will be used to refinance long-term debt maturing in February. The company slashed its capital expenditures by more than half in the first six months of this year compared with the same period a year ago. Mr. Arnold says it has no plans to boost spending anytime soon.

"We've now spent the last 12 to 14 months just surviving," says Mr. Arnold, whose company is expected by analysts to report a loss of 25 cents a share on Oct. 29. Mr. Arnold says he isn't seeing signs of any upturn aside from the effects of government stimulus, which he views as transitory.

The cautious mood is reflected in companies' new orders for nondefense capital goods such as computers, trucks and office furniture, which in August were down 0.4% from the previous month and down about 20% from the same month a year earlier.

New openness raised the frequency of Radio Free Europe

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.

In mid-October 1989, Radio Free Europe was celebrating the opening of its newest bureau in Budapest, Hungary. It was quite a feat for a network that, not so long ago, had to overcome jamming of its frequencies and intimidation of local correspondents, who filed reports over the phone or through secret messengers.

East and West

As the Berlin Wall Fell

Established at the beginning of the Cold War, Radio Free Europe was modeled after RIAS, a U.S. government-sponsored radio service for Germans living in the American sector of Berlin. With its mission for free speech and the capitalist way, the network had earned loyal listeners, some of whom credited it with keeping hope alive during some dark times. "During the past four years, many of us have sat up until late at night listening to our radios," said one writer in Budapest. "There were some very brave broadcasts."

But the rapid changes brought on by *glasnost* and open borders had ushered in a new era of media competition, introducing new challenges for the network. "After decades of searching for scraps of news from Eastern Europe, the 1,000-member staff can hardly cope with all the information pouring in by fax, telephone and the now more daring local media," according to a wire report that ran in the Journal.

While Radio Free Europe could operate freely in Budapest, so could others. "They have a lot to do these days to compete with Hungarian radio," student Andrew Deak told the Journal. "The Hungarian [radio] reporters seem better informed and more critical about about what's going on here." The British Broadcasting Corp. and the U.S. State Department's Voice of America had begun broadcasting over Hungarian airwaves. Rupert Murdoch had bought 50% stakes in two popular and gossipy Hungarian newspapers, and Britain's Robert Maxwell was considering similar moves.

"The competitive spirit is clearly influencing Radio Free Europe, which is trying to beef up programs," the Journal wrote. A host of programs were introduced to lighten up the traditional diet of politics. And to attract younger listeners, Radio Free Europe highlighted Western rock groups. "The Pet Shop Boys are big this year in Budapest," the Journal wrote.

Associated Press

A Hungarian customs officer checks the passports of East Germans on the Hungarian side of the Austrian-Hungarian border, in this Sept. 11, 1989, file photo. Thousands of East Germans streamed across the border after Hungarian authorities lifted travel restrictions.

Romania cabinet rejected

Fall of government creates new hurdle to IMF demands

BY CHRISTOPHER EMSDEN

Romania's government fell in a parliamentary no-confidence vote Tuesday, becoming the latest political victim of a savage economic downturn in Eastern Europe.

The collapse, coming less then six weeks before Romania's presidential elections, could put a financial-rescue package from the International Monetary Fund in jeopardy, analysts said.

The development followed the withdrawal last week of Social Democrats from a coalition with Prime Minister Emil Boc's Liberal Democratic Party. The coalition—the product of a virtual tie in last year's national elections between the center-left and center-right parties—had struggled from the outset. Mr. Boc's government mustered only 176 votes of support from the 471-seat parliament Tuesday.

The vote forces President Traian Basescu to attempt to form a new cabinet capable of commanding a parliamentary majority before presidential elections begin Nov. 22. The presidential vote will go to a second round in early December if there is no majority winner in November.

The cabinet will be a lame duck at least until the presidential election outcome is known. If it fails then to win parliament's backing, parliamentary elections will be likely.

Mr. Basescu, a former oil tanker captain who is supported by Mr. Boc's party, is ahead in opinion polls but well short of a majority, according to a survey by CSOP, a Bucharest research institute.

The widely anticipated vote had only a modest impact on financial markets, briefly pushing the leu down 0.4% to 4.24 against the euro, its lowest level since March, but the currency rebounded later.

Romania's economy has suffered one of the sharpest economic turnarounds in Europe. It grew more than 8% last year but is expected to contract by more than 8% in 2009. The CSOP poll, published this week, found 60% of Romanians said their personal standard of living is much worse this year than in 2008. The economic crisis has already taken its toll on governments in Eastern Europe, contributing to the fall of governments in Hungary and Latvia.

Associated Press

Romanian Premier Emil Boc reacts during a confidence vote in Parliament in Bucharest on Tuesday. Lawmakers voted 254-176 to oust his government.

A caretaker government in Romania will struggle to pass legislation demanded by the IMF, putting its loan package at risk, said Elizabeth Andreew, an analyst for Nordea in Copenhagen. Negotiating the €20 billion ($29.56 billion) rescue package from the IMF and European Union was one of the coalition's first acts.

Romania has received about €6.9 billion of the €12.3 billion loan from the IMF that was part of the broader package.

The IMF demanded a sharp cut in public-sector personnel spending—in direct contradiction to what the two main political parties promised a year ago. Along with a prospective 15% cut in the civil-servant payroll, moves under consideration include an increase in the 19% value-added tax rate and possibly in the 16% flat income-tax rate.

"Politics continues to remain the one main Achilles' heel of Romania," said Simon Quijano-Evans, a strategist at Cheuvreux, the brokerage unit of Credit Agricole, in Vienna.

—Clare Connaghan in London contributed to this article.

Court overturns ban on Wilders entering U.K.

ASSOCIATED PRESS

LONDON—A Dutch lawmaker won his legal battle to be allowed into Britain, the U.K. government said Tuesday, after he had been banned from the country over fears he would provoke protests from Muslims.

Geert Wilders said he hoped to travel to London in the next few weeks to show his film "Fitna." The movie, which transposes images of verses from the Quran against footage of terrorist violence, has sparked violent protests around the Muslim world.

The British government, which this year banned Mr. Wilders from the country on public safety grounds, said it was disappointed by the Asylum and Immigration Tribunal's decision to allow him to visit.

He had been invited by a group of British lawmakers to present "Fitna" at the House of Lords, but Muslims threatened to protest and the government wrote to Mr. Wilders telling him he wasn't welcome.

He flew to Britain anyway, and was turned back at London's Heathrow Airport on Feb. 12. That led to criticism from the Dutch government and to debate in Britain over whether the government was effectively stifling free expression.

Britain's Home Office said Tuesday that it still considered Mr. Wilders a dangerous man and was considering an appeal.