Money & Investing: Galleon case shakes Sri Lanka

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

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Obama should ditch the U.N. rights council before it attacks the U.S. **Page 13**

Breaking news at europe.WSJ.com

Earnings give stocks a lift

Daimler is latest bellwether with an upside surprise; hitting 2009 highs

By Sarah Turner

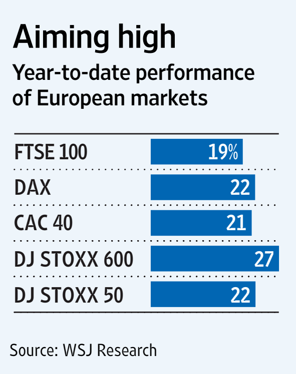
LONDON—European stocks jumped to their highest levels in more than a year, propelled by stronger-than-expected corporate earnings reports and modestly upbeat forecasts for the current quarter. The Pan-European Dow Jones Stoxx 600 rose 1.5% to 249.34, its highest level since Oct. 3, 2008.

U.K. and French shares also closed at their highest in more than a year. In Germany, shares rose nearly 2% but remain just below their highwater mark for 2009.

Stock prices also rose in the U.S. and most of Asia as investors continued to espy better times ahead. Even though the economic recovery remains uneven across the globe, investors have shown an increasing willingness over the past few months to take on risk. That has helped propel prices of share and other riskier assets.

One reason stocks have attracted attention is that interest rates remain at rock-bottom lows. That means investors eager to find yield of any kind are increasingly looking at equities. More fundamentally, the current earnings season is also helping drive positive sentiment. On Monday, German industrial giant **Daimler** became the latest bellwether to provide unexpectedly upbeat news.

The auto maker said preliminary data pointed to third-quarter earnings before interest and taxes of €470 million ($700 million). That exceeded previous forecasts of €150 million. Daimler shares rose 7%. Boosted by Daimler, the German DAX advanced 1.9% to 5852.56. The U.K. FTSE 100 rose 1.8% to 5281.54



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Savers hurt as DSB goes bankrupt

By Bart Koster

AMSTERDAM—Dutch **DSB Bank** NV was declared bankrupt Monday amid accusations from its chief executive that too little was done to save it following a run on deposits and as last-ditch attempts to keep it afloat came to nothing. Since DSB Bank collapsed, its depositors have been unable to access their cash. The Dutch deposit-guarantee plan, which is funded jointly by Dutch banks, will reimburse individual account holders a maximum €100,000 each ($148,940). Anything they are owed above that figure will be lost.

"We have tried everything, but did not succeed. It is over now," DSB Bank's owner and Chief Executive Dirk Scheringa said Monday on Dutch radio. The Amsterdam court handling the case said that "everything has been tried to continue DSB Bank's operations."

Dutch Finance Minister Wouter Bos said he hoped depositors will have access to their money by Christmas. In the interim, the administrators said depositors will be offered advances of as much as €3,000 each ahead of future settlements from the guarantee plan.

Such advances, which depositors will receive by Wednesday, are likely to total €300 million, the administrators said. They added that the settlements for lost deposits

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Pakistan's campaign against Taliban creates swarm of refugees

Agence France-Presse

COLLATERAL DAMAGE: A displaced family fleeing military operations against militants in South Waziristan transports belongings on a pickup truck through a security post in Dera Ismail Khan on Monday. **Page 4.**

EU weighs burden of hedging rules

By Matthew Dalton

BRUSSELS—The European Commission this week is expected to propose rules it hopes will push companies to trade derivatives in a less-risky way, but it is still discussing whether the rules make it too hard for nonfinancial companies to hedge risks.

The proposals being debated at the commission, the European Union's executive arm, have provoked opposition not only from financial firms that trade derivatives but also from airlines, energy firms and major exporters that use them. **Lufthansa** AG, **E.On** AG and other global corporations complained that an earlier set of proposals floated by the commission over the summer would make it more difficult and expensive to use derivatives to protect their profits against swings in interest rates, commodity prices and currencies.

The heart of the proposals, expected to be published by the commission this week, is a set of incentives for firms to settle their trades through clearinghouses—entities that stand between buyers and sellers of derivatives and absorb losses if a trader defaults. Most derivatives are currently traded over-the-counter between firms and settled bilaterally, with little oversight from regulators over whether firms are putting up enough money to cover losses.

Last year's near-collapse

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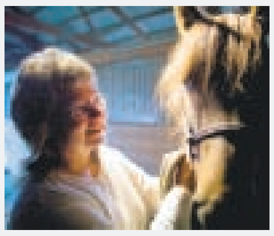

Working together

Slump prods firms to seek a new compact with staffers
News in Depth, pages 14-15

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	10092.19	+0.96
Nasdaq	2176.32	+0.91
DJ Stoxx 600	249.34	+1.53
FTSE 100	5281.54	+1.76
DAX	5852.56	+1.90
CAC 40	3892.36	+1.69
Euro	$1.4947	+0.48
Nymex crude	$79.61	+1.38

LEADING THE NEWS

FSA proposes mortgage changes

Effort seeks to reduce economic dangers of high-risk lending

By Adam Bradbery And Ilona Billington

LONDON—The Financial Services Authority proposed a set of changes Monday to the U.K.'s mortgage market with the goals of strengthening the market and making it fairer to consumers, but the agency stopped short of capping the amount buyers can borrow.

The overhauls are designed to reduce the risks to consumers and the economy from high-risk lending strategies and relaxed credit standards. Those strategies caused many borrowers to have trouble meeting repayments when the financial crisis struck.

"The mortgage market has seen extraordinary upheaval over the last 18 months, and whilst it has worked well for the vast majority of borrowers, some have suffered great financial distress," said Jon Pain, managing director of supervision.

The FSA proposals include plans to impose affordability tests for all mortgages, with lenders responsible for assessing a consumer's ability to pay. The proposals would also ban "self certification" products by requiring verification of a borrower's income.

The regulator, which was given oversight of the mortgage market in 2004, said it needs to deploy a more-interventionist approach to regulating the sector in a bid to "help protect consumers from themselves."

"I think we just have to recognize that both firms, and indeed consumers, don't always make the best decisions," FSA Chief Executive Hector Sants said in a BBC radio interview. "So we need a new approach to regulation, which is what the FSA is now carrying through."

The regulator also proposed banning the sale of mortgages containing "toxic combinations" of features that put borrowers at risk, and banning arrears charges when a borrower is repaying a mortgage to ensure lenders don't profit from people lagging behind on payments.

The FSA said it plans to publish proposals to toughen up the handling of these charges in January.

The FSA said for the first time that separate requirements for financial firms to hold more capital and buffers of government bonds to keep them afloat will impact lending activities in the country.

It said these requirements will curtail irresponsible lending in the market.

The FSA held back from imposing restrictions on the size of loans that can be made in relation to the value of the property, known as loan-to-value ratios.

Many lenders had speculated it might introduce such caps, but the regulator said the case for imposing such limits "is not clearly proven," though it didn't rule out their use in the future.

The rules aren't expected to have a big effect on the way most mortgage lenders operate because they have already tightened up their lending practices in a bid to weather the economic downturn and conserve capital.

Still, they may help to ensure that rises and falls in U.K. house prices are less drastic than they have been over the past three decades, some analysts said.

"To some extent, tighter or more-restrictive lending practice could impinge on the housing market in the months ahead," said David Page, U.K. economist for Investec Securities. "Demand is likely to be more subdued going forward—not necessarily from first-time buyers—but buy-to-let investors may now question the rationale behind their plans in the face of tighter lending rules."

The FSA proposals were welcomed by the Council of Mortgage Lenders, which represents businesses handling 98% of residential mortgage lending in the U.K.

"We agree with the FSA that regulation in itself cannot resolve the problems of the recent market," said Michael Coogan, CML director general. "However, we also agree that clearly delineated responsibilities, which remove regulatory ambivalence, will help lenders, intermediaries and consumers to know where they stand, and to accept the consequences of their actions."

The FSA said it will consult with financial institutions on its proposals until Jan. 30, 2010 and a feedback statement outlining their views will be published in March. The FSA said it couldn't give a time-scale for the introduction of the new rules but that the most important ones, such as those governing arrears charges, would be implemented first.

Bloomberg

Financial Services Authority Chief Executive Hector Sants

Regulating risk

Britain's Financial Services Authority is trying to clean up mortgage lending and make it fairer for consumers.

Some key features of the plan:

- Imposing affordability tests for all mortgages and making lenders ultimately responsible for assessing a consumer's ability to pay
- Banning 'self-cert' mortgages through required verification of borrowers' income
- Banning the sale of products containing certain 'toxic combinations' of characteristics that put borrowers at risk
- Banning arrears charges when a borrower is already repaying, and ensuring firms don't profit from people in arrears
- Requiring all mortgage advisers to be personally accountable to the FSA
- Calling for the FSA's scope to cover buy-to-let and all lending secured on a home

Source: Financial Services Authority

Slovakia echoes Czech conditions on Lisbon treaty

By Leos Rousek

PRAGUE—Slovakia will seek to be included in any opt-out clauses the Czech Republic gets from the European Union on the bloc's Lisbon Treaty, the Slovak Foreign Affairs Ministry said Monday.

The Czech Republic, the only EU state yet to ratify the treaty, is seeking additional guarantees that the treaty wouldn't reopen property claims by up to three million Sudeten Germans expelled from the then-Czechoslovakia after World War II.

Czechoslovakia confiscated houses and land left behind by Sudeten Germans, using decrees issued by then-Czechoslovak President Edvard Benes. These laws, known as the Benes decrees, are part of the legal systems of both the Czech Republic and Slovakia, the two successor countries of the former Czechoslovakia, which split peacefully in 1993.

"Following the new demand of the Czech president over the Benes decrees we have, against our will, become part of the process," the Slovak Foreign Affairs Ministry said.

Slovakia has already ratified the Lisbon Treaty, which includes limits on vetos by individual EU member states over some aspects of the bloc's legal authorities. The Czech government and parliament have ratified the Lisbon Treaty but the document can go in force only after Czech President Václav Klaus signs it into a law. Without his signature, the treaty won't be effective because it must be approved fully by all 27 EU member countries.

CORRECTIONS & AMPLIFICATIONS

The Mongolian government issued mining licenses for the deposits at the Oyu Tolgoi copper-and-gold deposit to **Ivanhoe Mines** Ltd. in 2003, and their development has been paid for solely by Ivanhoe Mines, without the use of state funds. An International Investor article Monday incorrectly referred to the deal as Mongolia's first mining privatization.

Magna International Inc. is negotiating to buy **General Motors** Corp.'s Opel unit. A headline accompanying a Corporate News article Monday incorrectly called it Magma.

One thousand megawatts are enough to power on average about one million U.S. homes. An article on space-based solar power in Monday's Journal Report on Energy incorrectly said 1,000 megawatts could power about 1,000 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

Iraqi officials hold U.S. event to find investors

By Gina Chon

BAGHDAD—The Iraqi government, backed by the Obama administration, kicks off its biggest post-Saddam investment roadshow in Washington Tuesday, to convince American businesses to join the country's reconstruction efforts.

Secretary of State Hillary Clinton is speaking at the opening day of the conference, which is considered to be the first major event under an agreement that outlines the long-term relationship between the two countries in economics, trade, education and culture. Senior White House officials have said the conference is a positive step for Iraq to move beyond war.

Dozens of Iraqi government officials, provincial governors, state investment commission authorities and others will give presentations. They will present overviews of sectors such as oil, agriculture and construction, which have been hobbled since the 2003 U.S.-led invasion, and investment opportunities in about 750 projects, according to National Investment Commission Chairman Sami al-Araji.

The conference comes at a time of relative optimism for foreign investors here. Parliament this month amended investment legislation that makes it easier for foreigners to secure land in Iraq for investment projects. The cabinet has approved a giant oil-field development contract—a $15 billion investment commitment from a consortium led by **BP** PLC. Oil officials are closing in on other big deals with majors including **Exxon Mobil** Corp. and **Eni** SpA.

Despite squabbles over the country's election law, pIraqi politicians have made improving the economy a top campaign message, as the country prepares for parliamentary elections slated for January and the massive pullout of American troops next year.

But the challenges are still daunting. While overall violence has ebbed, there have been several high-profile attacks in recent months, ahead of elections. The U.S. is holding back until it assesses the elections before making key decisions about the pace of its pullback.

There are also hosts of legal risks. For instance, Baghdad hasn't adopted key international arbitration agreements, nor has it finalized a pact with the U.S.-backed Overseas Private Investment Corp.—a key investment booster—that would allow OPIC to offer business-risk insurance here. The World Bank ranks Iraq No. 152 out of 181 countries when it comes to the ease of doing business.

"Investors will go where it's easiest to do business," so Iraq has to move faster to make itself more attractive to investors, says Patricia Haslach, head of economic affairs and development assistance at the U.S. Embassy in Baghdad.

The biggest potential roadblock for most U.S. companies in Iraq is corruption. American companies are generally under much closer scrutiny by U.S. regulators when it comes to overseas operations.

It isn't unusual for foreign-business representatives to be asked blatantly for kickbacks of as much as 20% of the value of Iraqi government-bid contracts, according to some businessmen here.

Mr. Araji, of the Iraq investment commission, concedes corruption is a huge issue.

Royal Mail aims to avert strike

Senior management, union members meet; arbitration possible

By Nicholas Winning

LONDON—Senior management at Royal Mail Holdings PLC met union representatives Monday in an effort to avert a nationwide two-day strike this week.

The Communication Workers Union said last week that 42,000 mail-center staff and drivers would strike Thursday and 78,000 delivery and collection staff would strike Friday to press for better pay and work conditions and a greater say in the company's modernization program.

The CWU and Royal Mail appeared to be warming to the possibility of using the Advisory, Conciliation and Arbitration Service, or ACAS, to mediate, although Royal Mail wants the strikes to be called off first, while the CWU wants no preconditions.

The British government, which owns 100% of Royal Mail's shares, has urged the two sides to settle their differences without work stoppages.

U.K. Business Secretary Peter Mandelson, who led a failed drive to sell a minority stake in the British postal service this year, has said the decision to strike is "suicidal" and would drive customers away from Royal Mail.

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.

Getty Images

A Royal Mail employee delivers letters and packages to a residential street on Monday in London.

LEADING THE NEWS

Kurdish rebels return to Turkey, surrender

Move bolsters efforts by government to end lengthy insurgency

By Nicholas Birch

ISTANBUL—In the first concrete sign that months of efforts by Turkey's government to end a 25-year Kurdish insurgency could bear fruit, eight Kurdish rebels crossed over the border from Iraq on Monday to give themselves up.

Accompanied by 26 Kurdish villagers who fled Turkey more than a decade ago, the members of the Kurdistan Workers Party, or PKK, were detained by police and taken in for questioning by Turkish prosecutors.

Though not the first time such a gesture has been made, it comes months into what Turkish Prime Minister Recep Tayyip Erdogan has described as his government's "democratic opening" to Turkey's Kurdish population, who make up about a fifth of Turkey's 70 million inhabitants. The PKK has fought a guerrilla war aimed at separating Kurdish areas from the rest of Turkey. Tens of thousands of people, mostly Kurds, have been killed since the fighting began in 1984.

"If they are released, then this is a historic turning point, the start of the PKK's descent from the mountains," Mehmet Metiner, a former adviser to Mr. Erdogan said of the eight PKK members, in a telephone interview.

The returning Kurdish villagers are likely be questioned and set free, according to Nusirevan Elci, one of 45 lawyers who traveled to the border to represent the group. About 11,000 Kurdish civilians who fled Turkey in the 1990s live in a United Nations refugee camp across the border in Iraq.

Agence France-Presse/Getty Images

Kurdish women chant slogans during a demonstration in support of peace groups in Istanbul on Monday.

It was unclear Monday what would happen to the PKK members. The PKK says that none of the eight took an active part in the war. They are expected to benefit from a law pardoning rebels not involved in violence. However, prosecutors could charge them with membership of a terrorist organization. Several PKK members who surrendered themselves in similar circumstances in 1999 are still in prison. The PKK is listed as a terrorist organization by the U.S. and the European Union, as well as by Turkey.

Since May, when Turkish President Abdullah Gül talked of "a historic opportunity" to bring peace to Turkey's impoverished and war-torn Kurdish regions, the country has engaged in an unprecedented, open debate on the Kurdish issue. But the ruling Justice and Development Party, or AKP, has yet to reveal details of Mr. Erdogan's opening.

In a three-page letter destined for the Turkish authorities, the PKK members who crossed the border Monday said they were handing themselves over "to assist in ending bloodshed ... and to strengthen the foundations of a peaceful solution."

"We want to show that we are on the side of peace, and we call for all sides to support the peace process," PKK spokesman Roj Welat said in a telephone interview from the group's headquarters in the Iraqi Kurdish mountains.

Acting on the orders of jailed PKK leader Abdullah Ocalan, who was captured and imprisoned in Turkey in 1999, a second "peace group" is expected to arrive in Turkey from Western Europe on Wednesday.

The PKK spokesman said it was "too early" to say whether Monday's "peace group" would be followed by others.

AKP politicians reacted cautiously to the news of the PKK group's arrival. "This should not be turned into a vehicle for propaganda," AKP Deputy Chairman Huseyin Celik told NTV, as Turkish television showed tens of thousands of Kurds gathered near the border to greet the group, waving flags and dancing. Devlet Bahceli, leader of Turkey's Nationalist Action Party, warned Sunday that Mr. Erdogan's opening to the Kurds amounted in fact to "the dissolution of Turkey."

Despite such opposition and previous false starts, Cevat Ones, a former deputy head of Turkey's domestic intelligence service, said in a telephone interview that Turkey has changed radically over the past decade, increasing the chances for success.

"On one side you have a country which is ready for peace and a government with the will to push it through, on the other a terrorist group which knows that war is no longer an alternative," he said. If the government now announces a road map for change, and the PKK pulls an estimated 2,000 militants into Iraq from Turkey, Mr. Ones added, "the PKK could be persuaded to disarm completely within six months."

Refugees flee South Waziristan amid Pakistan offensive

Pakistani forces closed in on the hometown of the Pakistan Taliban's leader Monday, pursuing its offensive into the South Waziristan tribal region while swarms of refugees streamed out of the area.

By ***Zahid Hussain*** *in Islamabad and* ***Rehmat Mehsud*** *in Peshawar*

The long-awaited invasion is aimed at dismantling a Taliban mini-state in a region that has become a base for al Qaeda and a magnet for jihadis. U.S. officials have said they are providing surveillance and intelligence feeds to support the effort.

The Waziristan offensive against the Pakistan Taliban, which began over the weekend, has eased a controversy between Islamabad and Washington over a \$7.5 billion American aid package. On Monday, top U.S. officials met their Pakistani counterparts in a bid to ease concerns over conditions attached to the assistance.

Since the start of the Waziristan operation before dawn Saturday, the army has killed 78 militants and lost nine soldiers, said Maj. Gen. Athar Abbas, spokesman for Pakistan's military.

Gen. Abbas told reporters that the roughly 30,000 soldiers taking part in the operation had made significant progress, despite the presence of about 10,000 battle-hardened Pakistani and foreign militants, many of whom had taken up well-defended positions in the mountainous region.

"The troops have come under intense attack in many areas," Gen. Abbas said. "The insurgents have vowed to fight until the end."

The army has secured the hills around the village of Koktai, the birthplace of Hakimullah Mehsud, who took over the Pakistan Taliban in August after its founder was killed in a U.S. missile strike. Pakistani officials blame Mr. Mehsud's Taliban faction for the vast majority of terror strikes in the South Asian nation.

Mr. Mehsud isn't believed to be in the village but its capture would represent a propaganda coup for the military, Gen. Abbas said. He didn't offer an idea of when the army expects Koktai to fall.

Residents of the region confirmed Gen. Abbas's report. Reporters are barred from South Waziristan. The Taliban issued no statements Monday, although a day earlier the group reiterated pledges made since 2004 to defeat the army in South Waziristan.

Residents of South Waziristan also expressed their desperation to escape, and spoke of difficulties in finding food and shelter once they were out of the region. Resentment among the refugees—who number between 100,000 and 150,000—is rising.

"Why are we made refugees in our own country? Is the government so weak that it cannot control some criminals in the South Waziristan without disturbing the peaceful population?" asked Muhammad Kaleem.

Mr. Kaleem, 35, said he left his village at the start of the fighting and is now living with 12 family members at a mosque in Tank, a town east of South Waziristan that is now sheltering tens of thousands of refugees. Many, like Mr. Kaleem's family, are living on handouts. "Why are we made beggars in our own country?" he said.

Associated Press

A Pakistani official in Dera Ismail Khan checks identification cards of individuals fleeing South Waziristan, where Pakistan is fighting against the Taliban.

Pakistani officials defended their handling of the South Waziristan refugees, saying that they had prepared for the exodus and are already meeting the needs of those fleeing, by providing them with money for food and essentials.

Refugee camps have been established in Tank and Dera Ismail Khan, another town near the South Waziristan border, officials said, noting that they expect at most 200,000 people to seek shelter in the next few weeks. Officials said the South Waziristan situation isn't likely to become a humanitarian crisis akin to that in the Swat Valley earlier this year, where two million refugees strained government and U.N. resources.

Pakistan officials also claimed an advance beyond South Waziristan against the militants. The government crackdown on the Mehsud faction of the Pakistan Taliban, an offshoot of the Afghan movement, reached the southern city of Karachi, where authorities arrested the group's chief there along with three other alleged militants.

Karachi Police Chief Waseem Ahmed identified the suspect as Akhtar Zaman. He said Mr. Zaman was behind a foiled attempt last month to attack an oil terminal and was plotting fresh attacks.

The Waziristan offensive has somewhat shifted Pakistan's focus from a diplomatic scrap over the U.S. aid package that is conditioned on tighter civilian controls on the military and a strong commitment to fighting Islamist militancy. The army and political opponents of President Asif Ali Zardari decried the conditions as a violation of Pakistan's sovereignty, sparking a debate about the country's relationship with the U.S.

On Monday, one of the package's architects, Sen. John Kerry, and U.S. Central Command chief, Gen. David Petraeus, separately met with Pakistan's civilian and military leaders in part to ease concerns over the conditions, said a foreign ministry official.

No details of the meetings were available. Prime Minister Yousuf Raza Gilani issued a statement after meeting with Sen. Kerry, saying the U.S. must address Pakistan's concerns through "tangible initiatives." He didn't elaborate on what form those initiatives could take.

Still, Mr. Gilani said he hoped the conditions wouldn't keep Washington from handing over the aid.

LEADING THE NEWS

Bernanke warns on trade deficits

U.S. Fed chief says imbalances are threat to the global economy

BY JON HILSENRATH

SANTA BARBARA, Calif.—Large U.S. trade deficits with developing countries, though smaller than they were two years ago, remain a threat to the global economy, Federal Reserve chief Ben Bernanke said Monday in a speech that called on policy makers in the U.S. and Asia to address the issue.

Mr. Bernanke's comments—in which he called on Asian leaders to build better pension systems and increase government spending and on the Obama administration to address the U.S. budget deficit—reflect a growing consensus among world leaders on the need to rebalance global economic growth so it depends less on U.S. consumers.

Between 2000 and 2006, the gap between U.S. exports and imports widened from $450 billion to more than $700 billion. As a percentage of the country's gross domestic product, the gap soared to more than 5% of GDP from less than 2% in the mid-1990s.

The U.S. shipped dollars overseas to buy foreign-made goods. Many emerging-market central banks, wary of letting their currencies appreciate against the dollar and hurting their own export-led growth, recycled those dollars by purchasing U.S. Treasury bonds and other debt.

Ben Bernanke

Speaking at a Federal Reserve Bank of San Francisco conference on Asia, Mr. Bernanke said the U.S. financial system was "overwhelmed" by the inflow of capital. "We must avoid ever-increasing and unsustainable imbalances in trade and capital flows," he said.

The U.S. trade gap has narrowed to less than 3% of GDP as U.S. consumers have cut back amid the economic slowdown. China's trade surplus has also narrowed, from 10% of GDP to about 6.5%. Mr. Bernanke pointed to data showing that industrial production in many Asian economies is growing faster than exports, a sign that domestic demand there is outpacing exports and imbalances are improving.

But Mr. Bernanke warned that as the global economy recovers, imbalances may reappear. "Policy makers around the world must guard against such an outcome," he said.

One result of concerns about the U.S. trade deficit—although Mr. Bernanke didn't say so explicitly—could be a weaker U.S. dollar against currencies in developing economies such as China and India. A weaker currency would make U.S. exports cheaper overseas and thus more competitive, and it would make imports more expensive and thus less competitive. The dollar has weakened substantially in recent months, mainly against currencies other than China's.

Morris Goldstein, a fellow at the Peterson Institute for International Economics, a Washington think tank, said that unless China's currency appreciates more rapidly, rebalancing global growth "is going to be an uphill battle."

Mr. Bernanke on Monday was careful to avoid drawing the dollar into his prescription for more balanced global trade.

He also didn't single out China by name but said, "Trade surpluses achieved through policies that artificially enhance incentives for domestic saving and the production of export goods distort the mix of domestic industries and the allocation of resources" and yield "an economy that is less able to meet the needs of its own citizens in the longer term."

Mr. Bernanke emphasized that smaller U.S. budget deficits would preserve confidence in the dollar and help rebalance global growth by pushing America toward more saving.

"The most effective way to accomplish this goal [of more saving] is by establishing a sustainable fiscal trajectory, anchored by a clear commitment to substantially reduce federal deficits over time," he said.

Bank of Japan may soon stop purchasing debt

BY TAKASHI NAKAMICHI AND TOMOYUKI TACHIKAWA

TOKYO—Some Bank of Japan policy board members said at their September meeting that the bank's emergency steps to support corporate fund raising were becoming less important, a sign that the central bank may soon end its policy of buying corporate debt, BOJ minutes showed.

BOJ Governor Masaaki Shirakawa also said banks are more willing to lend as Japan's economy picks up, while companies are finding it easier to raise funds in the corporate bond market.

The BOJ September minutes and Mr. Shirakawa's comments reinforce the view that the bank is likely to unwind its corporate-bond and commercial-paper buying operations in December as scheduled.

The BOJ's rising optimism reflects a growing trend, with the Federal Reserve and the European Central Bank recently raising their economic outlooks.

—Takashi Mochizuki contributed to this article.

CORPORATE NEWS

Luxury-goods recovery remains a ways off

LVMH posts 0.6% drop in third-quarter sales but says wholesalers seem poised to resume restocking

By Christina Passariello
And Vanessa O'Connell

LVMH Möet Hennessy Louis Vuitton, the world's largest luxury-goods company, Monday said third-quarter sales slipped 0.6%, the clearest sign yet that the industry hasn't emerged from the consumer-spending crash that brought years of booming growth to a halt.

Meanwhile, a new forecast from consultants **Bain** & Co. said that the luxury-goods industry likely won't fully recover from the downturn until 2011 or 2012. This year's decline in sales of luxury goods, including apparel, jewelry and fashion accessories, will be steep, off 8% to about $227 billion, Bain predicts.

In April, Bain was predicting a 10% world-wide sales drop for 2009, a forecast that was based on an expected 20% plunge in first-half sales followed by stabilization in the second half. At constant exchange rates, the new full-year forecast is for a drop of 11%, according to the Bain report, which uses the euro for its study.

Steep declines in LVMH's champagne and watches businesses brought the company's overall sales down to €4.14 billion ($6.17 billion), a slight decline from €4.16 billion last year. The company, a bellwether for luxury goods, said all of its divisions performed better than in the first half, but it declined to give a full-year profit forecast. The 0.6% drop compared with a 0.2% rise to €7.81 billion in the first half.

"I don't think we can say the crisis is over, but we can start to see the light at the end of the tunnel, even though the light is far away," said Chief Financial Officer Jean-Jacques Guiony.

The company said the "destocking" trend may be ending.

Bloomberg News

A pedestrian walks by a Louis Vuitton shop in Paris. The accessories brand accounts for a big chunk of LVMH profit.

Echoing the sentiment, Deutsche Bank on Monday upgraded its forecasts for the sector for the first time in almost two years, saying that it sees signs that destocking by retailers is finally winding down.

Claudia D'Arpizio, a Bain retail consultant based in Milan, said, "We are seeing less discounting and markdowns, and more signs of increasing consumer confidence."

But recovery is a ways off. "We expect the market to start again in 2011, with growth of 5% or 6%," she said. "But in terms of absolute value, the overall luxury-goods market will not be back at the levels of 2008 and 2007 until 2012 at the earliest."

The U.S., which accounts for roughly a third of luxury-goods sales, remains the worst-hit market. Bain expects U.S. sales of high-end clothing, accessories, tableware, cosmetics and jewelry will drop 16% this year.

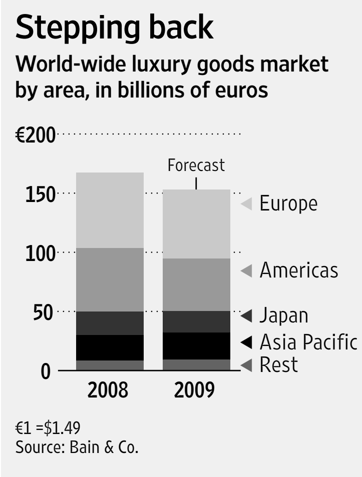
That compares with expected sales declines of 10% in Japan and 8% in Europe. Together, the three "mature" consumer markets—the U.S., Japan and Europe—make up more than 80% of world-wide luxury-good sales.

A projected 10% rise in sales of luxury items in Asia may help to partially offset some of the declines, Bain said. The consulting firm expects a 12% increase in 2009 luxury-goods sales in mainland China.

Luxury-goods companies have sent mixed signals about a recovery. Tiffany & Co. and Burberry PLC have both sounded optimistic tones in the past two months, but Compagnie Financiere Richemont, the owner of Cartier, last month declined to say the worst had passed. LVMH is the first luxury-goods company to report third quarter sales.

Retailers have drastically cut their inventory of luxury products over the past year, hitting LVMH's champagne and watch divisions particularly severely. Wine and champagne sales tumbled 17% in the third quarter, while watch sales fell 22%.

LVMH's star fashion brand, Louis Vuitton, buttressed the group's performance. In the third quarter, sales



growth topped 10%, including the positive impact from currency-rate fluctuations. Vuitton contributes nearly half of LVMH's operating profit, analysts estimate, and the brand is able to resist markdowns.

LVMH's other fashion brands, including Marc Jacobs, Givenchy and Fendi, suffered from cuts in department-store budgets.

For the holiday season, the expected decline in luxury-good sales is an improvement over last year's miserable results, when sales of high-end goods fell by double-digits.

Bain's Ms. D'Arpizio said high-end retailers aren't likely to go on a markdown binge this holiday season.

"We will see a stabilization in the rules of the game," Ms. D'Arpizio said. "We won't see the kind of markdowns and discounts that we saw at this time last year, because the stores aren't as stocked" with inventory.

Luxury-goods sales in 2008 fell 2% compared with the prior year, according to Bain's latest report.

Ad executive bounces back from loss of major client

By Ruth Bender

DEAUVILLE, France—For Mercedes Erra, executive president of advertising agency Euro RSCG Worldwide, the loss of major client **Carrefour** SA at the start of the year came as a shock, but amid the depths of a global ad slump, it wasn't something she had the luxury to dwell on.

Despite tough competition, Euro RSCG—the biggest unit of French ad giant **Havas** SA—has won a series of ad deals in past months. That business is expected to help keep its revenue in France steady this year, despite the downturn.

Adding clients such as French department store Galeries Lafayette, utility **Électricité de France** SA, winemaker Jacob's Creek and cosmetics company **Clarins** SA went some way toward balancing out the loss of the Carrefour account to **Publicis Groupe** SA, Euro RSCG's biggest rival in France.

"The loss of Carrefour was a shock. We had to work hard to win to make up for it, as it was out of the question that we fire people," Ms. Erra said.

She added that the 80 agency employees who used to work on the account of the world's second-largest retailer, after Wal-Mart Stores

Agence France Presse

Mercedes Erra, shown during the Women's Forum in Deauville, France, Oct. 16.

Inc., have been reallocated to new clients.

Because salaries typically represent about 55% to 65% of an ad agency's expenses, the industry often responds to downturns by cutting jobs to counter falling revenue. While agencies regularly fight for new clients, competition to win pitches grew fiercer amid the crisis.

"This is not a healthy way of working. Agencies shouldn't be obliged to dedicate their time to winning new business every year to sustain the agency; we should be able to dedicate all our time to our clients. But there was a crisis and winning was the only way out, so we worked like crazy at the expense of sleep," Ms. Erra said in a recent interview on the sidelines of the Women's Forum here.

Ms. Erra, one of the most successful women in French business, is known for her expertise in the creation and management of global brands.

Having started her ad career at Saatchi & Saatchi, now owned by Publicis, Ms. Erra co-founded BETC Euro RSCG, the French agency of Euro RSCG Worldwide, in 1994.

A managing director of Havas, she also serves as vice president of the French Association of Advertising Agencies and is a Chevalier de la Legion d'honneur, France's highest accolade

New York-based Euro RSCG Worldwide, the world's largest ad-agency network by number of global clients, accounts for 61% of the €1.57 billion ($2.34 billion) in revenue Havas posted last year.

Ms. Erra said Euro RSCG's revenue in France, its second-largest market after the U.S., is expected to be flat this year compared with 2008, thanks to the new business it won. However, overall revenue should decline in line with the global market, falling about 8% to 9%. Next year "won't be glorious," she added.

The executive, who is in charge of advising Euro RSCG's biggest clients, such as **Danone** SA, **Kraft Foods** Inc. and **Peugeot** SA—said the agency's clients on average have cut ad spending by 8% since the start of the year. Negotiations with clients over the fees agencies receive for the services they provide also have become tougher.

"On average, in times of crisis clients cut fees between 5% and 20%," Ms. Erra said. "We try to avoid selling ourselves too cheaply, but you have to be generous sometimes. Ten years ago, just by keeping our client basis steady, revenues grew 2% or 3%. Today, the challenge is to stay at zero by balancing out the drop in spending with new client additions."

Ms. Erra was reticent about forecasting when the market would recover, echoing cautious statements from Havas Chief Executive Fernando Rodes Vila and others.

On Monday, ZenithOptimedia, a unit of Publicis, again cut its forecast of global ad spending, saying it would fall 9.9% this year, compared with the 8.5% decline it predicted at the end of July. It expects spending to grow just 0.5% next year, down from its previously forecast 1.6%.

"The crisis is not behind us," Ms. Erra said. "But I don't believe things will get worse. I am pretty confident that things will start to slowly improve next year. I think we will see a return to slight growth in 2010."

CORPORATE NEWS

Toyota aims to keep up sales pace

End of subsidies to buyers could hurt Japanese sales

BY YOSHIO TAKAHASHI

TOKYO—**Toyota Motor** Corp. President Akio Toyoda said Monday the company aims to maintain solid domestic sales performance even as Japanese government subsidies to buyers expire at the end of March.

Also Monday, **Nissan Motor** Co. President and Chief Executive Carlos Ghosn said he expects fuel-cell cars to follow battery-powered electric vehicles to become green cars in the future.

"Fuel-cell will come five years, 10 years down the road," he said in a speech at the Foreign Correspondents' Club of Japan. "Fuel-cell will be the second wave to come after."

The comments came ahead of the biennial Tokyo Motor Show, which opens to the media on Wednesday. Japan's auto makers will display electric concept cars but no major U.S. or European car makers are participating this year, a sign of the industry's retrenchment.

Speaking Monday at a news conference for the launch of Toyota's redesigned Mark-X sedan, Mr. Toyoda said, "to be honest, we hope [the subsidies] will continue." But he added, "we aim to maintain [the current momentum] even without" the government's support.

The Japanese government's budgetary request for the next fiscal year outlined last week didn't include funds to continue buyer incentives for fuel-efficient vehicles, which could hurt car makers struggling with slow domestic demand.

Government measures helped Toyota post a rise in domestic auto sales in August for the first time in 13 months. According to the Japan Automobile Manufacturers Association, the subsidies and tax breaks will create demand for one million vehicles this year in Japan, even as the country's auto sales are expected to drop to 4.86 million vehicles, the lowest level in 31 years.

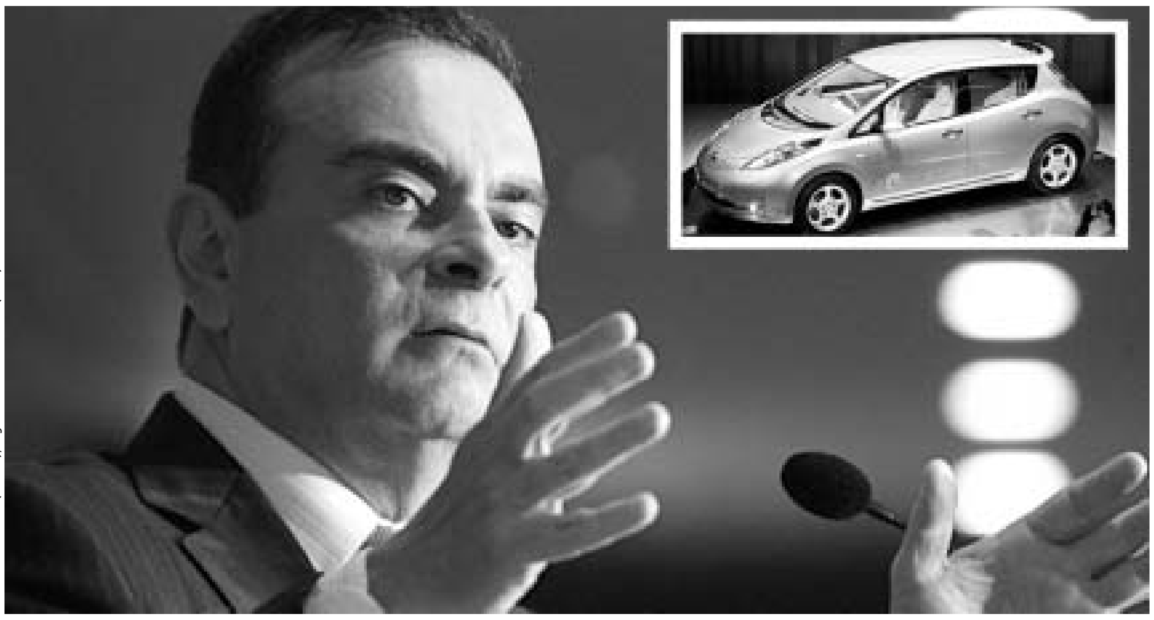
The subsidies, along with tax breaks for purchasers of fuel efficient cars that are effective over three years that started in April, helped boost the number of visitors to Toyota dealerships, Mr. Toyoda said. He said the world's biggest car maker by sales volume will try to take advantage of this recent increase in customer contacts to prompt them to keep looking at Toyota vehicles.

Nissan, Japan's third-biggest car maker by sales after Toyota and Honda Motor Co., has been developing fuel-cell cars, powered by electricity that is generated by a chemical reaction involving hydrogen and oxygen. But in the near term Nissan plans to launch battery-powered electric cars.

Mr. Ghosn, who also heads France's **Renault** SA, said the two differ from rivals because they are developing batteries, which he called a core technology not only for electric cars but also fuel-cell vehicles. "We are ready to sell batteries" to others, he added.

At this week's show, Nissan plans to exhibit its Leaf electric car, which it unveiled earlier this year. The Leaf will debut in late 2010, Nissan said. It also plans to show the Land Glider, a two-seat concept vehicle powered by lithium-ion batteries. Toyota will show a mini four-seat electric car called FT-EV II, which it says can run more than 90 kilometers (56 miles) on a full charge of its lithium-iron batteries.

—Norihiko Shirouzu contributed to this article.



Tomohiro Ohsumi (Ghosn); Agence France-Presse (Leaf)

Carlos Ghosn, CEO of Nissan and Renault, said Monday in Tokyo that it is crucial for a car maker to develop batteries as it will be a core technology not only for electric cars but also for fuel-cell vehicles. Inset, Nissan's electric car, the Leaf.

Continental taps chairman, finance chief

BY CHRISTOPH RAUWALD

FRANKFURT -- **Continental** AG's supervisory board Monday named as its chairman Wolfgang Reitzle, the chief executive of gases and engineering company **Linde** AG.

Investors will hope Mr. Reitzle, one of the country's highest-profile executives, can help steer Continental through the worst downturn in the industry since World War II and mediate talks with the auto-parts and tire maker's largest shareholder, **Schaeffler Group**.

The 60-year-old Mr. Reitzle joined BMW AG in 1976 and worked his way up from being a specialist for manufacturing to becoming a member of the German luxury car maker's executive board. He left BMW in 1999 and joined Ford Motor Co. as head of the Premier Automotive Group unit, assuming responsibility at the time for the Jaguar, Volvo, Aston Martin and Land-Rover nameplates. Mr. Reitzle joined Linde as executive board member in 2002 and took over as CEO in 2003.

Unlisted German engineering company Schaeffler last year launched a hostile-takeover offer for its much-larger peer, triggering the departure of many top-level executives at Continental. However, the takeover attempt ran into trouble as the credit crunch and economic downturn left Schaeffler unable to fund the full takeover of Continental and the two companies saddled with debt just as industry sales were sliding. Schaeffler holds a 49.9% stake in Continental and has parked an additional 40% with banks.

Continental and Schaeffler combined are burdened by about €20 billion ($30 billion) in debt following Schaeffler's stake-building in Continental, and Continental's earlier acquisition of Siemens AG's automotive-electronics division, VDO.

Continental Monday also said Wolfgang Schaefer is set to take over as chief financial officer and that Jose Avila will join the company's executive board with responsibility for the powertrain division. Both appointments are effective Jan. 1.

Mr. Schaefer is finance chief at German automotive supplier Behr GmbH. Behr is based in Stuttgart and specializes in producing air-conditioning and engine-cooling systems.

Mr. Avila joins Continental from Delphi Corp., where he is general manager of the U.S. supplier's Diesel Systems unit.

"With the personnel decisions made today, the executive board...is now complete and well structured," Mr. Reitzle said in a statement.

Other Opel bidders can get German aid

BY VANESSA FUHRMANS AND CHARLES FORELLE

The German government, acquiescing to a request from European Union regulators, said it formally notified **General Motors** Co. that the €4.5 billion ($6.7 billion) in aid it pledged for GM's Opel division was available to whatever bidder the U.S. auto maker chose.

The government gave the written assurance after the EU's antitrust chief said late Friday that she was concerned Germany appeared to have made the loan package contingent on Opel going to a consortium led by **Magna International** Inc. GM should therefore be allowed to reconsider the bid with no strings attached, European Competition Commissioner Neelie Kroes wrote in a letter to German Economics Minister Karl-Theodor zu Guttenberg.

It is now up to GM to decide whether to reopen the bidding. After weeks of voicing unease about the planned sale, EU competition officials suggested that GM could resolve those worries simply by saying that the aid conditions wouldn't have changed its mind about the winner of the Opel auction.

"If the German authorities were to inform us that General Motors and the Opel Trust had decided, on the basis of the new assurances, that they could choose anybody, that they'd have still gone with Magna, or that they had decided to go with somebody else, then that would be good," said Mrs. Kroes's spokesman, Jonathan Todd. "The ball is now in the companies' court."

GM continues to prefer a sale to Magna, people familiar with the matter said over the weekend, though it may need to revisit the bidding process that led to the preliminary sale agreement. If the deal should fall through, GM executives are prepared to move to their Plan B of holding on to Opel and implementing deeper restructuring moves than Magna plans, those people said.

Under that scenario, GM would finance the restructuring by soliciting government support or putting Opel into insolvency.

Considering another bidder currently appears to be off the table. Belgian private-equity group **RHJ International** Inc., which made a bid for Opel over the summer, said Monday it no longer was interested.

GM's senior management had initially favored the RHJ bid, then weighed keeping Opel after all. But once it became clear that Germany's offer of financial aid was open only to Magna, GM's board agreed to a marriage with Magna.

Chancellor Angela Merkel's government is eager to preserve the sale to Magna and its Russian partners, car maker OAO **GAZ** and state-controlled OAO **Sberbank**, whose Opel plan calls for cutting the least jobs in Germany. Government officials said they were hopeful that deal would proceed as planned. "There is no reason to call into question previous decisions," said Mrs. Merkel's spokesman, Ulrich Wilhelm.

Magna, meanwhile, is still trying to resolve other snags. Under the deal, Opel workers would hold 10% of the auto maker, while Magna would get 55%, and GM would retain 35%. In exchange, Opel's unions would agree to €265 million in annual cost concessions.

But while unions elsewhere have reached agreements with Magna, Spanish labor leaders rejected cuts at Opel's Zaragoza plant in northern Spain, the Associated Press reported. On Monday, they threatened a possible strike and said they would decide on any action later this week.

Daimler rushes out quarterly results, lifting shares

BY CHRISTOPH RAUWALD

FRANKFURT—Daimler AG said its third-quarter earnings and cash flow were stronger than analysts had expected, leading the German auto maker to release preliminary figures ahead of the scheduled date.

Daimler said third-quarter earnings before interest and tax, or EBIT, came in at €470 million ($700 million), while revenue was €19.3 billion. The EBIT figure includes adjustments and special items at Daimler's Freightliner and Fuso truck units.

In 2008, Daimler posted €648 million in third-quarter EBIT and €23.8 billion in revenue.

Monday's announcement sent Daimler shares sharply higher. The stock closed up €2.46, or 7%, at €37.62 in Frankfurt.

Daimler's closely watched net liquidity stood at about €6.7 billion at the end of the third quarter, up from €4.6 billion at the end of June.

The company was scheduled to release earnings Oct. 27. Daimler said it released the figures early because its preliminary numbers were better than analyst consensus forecasts, but the company didn't cite specific analyst figures.

Daimler said its core Mercedes-Benz Cars division, which comprises the Mercedes-Benz, Smart and Maybach nameplates, swung back into the black, posting €355 million in third-quarter EBIT after a loss of €1.46 billion in the first half.

The company's truck unit, the world's largest truck maker by sales, posted an EBIT loss of €127 million.

The Stuttgart-based company's industrial business generated free cash flow of €2.3 billion in the first nine months of this year, including €2 billion in the third quarter alone.

The company said it expects "a positive free cash flow in the industrial business in full-year 2009.

CORPORATE NEWS

ABB expects $1 billion profit

Expenses related to EU probe will be less than expected

By Katharina Bart

ZURICH—Power-transmission and automation company **ABB** Ltd. said it will report third-quarter net income of about $1 billion after setting aside less money than expected related to a European Union probe into alleged price fixing.

The predicted earnings would represent a rise of about 7.9% from the $927 million net profit ABB recorded in the year-earlier quarter.

The Swiss company said it will book a $380 million gain related to the reversal of a provision it made after the EU fined six companies, including ABB, a total of €67.6 million ($100.7 million) for alleged collusion in the power-transformers market. ABB received the highest EU fine, €33.8 million, because the company had participated in a similar cartel before, the EU said.

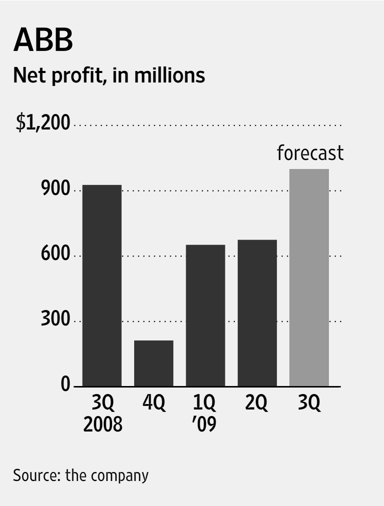
But ABB said it will set aside more money to cover the cost of doing business in Russia. The higher provisions in Russia are linked to a continuing tax dispute, ABB said. "As a result, ABB continues reviewing the situation and assessing its business model in Russia," the company said. A spokesman declined to provide further details.

Analysts drew reassurance from ABB's statement, which comes ahead of final quarterly earnings, scheduled to be reported Oct. 29.

"The announcement removes the uncertainty regarding the provisions related to anti-competitive practices and we see this as evidence of ABB's conservative provisions management," Bank Vontobel analyst Patrick Rafaisz wrote.

In the power-transformers probe, the European Commission, the EU's executive arm, also fined France's Areva SA and Alstom SA, as well as Japan's Fuji Electric Holdings Co., Hitachi Ltd. and Toshiba Corp. The commission said the companies had an oral market-sharing deal under which the makers of power transformers promised to stay out of each others' markets.

The companies' agreements to divide the market "artificially hiked prices," causing harm to customers and to European taxpayers for a number of years, said Neelie Kroes, the EU's competition commissioner.




An ABB employee works in a power control room

Bloomberg News

Jumbo wins battle to buy rival grocer

By Robin van Daalen

AMSTERDAM—Dutch food retailer **Jumbo Holding Groep** BV on Monday effectively won the battle to acquire rival **Super de Boer** NV when it raised its offer to €552.5 million ($822.9 million), knocking **Sperwer Holding** BV out of the race.

The combination will put pressure on Ahold NV, the Dutch market leader, which operates the Albert Heijn supermarket chain.

Jumbo had raised its offer for Super de Boer from the €480 million it originally offered, topping Sperwer's €515 million counterbid. Super de Boer is majority-owned by French supermarket operator **Casino Guichard-Perrachon** SA, which said it supports the Jumbo offer.

Consolidation in the Dutch supermarket sector had long been expected as food retailers look to improve their purchasing power and entice increasingly price-sensitive consumers. To stay competitive, retailers need to bulk up to save on buying and distribution costs.

"The position of the combined businesses...will be substantially stronger," Jan Brouwer, chief executive of Super de Boer, said in a prepared statement.

The deal paves the way for Jumbo and Super de Boer to create a joint purchasing organization together with Dutch peer Schuitema NV, owned by private-equity group CVC Capital Partners Ltd.

Ahold and Superunie, a group with about 15 members, are the Netherlands' biggest purchasing organizations. As of last year, Ahold and Superunie each controlled 31% of the market, while the combined market share of Super de Boer, Jumbo and Schuitema would amount to about 25%. However, Superunie has lost about 5% of its market share as Jumbo's membership in the group ended after it announced the intention to start its own purchasing organization.

Jumbo will sell 80 of Super de Boer's supermarkets to Schuitema, which operates the C1000 chain.

After the deal is completed, Super de Boer, a listed company, will be dissolved.

—Amelie Baubeau and William Horobin in Paris contributed to this article.

AvtoVAZ sets bond issue in bid to avert bankruptcy

By William Bland

TOGLIATTI, Russia—Troubled Russian car maker OAO AvtoVAZ, part-owned by France's Renault SA, said it plans to issue convertible bonds valued at 50 billion rubles ($1.7 billion) to repay debt, adding that it won't rule out filing for bankruptcy if its efforts fail.

If it succeeds in refinancing its debt to Russian state-controlled banks through the bond issue, for which it wants government backing, AvtoVAZ will seek to borrow at market rates to finance an investment program through 2014, Chief Financial Officer Oleg Lobanov said Monday. Otherwise, it is prepared to consider restructuring its debt to state-controlled banks, including OAO Sberbank, OAO Bank VTB and the state development bank Vnesheconombank, he said.

The unprofitable car maker, based in the Russian city of Togliatti, has been cutting its bloated work force to cope with a slowdown in demand. Chief Executive Igor Komarov aims to reduce the work force, which totaled 102,000 on July 1, to 90,000 by Dec. 1 and about 80,000 by 2012. AvtoVAZ's plant made eight cars an employee in 2008, compared with 28 cars an employee at Renault's Moscow factory.

Renault bought a 25% stake in AvtoVAZ last year with the goal of helping to modernize the ailing car maker, still best known for its boxy, outdated Lada sedan. The Lada brand accounted for almost a quarter of the cars sold in Russia last year, but demand has fallen by more than half as an economic downturn has boosted unemployment and reduced bank lending.

To cope, AvtoVAZ has been cutting production and worker hours. Average salaries have been dropping as a result, persuading some employees to leave of their own accord, said Vladimir Novikov, deputy head of assemply-line personnel.

AvtoVAZ is now seeking a second wave of government backing to stave off creditors, underlining its failure to adapt over the past decade, when foreign car makers ended its dominance of the market.

Monday, at his first news conference since he joined the company, Mr. Komarov said, "We hope that as a result of our efforts, AvtoVAZ can start a new life."

—Jacob Gronholt-Pedersen and William Mauldin in Moscow contributed to this article.

Stagecoach approaches National Express about merger agreement

Associated Press

LONDON—**Stagecoach Group** PLC Monday launched a surprise merger bid for British transport company **National Express** PLC after a separate offer fell through.

In addition to its U.K. networks, National Express operates schoolbus services in 27 U.S. states and two Canadian provinces as well as Spain's leading private bus service.

The merger approach by Stagecoach comes after takeover talks between National Express and its major shareholder, Spain's Cosmen family, were dropped last week. National Express had indicated it would instead embark on a £400 million ($654 million) fund raising.

Stagecoach said Monday that it had submitted a letter to National Express's board Friday about a possible combination. The company had been lined up to buy National Express's British rail and bus business under the plans drawn up by the Cosmens and buyout firm CVC Capital Partners Ltd. after ruling itself out of bidding alone for the company in September.

The new proposal—Stagecoach stressed there was no certainty an offer would be forthcoming from talks—is an all-share transaction in which National Express shareholders would hold no more than 40% of the enlarged group. Based on closing share prices Friday, that would imply a National Express share price of around 490 pence, said Panmure Gordon stockbrokers. Collins Stewart stockbrokers put the share price at 500 pence.

Norilsk's profit tumbles 84% on lower prices

By Alexander Kolyandr

Lower nickel and copper prices pushed first-half profit down 84% at OAO **Norilsk Nickel**, though the Russian mining company cut operating costs sharply.

Profit dropped to $419 million from $2.69 billion a year earlier, as revenue fell 51% to $4.08 billion.

Norilsk, which produces a fifth of the world's nickel and half of its palladium, said revenue from metal sales dropped to $1.65 billion from $3.92 billion. The average price for nickel fell 61% amid lower demand. Nickel accounted for about half the company's metal sales.

Revenue from copper, which accounted for a quarter of metal sales, fell to $793 million from $1.59 billion. Nickel and copper sales increased 8% each by volume.

The company's cost-cutting program helped cut cash operating costs at its metals and other operations by 27% to $2.74 billion. That included a 25% decline in metal operating costs to $2 billion.

Deutsche Bank analyst Olga Okuneva said cost cuts, the ruble's depreciation and the government's January cancellation of a 5% nickel export duty helped Norilsk post strong results. Although the ruble has started to strengthen and Moscow plans to reintroduce the duty, rising metals prices likely will mean Norilsk's second-half results won't be worse than those for the first half, Ms. Okuneva said.

New management, headed by Vladimir Strzhalkovsky, arrived at Norilsk in August 2008 after a battle between big shareholders Vladimir Potanin and Oleg Deripaska.

Novartis hits setback in U.S. for lung drug

By Anita Greil

ZURICH—Novartis AG suffered a setback Monday for one of its most-promising experimental drugs after the U.S. health regulator said it wanted more information on the proposed dosage for its smoker's cough treatment.

The Swiss drug maker said the U.S. Food and Drug Administration requested additional information on the dosing proposed for the drug candidate, indacaterol, which is also known as QAB149.

Novartis said it will work with the FDA to review data already submitted on QAB149, as well as recent data to determine which, if any, further clinical trials would be required.

The FDA's European counterpart last month recommended the drug for approval. In Europe, the drug and the device through which it is inhaled will be called Onbrez Breezhaler.

The drug treats chronic obstructive pulmonary disease, commonly known as smoker's cough, and is the first of its kind that needs to be taken only once a day.

Novartis executives have said the drug has the potential to eventually generate more than $1 billion in annual sales.

ECONOMY & POLITICS

Afghan poll fracas looms

U.N. body's call for a runoff goes to commission that could reject it

By Anand Gopal
And Yaroslav Trofimov

Agence France-Presse

Afghan men walk past posters of President Hamid Karzai in Kabul on Monday. A U.N.-led watchdog's report will likely lead to a runoff with Abdullah Abdullah.

KABUL—A United Nations-led watchdog released an election recount that should force a runoff in Afghanistan's presidential poll, a move that could intensify the rift between President Hamid Karzai and the international community and deepen the country's political turmoil as it faces a spreading insurgency.

Afghanistan's Electoral Complaints Commission, which is dominated by U.N.-appointed officials, Monday disqualified as fraudulent more than 6% of the votes cast in August's elections. This ruling, according to U.N. officials, pushed Mr. Karzai's share of the total vote from 54.6% to 48.3%—triggering the need for a second round against the No. 2 finisher, former Foreign Minister Abdullah Abdullah.

In theory, the ruling requires the Afghan government's Independent Election Commission, the body entrusted by Afghanistan's constitution with running elections, to order a second round. But the IEC is packed with Mr. Karzai's appointees, and it isn't clear the organization will agree to a runoff that the incumbent strongly opposes.

An IEC spokesman said the commission needs to verify the contents of the ECC decision before making any comments.

Mr. Karzai's campaign, which has complained for days that the foreigners in charge of the ECC are interfering in the recount for political reasons, said it is the IEC's decision that matters. "No figures or percentages are acceptable to us unless they are announced by the IEC. It's too early to make a judgment based on this report or on whether the ECC's decision is acceptable to the president or not," said Mr. Karzai's chief campaign adviser, Maeen Mirstyal.

Should the two election commissions clash on the need for a runoff, Afghanistan will face a constitutional crisis. "Legally, they should accept the ECC decision—but it's also true that there is no legal recourse," a Western official said. "It's not like [the ECC] can go and arrest them."

If Afghanistan's Supreme Court becomes involved in the dispute, it is expected to rule for the incumbent—as it did in March, declaring Mr. Karzai can remain as president through the election even though his legal term expired in May.

Dr. Abdullah welcomed Monday's ECC ruling. For several days, numerous Western envoys and statesmen—including U.S. Senate Foreign Relations Committee chairman Sen. John Kerry (D., Mass.) and French Foreign Minister Bernard Kouchner—trekked to Kabul's Arg presidential palace, trying to persuade Mr. Karzai to agree to a runoff or a face-saving compromise with Dr. Abdullah. British Prime Minister Gordon Brown has spoken to him with the same message, according to Western diplomats.

This diplomatic pressure on Mr. Karzai, whose government depends on foreign aid and protection by some 100,000 Western troops, is expected to increase in coming days.

An IEC refusal to abide by the ECC's edict would shred whatever credibility remained from the August election, in which only about one-third of Afghanistan's registered voters took part. "This government is illegitimate and whoever wins in this election will be illegitimate," said prominent lawmaker Mohammed Daud Sultanzai.

With snow beginning to fall in some mountain passes, and the Taliban gaining ground, the time for any runoff is already shrinking fast. "There's been no security assessment and the IEC hasn't made the logistical preparations" for the second round, said a senior Western official familiar with the process.

Daud Ali Najafi, a commissioner with the IEC, said the commission has printed millions of ballot papers and acquired other materials, but that it might be difficult to deliver them to the provinces.

Even if a runoff takes place this year, it may end up marred by more fraud than the first round. Surging Taliban violence is likely to keep more voters and independent observers away from polling stations in much of southern and eastern Afghanistan.

Meanwhile, the ECC's investigation has found a number of cases where the vote total presented by the IEC differed from the number of ballots in a ballot box, suggesting that the IEC itself had a direct role in perpetrating the fraud. The IEC spokesman, Mr. Noor, denied that his organization was involved in any rigging.

"There's every indication that another round will be just as problematic, or maybe more problematic, that the first time around," the senior Western official said.

No award for African governance

Associated Press

LONDON—In a snub to recent ex-presidents and heads of state in Africa, organizers of a multimillion-dollar annual prize for good governance on the continent said Monday they had decided not to give out the award this year.

The Ibrahim Prize for Achievement in African Leadership is awarded only to democratically elected heads of state who have left office in the past three years. That requirement limits the pool of contenders, eliminating the continent's strongmen leaders, some of whom have held on to power for decades.

The committee considered "some credible candidates" but couldn't select a winner, said former Botswana President Ketumile Masire, a board member of the Mo Ibrahim Foundation.

This year's prize committee was headed up by former U.N. Secretary-General Kofi Annan and included Nobel peace laureate Martti Ahtisaari of Finland, director general of the International Atomic Energy Agency, Mohamed ElBaradei, and former Irish President Mary Robinson.

Created in 2007 by Sudan-born billionaire Mo Ibrahim, the Ibrahim Prize awards the winner $5 million over 10 years and $200,000 annually for life thereafter to encourage leadership that improves the prospects of people in the continent.

Mr. Ibrahim was asked at a news conference about politicians who meet the award criteria but weren't chosen, including former South African President Thabo Mbeki, former Nigerian President Olusegun Obasanjo and ex-Ghanaian President John Kufuor.

The founder of the African telecommunications company Celtel International said the foundation had "full respect" for those leaders. It was unclear why the committee, which is independent of the foundation's board, was unable to choose one for the prize.

Mr. Masire said the foundation "noted the progress made with governance in some African countries, while noting with concern recent setbacks in other countries." Committee members said they couldn't discuss their deliberations.

The decision not to award the prize is a mistake if the foundation truly wants to encourage good governance, said Stephen Chan, a professor of international relations at the School of Oriental and African Studies in London.

Reuters

Susilo Bambang Yudhoyono, left, and incoming Vice President Boediono, center, met cabinet candidate Hatta Rajasa, Saturday.

New Indonesian cabinet

Leaked names show blend of technocrats and political choices

By Tom Wright

JAKARTA, Indonesia—The new cabinet of Indonesian President Susilo Bambang Yudhoyono features choices likely to be popular with foreign investors, but includes appointees who lack the credentials to push through much-needed economic overhauls, analysts said.

Mr. Yudhoyono, who was re-elected in July and will be officially sworn in to a second five-year term on Tuesday, had promised to appoint a cabinet comprised mainly of technocrats—instead of representatives of local political parties, who dominated his cabinet in his first term.

But it appeared Monday that some of the top economic portfolio jobs were allotted to politicians that are close to Mr. Yudhoyono, even though they lack track records in backing overhauls analysts say are needed to ensure sustained growth.

Top appointees, local media reported, include politicians from the Golkar Party, which has a history of blocking efforts to streamline bureaucracy and privatize state-owned industrial enterprises. Mr. Yudhoyono offered a Golkar member the industry-minister portfolio, local media reported. The party has strong support among government employees.

A spokesman for Mr. Yudhoyono couldn't be reached to comment.

The cabinet is likely to be formally announced on Wednesday at the earliest. A number of candidates have confirmed they have been asked to serve in the past few days.

The market is likely to applaud the inclusion of Finance Minister Sri Mulyani Indrawati. Ms. Indrawati didn't confirm she would keep her job but said she had been asked to fulfill a cabinet-level role that promoted economic growth through fiscal measures, a likely reference to the finance minister portfolio.

Ms. Indrawati, a former senior executive at the International Monetary Fund, has won praise for reducing public debt and restoring confidence in Indonesia's macroeconomic policy. She has also attempted to clean up corruption in the tax and customs departments, a major impediment to foreign investment.

A former head of J.P. Morgan Chase & Co.'s operations in Indonesia, Gita Wirjawan, said Mr. Yudhoyono had asked him to head Indonesia's investment board, which will be elevated to a cabinet-level position. Foreign investment in Indonesia has lagged far behind the capital pouring in to India and China, and attracting more is crucial to rebuilding the country's decrepit infrastructure.

In other areas, Mr. Yudhoyono's selection of ministers drew criticism.

"Yudhoyono is attempting to balance technocrats with party representatives, and the result is likely to be more of the same: capable economic management and missed opportunities for institutional reform," said Kevin O'Rourke, who runs a Jakarta-based political consultancy.

Mr. O'Rourke pointed to the apparent choice of Hatta Rajasa as senior economics minister as a disappointment. In 2007, as transport minister, Mr. Rajasa blamed global shipping companies for charging too much rather than trying to overhaul the web of levies that push up the cost of doing business through Indonesian ports, Mr. O'Rourke said. Attempts to reach Mr. Rajasa weren't successful.

Eastern Europe to raise excise tax in revenue bid

By Sean Carney And Leos Rousek

PRAGUE—Cash-strapped Central and Eastern European governments are raising taxes on cigarettes and alcohol, seeking revenue as the recession takes its toll on the export-oriented region's public finances.

Russian, Polish, Czech, Bulgarian, Hungarian and Slovak authorities are increasing taxes on alcohol, cigarette and fuel by varying degrees. Other countries are proposing novel measures: Slovakia has formulated a so-called bottle-cap amendment aimed at stemming tax evasion by bar owners who sell bootleg liquor; Hungary is considering a new tax on poker.

"All countries, not just [those in] Central and Eastern Europe, are forced to do something with widening fiscal gaps, and the first thing to think about is lifting excise taxes," said Miroslav Plojhar, an economist at J.P. Morgan.

The extent of tax increases varies. Poland is set to lift its excise tax on cigarettes 2.6% to 228.80 zlotys ($81) per 1,000 units as of January. Bulgaria has decided to raise excise tax on cigarettes by 43%, to €76 ($113) per 1,000 units as of 2010.

Bulgarian Finance Minister Simeon Djankov defends the proposed cigarette-tax increase on public-health grounds, and dismisses claims that the government is only interested in increasing tax revenue. Critics of the increase argue that it will lead to growth in the smuggling that has plagued Bulgaria for years.

In the Czech Republic, planned new taxes on beer are drawing controversy. Czechs, the world's biggest beer drinkers, consume roughly 160 liters of lager per person per year. Starting next year, the tax on beer, whether brewed locally or imported, will rise 33%, to 32 koruna ($1.85) per 100 liters. The government will raise its tax on spirits by 8% next year. It expects the two alcohol taxes together to boost state tax revenue by 1.7 billion koruna ($99 million) in 2010 alone, Finance Ministry spokesman Jakub Haas said.

Russia is aiming to triple its tax on beer over the next three years. The bill, which calls for a 200% increase next year, followed by 11% and 20% rises in 2011 and 2012, still needs President Dmitry Medvedev's signature.

Slovakia is grappling with a different situation: There is broad consensus that as much as 10% of liquor sold in Slovak bars and restaurants goes untaxed because bar owners pour liquor produced by illegal distilleries into used bottles on which taxes have already been paid, selling it as the genuine article.

To reclaim that revenue, the Finance Ministry has proposed that all liquor sold in bars and restaurants be packaged in special, nonrefillable bottles with state-of-the-art caps.

Critics of the plan argue that the proposed change would reduce consumer choice and be difficult for companies to provide. The change could also be construed as tacit support for Slovak producers, prohibited under European Union competition law.

Meanwhile in Hungary, where hundreds of clubs devoted to poker have sprung up without regulation, a proposal to regulate poker games and tax the winnings would the game in line with the country's rules on other forms of gambling. It would also bring the Hungary in line with the rest of Europe. László Keller, state secretary of the Finance Ministry, recently told local media that the law could be approved before year end.

The Hungarian Poker Association argues that a tax on winnings will drive players toward online games. Instead, the government should introduce a fixed tax per table, similar to the one in place in neighboring Slovakia, association President Gergely Tatár said.

As foundations teetered, the West stepped in with aid

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.

As East Germany took steps toward change by ousting hard-liner Erich Honecker, West Germany and the U.S. were taking a leading role in providing aid for other reformist countries in the region.

East and West

As the Berlin Wall Fell

The two countries had pledged billions of dollars in fresh credit and forgiven old debt, while appealing to other Western nations for more contributions. Both West Germany and the U.S. "hope to encourage pressure for change in East bloc countries still ruled by Stalinist holdouts by arranging liberal financial aid and trade benefits for Poland, Hungary and, to a lesser extent, the Soviet Union," the Journal wrote.

"The change taking place in the Soviet Union, Poland and Hungary has aroused new hope in both German states that reforms will be undertaken in [East Germany], and that relations between the two German states, too, will get better," said West Germany's foreign minister, Hans-Dietrich Genscher, speaking at a conference in Frankfurt. "History will judge us by whether we have taken the opportunities that emerge from these reforms."

The U.S. House of Representatives had approved a $837.5 million aid package for Poland and Hungary, more than double the amounted requested by then-President George Bush. The package was brought to the House just 15 days after being introduced, "indicating Congress's eagerness to reward Poland and Hungary for their moves toward democracy and free-market economic reforms," the Journal wrote.

"We want the bold programs of market development and political freedom in Hungary and Poland to succeed. We are prepared to support those changes," said U.S. Commerce Secretary Robert A. Mosbacher.

Associated Press

U.S., West Germany Join Forces To Help Reformists in East Bloc

Two Governments End Rift Over Bonn's Diplomacy As They Urge More Aid

More Is Coming

A young man holds a poster of Gorbachev at a demonstration in Leipzig. At right, an Oct. 20, 1989, Wall Street Journal article.