Leading the News: Blair's chances for EU presidency fade

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U.S. unveils rules on bank pay

Pay czar orders steep cuts as Fed proposes regulating compensation across the industry

WASHINGTON—The U.S. Treasury and the Federal Reserve on Thursday unveiled a set of curbs and rules for executive compensation at banks, marking a watershed moment for government intervention in the private sector.

By Deborah Solomon, Meena Thiruvengadam and Maya Jackson Randall

The Fed is proposing that it more aggressively regulate compensation practices at banks under its control, including thousands of U.S. banks as well as the American subsidiaries of overseas firms.

The central bank "is working to ensure that compensation packages appropriately tie rewards to longer-term performance and do not create undue risk for the firm or the financial system," Fed Chairman Ben Bernanke said.

Meanwhile, the U.S. pay czar, Kenneth Feinberg, announced that cash salaries for 175 top executives at seven firms that have received significant government assistance will be limited to $500,000, and their total compensation will be cut by 50%.

Mr. Feinberg's decision will mean a 90%-plus reduction in cash compensation, although in a wrinkle, the rulings will be effective for only two months—November and December. If they had counted for the whole year, employees would have had to repay salaries they had already received. The 2009 rulings, however, will be the base point for salaries in 2010, and for as long as the companies hold on to their government bailout funds.

In the U.K., meanwhile, the government has been warning bankers not to pay out bonuses at the expense of capital buffers. On Thursday, Adair Turner, chairman of the Financial Services Authority, said the agency planned to hold "full and frank" discussions with banks on the matter.

Lord Turner said that the form of the payment would count: Banks that award a large portion of bonuses in stock will be helping to build up their capital levels and, therefore, the regulator would look favorably upon that. (Please see article on page 2.)

The Fed in its proposal isn't suggesting pay caps or banning particular practices, saying a "one size fits all" approach to compensation wouldn't be appropriate. Rather, the Fed plans to review compensation policies at 28 large banks and at several regional, community and other banking organizations to ensure compensation practices

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A show of force outside the BBC's offices in London

Associated Press

RIGHT CALLED WRONG: Demonstrators clash with police outside the broadcaster's offices on Thursday. British National Party leader Nick Griffin was scheduled to be the first party member to appear on the BBC's political debate show 'Question Time.' Page 6.

Mixed U.K. stimulus signals

By Katie Martin

LONDON—Weaker-than-expected U.K. retail-sales data and comments from a Bank of England deputy governor raised new concerns about the health of the economy, one day ahead of third-quarter gross-domestic-product data that are expected to show Britain back in positive territory.

September retail sales were reported to be flat compared with August, contradicting expectations for a 0.5% monthly gain and introducing doubts about the strength of the British economic recovery. Sales were up 2.4% from a year earlier, following a 2.2% year-on-year increase in August, data from the Office for National Statistics showed Thursday.

Separately, comments by the BOE's Paul Tucker were interpreted as suggesting the central bank might still need to extend its asset-purchasing program, which adds liquidity into the economy to spur growth. Mr. Tucker was quoted by the Scotsman newspaper as saying that if it was deemed necessary to increase the amount of quantitative easing proposed under the current program, then "it would be possible and it would happen." The Bank of England later confirmed he was quoted accurately.

The remarks suggested the BOE was still hedging its bets on whether the economic recovery has firmly taken hold. That came as a surprise to currency traders, who only a day previously had pushed the pound higher after the minutes of the October BOE policy meeting had shown that the vote to hold the program steady at £175 billion ($286 billion) was unanimous.

However in a speech in London later Thursday, Mr. Tucker signaled a much more hawkish stance than his earlier comments had. He said it now seemed unlikely the U.K. economy was headed for the "nightmare" scenario of protracted deflation and falling output. He said the risk of such a bad outcome had necessitated "massive monetary stimulus."

As such, he added "a key question over the coming period will be whether or not conditions are developing where some of that insurance could be withdrawn, consistent with leaving policy highly stimulative."

However, Mr. Tucker said

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Nokia: Apple infringed patents

Nokia Corp., the world's biggest cellphone maker, leveled patent-infringement charges against **Apple** Inc., whose iPhone is the hottest product in the smart-phone category.

Nokia filed a suit in U.S. District Court in Delaware, alleging that iPhone infringes 10 patents that cover technologies Nokia said are essential for connecting cellphones to the most widely used wireless networks.

By Ian Edmondson in Stockholm and Yukari Iwatani Kane in San Francisco

The Finland-based handset giant said it has persuaded 40 other handset makers to license its patents, including virtually all the leading cellphone vendors. But Nokia indicated that negotiations with Apple haven't been successful.

"By refusing to agree to appropriate terms for Nokia's intellectual property, Apple is attempting to get a free ride on the back of Nokia's innovation," said Ilkka Rahnasto, Nokia's vice president for legal and intellectual property at Nokia.

An Apple spokesman declined comment.

Nokia said it has spent €40 billion ($60 billion) in research and development. It added that the patents at issue cover wireless data, speech coding, security and encryption and affect all Apple iPhone models shipped

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What's News

Proposed new U.K. banking regulations aimed at forestalling a future financial crisis would place a range of new demands on large banks, including higher capital provisions against future losses. The rules would also make it more expensive for banks to do business in the U.K. **Page 2**

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■ **Nestlé said** the strong Swiss franc triggered a 2.2% drop in sales for the year's first nine months, but third-quarter volumes grew. **Page 8**

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■ **Ethiopia issued** an international request for $175 million in emergency aid to deal with a massive drought. **Page 3**

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	CLOSE	PCT CHG
DJIA	10081.31	+1.33
Nasdaq	2165.29	+0.68
DJ Stoxx 600	246.23	-1.19
FTSE 100	5207.36	-0.96
DAX	5762.93	-1.21
CAC 40	3820.85	-1.35
Euro	$1.5009	+0.06
Nymex crude	$81.19	-0.22

LEADING THE NEWS

U.K. plan asks more of big banks

Rules would require increasing capital, creating 'living wills'

By Alistair MacDonald

Proposed U.K. banking regulations announced Thursday aimed at forestalling a future financial crisis would place a range of demands on large banks, ranging from higher capital provisions against future losses to the establishment of "living wills" to provide for an orderly demise.

If enacted, the new proposals from the U.K.'s Financial Services Authority, covered in a discussion paper, could give regulators a better handle on banking-industry risk. It will also make it more expensive for big banks to do business in the U.K.

The FSA has taken the lead in crafting a new regulatory model for banks, aiming to move the sector closer to safer business models that wouldn't require huge future taxpayer bailouts. Regulators around the globe, including the FSA, are trying to prevent, or at least curtail, the practice of banks' moving their business to where they face the lightest regulatory touch.

The FSA proposals, which are in a discussion and comment phase, are likely to face criticism the U.K. Bank of England governor Mervyn King argued that aspects of the proposed rules didn't go far enough. Some banks and their backers worried the rules would make large U.K. banks uncompetitive globally.

"The direction of travel is clear: The overall level of capital required in the banking system must be significantly increased over time, while liquidity standards must be significantly tightened," said Adair Turner, chairman of the FSA.

The FSA said there is a "strong case" for applying some form of capital, and possibly liquidity, surcharges to banks that are so large their failure could pose a systemic risk. These banks would need to put aside additional capital to cover potential losses and to back their day-to-day operations.

Earlier this week, Mr. King argued that in order to ensure banks don't behave recklessly with government guaranteed deposits, banks should be split into two parts: a risk-taking investment bank and a more cautious savings-style bank.

Lord Turner believes such a split would make it too difficult to determine which activities each type of bank should be permitted to undertake.

The British government, which welcomed the FSA's proposals on Thursday, agreed with the regulator on its move toward imposing surcharges based on a bank's size and the risks it takes. Likewise, the FSA wants to increase capital charges on banks' proprietary trading operations.

Officials at some of the U.K.'s largest banks expressed concern that higher capital requirements might limit the ability of banks to lend, potentially crimping the economic recovery. But the FSA and other regulators have counted that capital buffers can be built over time and in accordance with international standards.

Lord Turner repeated his warning that banks now returning to profitability ought to use that money to build capital buffers as opposed to using it for bonuses or dividends. The chief regulator said he would be holding "full and frank" discussions with banks about this issue in the coming months.

The FSA also wants banks operating in the U.K. to produce "living wills" that provide a blueprint on how to wind them down quickly in the event of financial difficulty. If a bank's "living will" suggested it would be difficult to wind down, the bank may potentially have its retail and investment arms separated, the FSA said.

The FSA proposed that global banks can reduce overall risk and avoid larger capital charges by turning overseas branches into subsidiaries fully capitalized locally and overseen by the local regulator. Lord Turner believes that this would help reduce risk faced by national governments. Some countries have relatively large banking sectors compared with their GDPs, such as the U.K. and Switzerland.

Some banking officials questioned whether other countries would agree to any regulatory model that put them in a position of bailing out foreign banks operating in their country.

They also said such a move could impede global capital flows and increase the costs of doing business. It would also challenge locales with outsize financial centers, such as the U.K., Hong Kong and Ireland.

Bank of England deputy governor Paul Tucker emphasized, like Mr. King, that the FSA proposals didn't do enough. He called for new "macro-prudential instruments that could lean against and preserve banking system resilience in the face of credit boom and bust."

Mr. Tucker said the central bank would expand on these themes in a discussion paper in coming weeks but gave examples including varying the amount of capital that banks are asked to put behind particular "classes" of borrower and behind particular types of businesses, depending on the anticipated risk.

—Sara Muñoz, Neil Shah and Adam Bradbery contributed to this article.

Bloomberg News

Adair Turner, chairman of the U.K.'s Financial Services Authority, shown earlier this year, is urging tighter liquidity standards.

Organizers begin ballot deliveries in Afghanistan

By Yaroslav Trofimov And Anand Gopal

KABUL—Afghan authorities and the United Nations, supported by U.S.-led international forces, began distributing ballots, tamper-proof ink and equipment for a runoff presidential election on Nov. 7.

Afghanistan's Independent Election Commission decided to cut the number of polling stations that will be open during the runoff, officials said. The closings will be in areas where the central government has no control and the security threat is high—and where, according to observers, ballot boxes were stuffed by corrupt poll supervisors in the first round of voting on Aug. 20.

The IEC, whose members are appointed by President Hamid Karzai, hasn't made public how many polling stations will remain closed. A senior IEC official said some 2,000 of the nation's 25,000 stations, most of them in restive eastern and southern Afghanistan, Mr. Karzai's main base of support, won't open. Insurgent threats prevented many residents in these areas from being able to vote in the first round as well.

U.N. representatives have been pushing for a larger number of polling stations in these troubled areas to remain closed, fearing a repeat of first-round fraud. "The IEC will have to get a balance between making sure that people who want to cast their vote can do it, and the issues relating to fraud," said Dan McNorton, a U.N. spokesman in Kabul.

A U.N.-led electoral watchdog has the power to overturn election results—an authority it used this week to reverse the IEC's initial decision to award Mr. Karzai a first-round victory. He will now face former Foreign Minister Abdullah Abdullah in the second round.

Mr. Karzai is widely expected to win the second round. Convincing the Afghan public of the legitimacy of his victory will be a tougher task. There was no apparent action Thursday on a power-sharing compromise with his opponent, former Foreign Minister Abdullah Abdullah, something Western officials have advocated.

The U.N. on Thursday flew election materials throughout Afghanistan. "We have a team of donkeys waiting," an IEC official said, to help workers deliver materials. Mr. Karzai met with Afghan security chiefs and the IEC chairman on Thursday to plan the runoff's details.

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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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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

A tricky listing for London's U.S. Embassy

A win for modernism is a diplomatic loss; Hotel with an eagle?

By Darren Lazarus

The British government appreciates the U.S. Embassy in London enough that it doesn't want it to change. For the sake of U.S.-U.K. relations, however, it would be better if it was happy to see the building razed.

The U.S. plans to sell its embassy in London's Mayfair as part of a move to new premises, a sale that wasn't helped by a U.K. minister on Thursday slapping a preservation notice on the modernist postwar building, a prominent background feature of London's Vietnam and Iraq war protests.

The natural thing to do for a buyer of the embassy to do would be to exploit the plum site in a posh area by knocking down the current building and erecting luxury flats, along the lines of One Hyde Park, a large complex of ultraexpensive flats set to be completed in 2010.

But as a listed building, 24 Grosvenor Square is highly protected from demolition or redevelopment, pretty much ruling out an extravagant high rise. So the new owner will have to plan to keep the stark white facade, currently hidden behind gigantic barriers erected after Sept. 11, 2001, and a gigantic golden eagle overlooking the square.

Margaret Hodge, the U.K. minister for culture, creative industries and tourism, made clear in a note to the U.S. ambassador she was aware the Grade II listing wasn't good news for the embassy.

"I should begin by assuring you that the Secretary of State is fully aware of the sensitivities of this decision in the context of the embassy's possible move to a new location," she wrote. An embassy spokesman said that while it opposed the listing, "we respect the decision." He added: "This does not affect our ability or schedule to sell the building."

Reuters

A British police officer guarded the U.S. Embassy in 1998, amid fears of reprisals for U.S. missile strikes in Sudan.

The embassy is selling the building as part of its proposed move to a new site in south London. People familiar with the matter say the embassy has agreed to a £300 million ($500 million) to £400 million sale of the building to Chelsfield Partners, a property investment company run by veteran developers Stuart Lipton and Elliott Bernerd, and backed by the Qatar Investment Authority.

Property consultants say it would be common for the possibility of listing to be factored into the contract and would affect the price. Chelsfield was unavailable to comment.

The embassy, built between 1957 and 1960, was put forward for a listing by the Twentieth Century Society, a conservation group that tries to go against the tendency of politicians to wave through the demolition of the large concrete-and-glass structures favored by high-profile architects after World War II.

Catherine Croft, a director of the group, said she was "very pleased" by the listing, although she said that the modernist building, which was designed by Finnish-American architect Eero Saarinen, wasn't necessarily appreciated by the public. "It's an architectural masterpiece and an elegant addition to the square. I think that [buildings like these] will come back in fashion soon," she said.

The building, whose most visible feature is a 35-foot gilded aluminum eagle by Polish sculptor Theodore Roszac, occupies the West side of Grosvenor Square, named after the family of the Duke of Westminster, who granted the U.S. an uncommonly long lease on the property.

Ms. Hodge said the site had "special historical interest" as it was the home of the first U.S. ambassador and the nerve center of the U.S. armed forces in Britain in World War II.

"It embodied that special relationship that had developed between the U.S. and the U.K.," she said. The embassy has reflected both the ups and downs of that relationship. It has become a favorite target for anti-U.S. sentiment, said Ms. Hodge, most famously in the 1968 anti-Vietnam war demonstrations.

More recently, former Mayor of London Ken Livingstone ran a long public campaign to get the embassy to pay a charge that applies to traffic in London's center, which the embassy said amounted to a tax from which diplomats were exempt.

History aside, Ms. Hodge says the "architectural special interest" of the building was limited to the facade, entrance and the lobby. This means that Chelsfield will probably easily get "listed consent" to strip out the majority of any internal fittings in the building—and change the building to residential or hotel use.

A spokeswoman for English Heritage said that it had informally discussed the listing with Chelsfield, who was aware that it would have "considerable scope" to remodel the interior.

Russell Francis, head of valuation at U.K.-based property consultant Colliers CRE, said keeping the embassy facade would slow planning approval and also make it a tougher sell. "There may be evocative political issues," he said. "I would have thought that it may be a factor for some international investors to be within a building that is so obviously the former U.S. Embassy, as opposed to a new building on the site of the former U.S. Embassy."

Simon Stone, a development director of Savills, who advised a rival bidder, said that it is likely that a listing would have been factored into the original price.

"I don't think it will derail anything as we knew that a listing was a potential in the future—and many investors were placing bids based on the assumption of a listing," he said, adding that a "hotel sits more strongly now" following the listing.

The U.S. has meanwhile received outline-planning consent for a new embassy complex on a five-acre site in south London, to the disused and hollow power station in Battersea. It will submit detailed designs next year. It plans "groundbreaking" in 2012-13 for a move in 2016-17.

—For more, visit efinancialnews.com

Ethiopia seeks $175 million in emergency drought aid

By Sarah Childress

The Ethiopian government issued an international plea for $175 million in emergency aid amid a massive drought in East Africa, underscoring the country's bleak condition 25 years after a famine killed one million people.

More than 23 million people across East Africa have critically low water and food supplies, due in large part to a long-running drought, according to Oxfam International, an aid group and a major donor in the region. The lack of rain has been compounded by the cost of food—which is still high from last year's spike in prices, poor investment in agriculture, and insufficient preparation for such crises.

The situation has sharpened the humanitarian crisis in war-torn Somalia and in Kenya, which declared a national emergency this year. Tanzania, Uganda and tiny Djibouti also have been affected.

"This is the worst drought in 10 years," said Paul Smith-Lomas, Oxfam's regional director for East Africa, who said dry spells now are frequent in the region, making it more difficult even for better-prepared countries to respond. "This is a bad year within a number of bad years."

On Thursday, Mitiku Kassa, the minister in charge of disaster risk management and food security, said the number of Ethiopians in need of food aid swelled to 6.2 million from 4.9 million earlier this year—out of a population of 83 million.

Mr. Kassa requested a total of $175 million in aid, including more than 160,000 tons of food as well as nonfood assistance such as health and sanitation support and help for agriculture and livestock.

Ethiopia is in acute danger of famine because most Ethiopians depend on the land for their food and livelihood. Mr. Kassa said the government expected another weak harvest due to scant rain.

Most aid is expected to come from Washington, according to U.S. and Ethiopian officials. The U.S. represents between 70% and 80% of all food aid to the country, which was an ally in the previous U.S. administration's war on terror and its efforts to stabilize neighboring Somalia.

Michael Gonzales, the U.S. Embassy spokesman in Ethiopia, said of the plea, "We perceive that as a request to the U.S. government."

Agence France-Presse/Getty Images

A Kenya schoolboy shod in battered shoes carries a bottle filled with river water earlier this year. A massive drought throughout East Africa has created a crisis.

Mr. Gonzales said the Ethiopians had held discussions about the impending crisis with the U.S., which shipped food in anticipation of Thursday's announcement. The first shipment should arrive within weeks, and the U.S. may order more supplies to meet the request. Mr. Gonzales declined to provide specific figures, saying that details of the U.S. contribution would be announced in coming days.

Ethiopia's plea comes as aid agencies are stretched to provide relief amid prolonged crises in the region. Oxfam last month issued an emergency appeal for $15 million to aid with the situation in East Africa; an Oxfam official said the response thus far had "not been overwhelming." The World Food Program, another food distributor in the area, also has said it is short on funding this year.

Amid the scramble for emergency assistance, Oxfam published a report on Thursday criticizing what it called a "knee-jerk reaction" to food crises that keep countries dependent on aid.

"The humanitarian response to drought and other disasters is still dominated by 'band-aids' such as imported food aid," the report said. "This saves lives now, but it does little to help communities withstand the next shock."

The report suggests that donors focus on helping countries to prepare for such crises, in part by using early-warning systems to predict the onset of droughts. Donors could help governments offer food-for-work programs and build storage facilities for grain and wells to save rainwater, Oxfam said.

LEADING THE NEWS

U.K. scrambles amid postal dispute

Firms and households seek alternative ways to dispatch their mail

By Paul Sonne

Reuters

A postal worker holds a placard on the picket line Thursday outside the mail center in Manchester, England.

LONDON—Businesses and households across the U.K. scrambled to find ways to bypass traditional mail as British postal workers took to the picket line Thursday in a nationwide walkout.

About 42,000 mail-center employees walked out Thursday and an additional 78,000 delivery workers are set to protest Friday in a two-day strike that comes just as the U.K. retail sector is seeing the first signs of recovery ahead of the holiday season. A spokeswoman for the union said Thursday that more strikes are in the works for next week.

The workers are demanding job security, more say in Royal Mail's modernization program and a resolution to the fully state-owned company's ballooning pension deficit.

The walkout comes on the heels of localized mail strikes that have been causing major disturbances in Britain since June, with millions of letters stuck in the London mail alone. Growing public doubts about Royal Mail service have hastened a move away from traditional mail to online services and alternative parcel carriers, which could further erode Royal Mail's market share.

Since localized strikes began in June, the U.K. branches of **HSBC Bank** PLC have seen a jump in registrations for direct debit, which allows people to pay bills directly out of their bank accounts rather than through the mail, a spokesman said. Meanwhile, a spokeswoman for Abbey National PLC, a unit of **Banco Santander** SA, said it has seen the number online banking registrations jump, helped by a push by the company to boost sign-ups.

Andrew Showman, the owner of U.K. Digital Cameras, an online photo-equipment retailer whose major carrier is Royal Mail, said his company is sending all shipments through another carrier and footing the bill for the additional expense. He estimates that he will lose thousands of pounds in the next week, in part because he has reduced delivery rates to encourage shoppers to continue buying online.

"We are considering having a permanent relationship with some of these couriers and just cutting out Royal Mail completely," said Mr. Showman. "The advantage is that their drivers are not in a union, and for one courier we use, the drivers are mostly self-employed."

Web retailer **Amazon.com** Inc.'s U.K. unit has said it will route deliveries through other partner carriers during the labor actions, as has British retailer **John Lewis Partnership** PLC, which owns the John Lewis department-store chain. Neither company has announced a decision on whether to drop Royal Mail.

"Any decision to move traffic back to Royal Mail will be taken at the appropriate time, carefully balanced against service and cost," a spokeswoman for the department-store chain said, noting that either way, the company will pursue a multicarrier approach.

Bruce Fair, U.K. managing director for Kelkoo.com, one of Europe's largest online shopping hubs, said all of the retailers marketing on the site have switched to other delivery services and have been forced to absorb higher delivery costs.

"The indication from these retailers is that they are unlikely to go back to Royal Mail because they are unhappy that these strikes seem to happen every few years," Mr. Fair said. "If the strikes last for three months, Royal Mail will effectively have zero market share left because every retailer will be forced to find alternative methods of delivery."

The blight on Royal Mail's reputation could spell more trouble for the company, which is already coping with a persistent decline in mail volumes on account of a more competitive shipping market and increasingly accessible Internet services. Royal Mail now delivers 75 million letters and packages each day, down from 84 million a day three years ago.

Robert Keitch, director of the U.K. Direct Marketing Association, said the strike will prompt British companies to continue to explore alternatives to mail. He predicted a 20% to 25% drop in the volume of direct paper mailings because of the strike, and more if the walkout is prolonged.

Meanwhile, calls for Prime Minister Gordon Brown's government to take the lead in mediating the dispute have come from postal workers and business owners alike.

"The government needs to get involved. It is their issue," said Lloyd Harris, 49 years old, a mail sorter from London who has worked for Royal Mail for 24 years. "Look at the way the government helped out the banks. If they gave just a portion of that money, they could sort out our pension deficit."

"We're doing what we can to make possible the resumption of talks between the management and the work force," said Mr. Brown, who has advocated a partial privatization. "The only way you can solve an industrial dispute is by the management and the work force getting together."

Mark Higson, Royal Mail's managing director, said Thursday that the union backed out of an agreement reached between the two parties in last-minute talks Tuesday. "My door is open and my phone is on," Mr. Higson said, urging union officials to sign the agreement and bring the strike to an end. A spokeswoman for Royal Mail said that the company is concerned that the strike will upset business but that it is too early to gauge its effect.

A spokeswoman for the Communication Workers Union said Thursday that Royal Mail forced the union to proceed with the strike and added that she doesn't know when an agreement to end the walkout will be reached.

Anywhere, Everywhere

Rain or snow, sleet or hail, Royal Mail delivers—six days a week, everywhere in Britain. Its policy of universal service is required by the carrier's regulator, Postcomm. Most European countries do the same.

Royal Mail

Country: United Kingdom

Flat rate: 39 U.K. pence (first class), 30 pence (second class)

Frequency: Daily, 6 days a week

Particulars: 2,500 exempted addresses, mostly due to difficult-to-reach geography or health concerns like dangerous dogs. Those who say their addresses have been exempted unfairly can appeal to Postcomm.

Swiss Post

Country: Switzerland

Flat rate: 1 Swiss franc (first class), 85 cents (second class)

Frequency: Daily: 6 days a week for first class, 5 for second class

Particulars: 571 exempted addresses (many are houses on mountaintops), where the service agrees to an alternative delivery location.

Poste Italiane

Country: Italy

Flat rate: 60 euro cents

Frequency: Daily, 6 days a week

Particulars: Universal delivery barring adverse weather and natural disasters. After the April earthquake in Abruzzo, Poste Italiane had normal service within two days.

TNT

Country: The Netherlands

Flat rate: 44 euro cents

Frequency: Daily, 6 days a week

Particulars: Required by law to deliver on the doorstep of every house. Operates boats and Land Rovers in some locations to deliver.

La Poste

Country: France

Flat rate: 56 euro cents

Frequency: Daily, 6 days a week

Particulars: Delivers to all French homes, with no exceptions. The only requirement is the post box is accessible to the postman.

BOE's stimulus signals are mixed

Continued from first page

that the medium-term economic outlook remains highly uncertain and that it may take until the spring or summer for the "general trends in demand" to be easier to read. And he said the U.K. still faces the risk of years of anemic growth. Currency markets apparently noted the different tone: the pound lifted after Mr. Tucker's speech to $1.6611, from $1.6586 just beforehand. It was at $1.6623 late afternoon in New York on Thursday.

On the economy, Mr. Tucker said the challenge was determining whether Britain faces "anemic growth." The U.K. economy is in its deepest recession in decades, with gross domestic product and industrial production and housing sales all down from year-ago levels. "If we have anemic growth, there will be more layoffs, more cutbacks, more scrapping of investment," he was quoted as saying.

As a next signpost for the pound, currency markets are watching for the first estimate of third-quarter U.K. GDP, which is due Friday.

Economists surveyed by Dow Jones Newswires are forecasting the first quarterly rise since the first quarter of 2008. On average, they see the economy expanding at a 0.1% rate in the third quarter, in a sign the U.K. economy is emerging from recession.

The pound's exchange rates against the dollar and other major currencies have been erratic, falling recently on perceptions of economic weakness and high national debt, only to bound back on ideas that it has fallen too far.

Market watchers say the choppy performance makes it difficult to assess Thursday's brief slide, or what is likely to follow.

"The market can't make up its mind up with sterling," said Daragh Maher, a senior currencies analyst at French bank Calyon in London. "It doesn't know which way to jump, so people are latching on to each piece of news flow and running with it," he added.

While retail sales could bounce back in October, currency markets have been focused on any indication of the BOE's timing on unwinding its monetary-stimulus programs. Such a step could augur a tightening of lending policies and higher interest rates.

Adrian Schmidt, head of research at currencies investment firm C-View, said the comments were key to the pound's tumble. He suggested that they were in sync with the BOE minutes released Wednesday, which may have been misread by markets.

"The minutes didn't put the [quantitative easing] issue to bed," Mr. Schmidt said. "They said there was no need for an expansion at the moment, but the option remains. It would be silly to rule anything out," he said.

—Natasha Brereton and Laurence Norman contributed to this article.

When it comes to 'thank you,' you're not welcome with email

The U.K. postal strike comes on the heels of localized strikes that have disrupted Royal Mail service since June—and the disorder has begun to change behavior among some Britons, who despite reservations, are for the first time choosing to express their thanks online.

Charles Moore, a former editor of the Daily Telegraph, wrote in the British magazine the Spectator that most of his life was unaffected by the Royal Mail strike, with the exception of his letter writing.

"Although I use emails for most communication, I try to stick to letters for thanking people," he said. "Now I don't dare, in case they never arrive. When the strikes end, I wonder if I shall bother to revert."

In the land of sense and sensibility, manners experts say the email thank you doesn't stack up.

"If someone has gone to all the trouble to cook you a meal or have you stay, to just text them 'thank you very much' seems to be inadequate," said Simon Fanshawe, author of "The Done Thing," a book on manners. "However, if you're 12 and they're 12, then hurrah for texts." Mr. Fanshawe said it was acceptable to send email thank-you letters in some situations, but that handwritten notes showed more sincerity.

Mr. Fanshawe's advice follows on that of the Emily Post Institute, the American manners bulwark, which suggests the inappropriateness of the email thank you note. "The written thank-you is your best bet for an expression of warm, heartfelt thanks," the Institute writes. "The last thing you want is for someone to be disappointed when her hand-knit scarf is acknowledged with a loud, animated e-card."

—Paul Sonne

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Agence France-Presse (Sarkozy and Blair); Getty Images (Balkenende); Reuters (Juncker)

French President Nicolas Sarkozy, left, in 2007 with Tony Blair, whose name has been discussed for an EU presidency. Two would-be competitors: Jan Peter Balkenende, second from right, and Jean-Claude Juncker, in 2009.

EU prepares to reject a Blair presidency

Many raise objections to choosing former British leader for powerful role even before the post has been created

By Stephen Fidler

BRUSSELS—The odds against former British Prime Minister Tony Blair becoming the first president of the European Union, appear to have lengthened over the past month with a series of blows to his candidacy at home and abroad.

Mr. Blair remains the most prominent figure linked by diplomats to the leadership post which, together with the post of a new EU foreign policy chief, will be created by the Lisbon Treaty. The treaty is designed to speed up decision making in the 27-nation grouping and increase its influence in world affairs.

But the winds have been blowing against Mr. Blair in recent weeks, with EU governments coming out in increasing numbers—though sometimes in code—suggesting they oppose Mr. Blair for the job.

Formal negotiations on who should fill the top job are unlikely to begin until at least next month, European officials say, because the treaty has been held up awaiting ratification by the Czech Republic.

Mr. Blair's spokesman denied reports in the U.K. media that he is campaigning for the job, formally described as president of the European Council. "As we have said time and again on this, there is nothing to be a candidate for, since the job doesn't actually exist," he said.

When asked last week whether Mr. Blair would be a good candidate, French President Nicolas Sarkozy—hitherto an apparent strong supporter—said it was too early to say. He said the role demands either a "strong and charismatic president" or a consensus-seeking organizer.

But he told Le Figaro: "The fact that Great Britain is not in the euro remains a problem."

In a joint report, governments from Belgium, the Netherlands and Luxembourg depicted the role in a way that clearly excluded Mr. Blair. And the Polish government said in a report that it sees the role as more fitting for a consensus-builder than a figurehead, according to media reports Thursday.

These descriptions would favor figures such as Jan Peter Balkenende, the Dutch prime minister, or Jean-Claude Juncker, the veteran Luxembourg premier. The only other name to have emerged to compete directly with Mr. Blair is that of Felipe González, Spain's socialist former prime minister.

Mr. Blair's political opponents at home have been making his candidacy more difficult. Last week, William Hague, foreign-affairs spokesman for the opposition Conservative Party, which has a big lead in opinion polls ahead of a forthcoming general election, told senior European diplomats at a lunch in London that the party doesn't want Mr. Blair at the EU helm.

"Mr. Hague wanted to leave the ambassadors in no doubt that the Conservative Party is opposed to the appointment of Tony Blair as president of the European Council and [that] it would only underline the lack of accountability and legitimacy involved in the creation of the position in the first place," a spokesman for Mr. Hague said. The European Council is the name given to the leaders of the 27 states sitting together.

Mr. Blair has strikes against his name because of where he is from: Britain is neither a member of the 16-nation euro zone nor of the Schengen area, in which people can cross borders without having to show their passports.

The former British prime minister is also opposed for what he has done, particularly for taking Britain to war alongside the U.S. in Iraq.

Furthermore, his very prominence is what worries leaders of smaller countries, who worry that he would ignore their views.

Leaders of the European Parliament decided to hold a debate on Nov. 11 over whether the president should be a bureaucrat or a figurehead. They also agreed they wouldn't hold hearings on the eventual winning candidate.

People close to Mr. Blair have suggested that if the job is too small he wouldn't be interested anyway.

—Alistair MacDonald and Marcus Walker contributed to this article.

Protesters at BBC decry appearance of far-right leader

Associated Press

LONDON—Protesters broke into the British Broadcasting Corp.'s west London headquarters on Thursday ahead of the appearance of a far-right party leader on a political debate show.

Hundreds of demonstrators gathered outside the BBC Television Center in a rally against British National Party leader Nick Griffin, who was to appear on the broadcaster's "Question Time" program. At one point about 25 people breached a police cordon and ran into the center's lobby.

BBC footage showed some being pulled across the floor by their arms and legs by security.

The BBC later showed Mr. Griffin making it into the building, where he was scheduled to be a panelist on "Question Time"—a first for the far-right party.

Many politicians have condemned the invitation to Mr. Griffin, but the BBC says that as a publicly funded broadcaster it must cover all political parties that have a national presence. Secretary of State for Justice Jack Straw, a senior member of the governing Labour Party cabinet, was set to appear alongside Mr. Griffin.

The BNP opposes immigration and claims to fight for "indigenous" Britons. Mr. Griffin was convicted in 1998 for distributing material likely to incite racial hatred, and has in the past questioned the extent of the Holocaust.

More recently, the party has tried to shed its thuggish image and enter the political mainstream. Earlier this year it won two European Union parliament seats, gaining 6% of British votes in European polls. It has no seats in the U.K. Parliament.

The invitation to appear in front of several million TV viewers has divided Britain, but delighted the BNP, which is counting down the seconds until the broadcast on its Web site.

It has sparked a debate between free-speech advocates and those who say giving Mr. Griffin a platform lends legitimacy to unacceptable views and could provoke violence.

Mr. Griffin said he expected a hostile reception, but had a right to be heard, and insisted his views had been misrepresented.

"If these people would only let us say what we want to say and then argue with what we've actually got to say instead of creating monsters and then being wound up about the monsters, everyone would get on far better," Mr. Griffin said.

The BBC later broadcast footage of Mr. Griffin arriving in the building and taking his place on the "Question Time" panel to scattered applause.

"Question Time" gathers British politicians, journalists and other public figures to discuss questions from a studio audience. The three-decade-old program has become something of national institution, and many have condemned Mr. Griffin's invitation as awarding his far-right group an undeserved aura of political respectability.

The head of the Muslim Council of Britain, Muhammad Abdul Bari, said "allowing the BNP to air its toxic views will increase Islamophobia and give the BNP [the] aura of respectability needed to spread their message of hate."

Prime Minister Gordon Brown said Mr. Griffin's appearance would expose the party's "racist and bigoted" views.

The BBC is wary of government interference in its political coverage.

In the 1980s, the Conservative government banned radio and TV appearances by members of Sinn Fein, the political wing of the Irish Republican Army. The broadcaster hired actors to read their words instead.

Reuters

British National Party leader Nick Griffin arrives at the BBC Television Centre, in west London, on Thursday.

CORPORATE NEWS

Ericsson profit slides amid restructuring

Handset-venture losses and charge for cost-cutting program push net down 71%; gear sales weaken

By Gustav Sandstrom

STOCKHOLM—**Telefon AB L.M. Ericsson** said Thursday its third-quarter net profit fell sharply, hit by heavy restructuring charges, losses at the Sony Ericsson handset joint venture and declining gear sales.

The world's largest network-equipment maker by sales reported a 71% drop in net profit to 810 million Swedish kronor ($118.2 million) for the three months ended Sept. 30 from 2.84 billion kronor a year earlier. Sales fell 6% to 46.43 billion kronor from 49.2 billion kronor.

Analysts had expected, on average, net profit of 1.65 billion kronor on sales of 50.95 billion kronor.

The latest results include charges of 2.7 billion kronor related to the cost-cutting program Ericsson announced in January. The company said the plan would lead to restructuring charges of six billion kronor to seven billion kronor and annual cost reductions of 10 billion kronor by the second half of 2010.

Ericsson also booked a loss of one billion kronor on Sony Ericsson, its handset joint venture with Japan's **Sony** Corp., which last week posted a wider third-quarter net loss of €164 million ($246 million).

Ericsson's third-quarter profit was below expectations mainly because of larger-than-anticipated restructuring charges and weak sales, said HQ Bank analyst David Hallden. However, core margins were stronger than the market had expected, Mr. Hallden said.

Chief Executive Carl-Henric Svanberg at a news conference in Stockholm

Shares in Ericsson declined 6.2% to close at 69.40 kronor Thursday in Stockholm.

"Sales of network equipment declined due to lower demand in the current tougher market environment," said Chief Executive Carl-Henric Svanberg. Speaking during a conference call, Mr. Svanberg said tight credit conditions hurt demand in several emerging markets, including Africa and the Middle East.

Demand is increasingly shifting from voice telephony to mobile broadband, Ericsson said, adding that sales of mobile broadband technology still don't offset the sales decline in global system for mobile communications, or GSM, technology. GSM is the dominant second-generation mobile-phone standard.

Mr. Svanberg said in an interview that he expects demand for mobile broadband to grow rapidly in Europe and the U.S., driven by increased data traffic on smart phones. A year ago, GSM made up about 70% of mobile-systems sales and third-generation equipment about 30%, but today the proportion is about equal, he said.

Ericsson said margins at its services business are stable, despite start-up costs related to recent contracts from operators, including U.S.-based Sprint Nextel Corp., and it said services demand remains strong. Ericsson's operating margin, excluding restructuring charges and the company's share in joint ventures, rose to 11.7% from 11.5%.

Reduced investments among telecommunications operators and increasing competition from China's **Huawei Technologies** Co. and **ZTE** Corp. have hit European equipment vendors in 2009.

Mr. Svanberg said it will take a long time for Huawei and ZTE to match Ericsson's position as a vendor of complete network infrastructure systems because the Chinese companies will have to build a large international staff to match the Swedish company's 60,000 employees in 150 countries.

Ericsson's sales have so far this year been helped by the weak Swedish krona, which has, however, appreciated about 10% against the U.S. dollar over the past three months.

Last week, Ericsson rival Nokia Siemens Networks, a joint venture between Finland's Nokia Corp. and Germany's Siemens AG, posted declining third-quarter sales but said it now expects the mobile infrastructure market to fall only 5% in 2009, compared with previous expectations for a 10% drop.

Novartis warns of currency pressures

By Anita Greil
And Jeanne Whalen

Novartis AG reported flat profit and modest sales growth for the third quarter, hurt in part by the dollar's strength compared with the third quarter of 2008. It warned that currency-related losses could significantly curtail profit and sales growth for the full year.

The Swiss drug giant raised its forecast for full-year sales as reported in local currencies, saying they should rise at a high single-digit rate, compared with an earlier forecast of about 5% growth.

That forecast excludes expected sales from the H1N1 vaccine, which Novartis said should add $400 million to $700 million in revenue in the fourth quarter. Novartis expects to produce as many as 120 million doses of the vaccine by year end.

Chief Executive Daniel Vasella said Novartis has transferred about 300 employees from other divisions to help the facilities making swine-flu shots operate seven days a week.

Novartis, which is based in Basel, said net profit rose 0.4% to $2.1 billion in the third quarter. Costs related to financing its acquisition of a stake in eye-care company Alcon Inc. pressured earnings, as did higher tax rates and charges of $189 million related to its stakes in Roche Holding AG and Alcon.

Sales rose 3% to $11.09 billion, hurt in part by a stronger dollar. In local currencies, sales rose 7%.

The company said strong growth from new products, including Lucentis for eye disease and the Exelon patch for Alzheimer's disease, helped drive sales growth of 8% in its prescription-drug unit.

CEO Daniel Vasella, shown earlier this year, defends Novartis's investment in generics and vaccines.

But sales of its best-selling drug—Diovan, for blood pressure—fell 2% in the U.S., damped by competition from less-expensive generic versions.

Globally, Diovan sales rose 1% to $1.46 billion.

Although the H1N1 virus is expected to strongly boost vaccine sales in the fourth quarter, the vaccine divison's sales fell 18% to $543 million in the third quarter.

Novartis blamed lower pricing for seasonal flu shots in the U.S. this year and a "significant decline" in sales of the vaccine against avian-flu, or H5N1, compared with a year earlier.

Novartis said it recorded only $17 million of H1N1 vaccine sales in the third quarter.

Sales in the Sandoz generics division fell 3% to $1.85 billion. Sales in the consumer health-care division, which includes nonprescription medicines, were flat at $1.48 billion.

In an interview, Dr. Vasella defended Novartis's investments in generic drugs, vaccines and consumer health care, despite the fact that those businesses are currently a drag on sales.

Growing use of generics and increasing emphasis on vaccines will make these businesses vital in the long term, he said.

Schneider sales decline 15%; forecast raised

By Adam Mitchell

PARIS—Electrical-equipment maker **Schneider Electric** SA on Thursday posted a 15% drop in third-quarter sales but said its cost-cutting efforts are on track and increased its earnings forecast.

Schneider, a provider of energy-management technology for the commercial and residential sectors, said sales declined to €3.95 billion ($5.92 billion) in the three months ended Sept. 30 from €4.65 billion a year earlier.

The company increased its full-year target for earnings before interest, taxes and amortization, or Ebita, before restructuring costs to about 12.5% of sales from a previous forecast of at least 12%.

Schneider said it expects a "slightly less severe" organic decline in sales in the second half of the year than in the first half. For the first half, it reported a sales decline of 18% from a year earlier.

Chief Executive Jean-Pascal Tricoire has been reshaping Schneider to provide customized energy-efficiency solutions and to look at opportunities in emerging markets. He said the company increased its full-year Ebita margin target, "considering the third-quarter trend, and with our cost-reduction plans well on track."

In Paris trading on Thursday, Schneider shares fell €2.21, or 2.9%, to €73.61.

CORPORATE NEWS

U.K. ends pub inquiry

Trade office says deals don't hurt competition

By Michael Carolan

LONDON—The U.K. Office of Fair Trading said Thursday it has decided not to further investigate pub groups' business models and practices, ending months of uncertainty over their future viability and sending shares in pubs sharply higher.

The OFT said "further investigation of competition problems within the beer and pub market is not warranted."

A probe could have taken an additional two years and resulted in major changes to tenanted pub groups' business models. Astaire Securities analyst Mark Brumby said the ruling would "come as a huge relief to the pub companies."

Mr. Brumby said that between 15% and 50% of the income of pub companies such as **Punch Taverns** PLC and **Enterprise Inns** PLC could have been threatened if an investigation had continued. "But the up-to-24 months of investigation and uncertainty is what would have really done the damage," he said.

Shares in Punch and Enterprise Inns, which between them own almost 30% of the U.K.'s pubs, climbed 15% and 23%, respectively. Shares in smaller pub groups also rose, with **Marston's** PLC up 3% and **Greene King** PLC up 1.9%.

The OFT launched its investigation after a complaint from consumer body the Campaign for Real Ale earlier this year, which followed a scathing report from a parliamentary committee on the trading practices of the major pub companies.

The OFT investigated whether the "beer tie"—whereby tenants of a company's pub have to buy beer from that company only—was detrimental to consumers. "The OFT has not found evidence of competition problems that are having a significant impact on consumers," the regulator said on Thursday.

Enterprise Inns welcomed the decision. "The vast majority of our hardworking licensees support the tie," the company said.

The OFT's investigation didn't consider whether the contracts between the pub companies and their tenants were fair, however. "In markets where competition is working effectively, the OFT has no mandate to intervene in commercial negotiations of particular parties," it said.

Enterprise said it was implementing measures aimed at addressing some of the "legitimate issues" raised by the original parliamentary report. The U.K. Parliament's business and enterprise committee said in May that the current model for tenanted pub groups pushed up prices and was unfair to the landlords who lease its pubs.

Reuters

A barman pulls a pint of beer in a Greene King pub in London last year.

Drinks giant Pernod sees turnaround

By Mimosa Spencer And Amelie Beaubeau

PARIS—French drinks company **Pernod Ricard** SA Thursday posted lower quarterly sales amid weak demand for wine and spirits, but said it is seeing the first signs of improvement in some of its markets and added it will boost advertising for its major brands.

The company cited duty-free sales and its U.S. wholesale business in particular. "For the first time these markets are positive," Pernod Finance Director Gilles Bogaert said in an interview.

The maker of Absolut vodka, Mumm champagne and Seagram's gin has been hard hit by destocking in the U.S., along with other drinks companies.

When it reported better-than-expected results for its last fiscal year at the start of September, it had warned that the wines and spirits industry would stagnate during its current fiscal year because of the economic downturn.

The world's second-biggest drinks company by volume after U.K.-based Diageo PLC said sales fell 6.3% in the fiscal first quarter ended Sept. 30 to €1.65 billion ($2.47 billion) from a year earlier, falling short of analyst expectations of €1.71 billion.

Pernod's quarterly sales look good when compared to sales figures from Diageo and LVMH Moët Hennessy Louis Vuitton SA's wine and spirits division, French bank Natixis said in a research note. Pernod's like-for-like sales fell 4%, compared with a 6% drop at Diageo and an 11% drop at LVMH's wine and spirits unit.

Pernod said sales in Asia and other emerging markets grew 3.2% to €514 million, up 3% on an organic basis, but that had been more than offset by an 18% drop in European sales, excluding its French home market, to €520 million.

Hershey net rises, volume slips

Hershey Co. posted an increase in earnings but said higher prices for its chocolates and candies hurt volume sales. The company also offered a full-year outlook that was a bit brighter than what many on Wall Street have been projecting.

Quarterly earnings rose 30%, in part because the year-earlier period was crimped by special charges.

For the full year, the maker of Hershey's Kisses and Twizzlers candy projected earnings in the range of $2.12 to $2.14 a share, excluding special items. Analysts had been forecasting, on average, earnings of $2.08 a share.

Sales fell to $1.48 billion from $1.49 billion a year ago. In the year-earlier period, retailers had stocked up on chocolates to beat a planned price increase.

Sales at Nestlé drop on strong currency

By Martin Gelnar

ZURICH—**Nestlé** SA said Thursday the strong Swiss franc triggered a 2.2% drop in sales for the year's first nine months, but added that third-quarter volumes grew and the company is accelerating its 25 billion Swiss franc ($24.8 billion) share-buyback program.

Sales at the world's largest food and beverage company fell to 79.55 billion Swiss francs from 81.36 billion francs a year earlier. The rise in the franc's value against the dollar, the euro and the pound—currencies in which Nestlé generates a large chunk of its sales—offset improved organic growth, a closely followed measure comprising changes in selling prices and volumes. Organic growth accelerated to 3.6% for the first nine months, compared with 3.5% for the first half and 3.8% in the first quarter.

Nestlé said it expects even faster organic growth for the full year but didn't give a specific target. It also still expects to improve margins for operating profit when stripping out currency fluctuations. In August, the company dropped a previous forecast for organic growth "at least approaching 5%" for 2009, indicating it was comfortable with the market's 4% organic-growth estimate.

In addition, Nestlé said it has decided to spend seven billion francs to buy back shares this year, instead of the four billion francs it originally planned. This will allow it to complete the 25-billion-franc buyback program earlier than planned.

The planned sale of its remaining 52% stake in U.S.-based eye-care company Alcon to Novartis AG will trigger a gain of as much as $28 billion next year, Nestlé said, driving market speculation that it would soon announce a new buyback program, a special dividend or an acquisition.

Nestlé said it hasn't decided what to do with the Alcon proceeds. The company can sell its Alcon shares at the market price plus a premium of 20.5% from Jan. 1, and Novartis has a right to buy Alcon at $181 a share.

The company didn't break out third-quarter results nor did it release net profit.

Reuters

Nestlé's U.K. chocolate sales were weaker than those of rival Cadbury.

Nestlé's U.K. weakness shows Cadbury strength

By Michael Carolan

LONDON—**Nestlé** SA's relatively weak performance in the U.K. chocolate market in the third quarter demonstrates that rival **Cadbury** PLC's strong third-quarter sales in its home market were more a result of its own actions than any growth in the market.

The Swiss food company acknowledged Thursday that its performance in the U.K. market had weakened in the three months ended Sept 30. While Nestlé didn't provide any figures for the region or break out individual product categories, a spokesman said the company's chocolate performance in the U.K. wasn't fantastic, blaming the weakness on strong comparative figures from a year earlier.

Cadbury, which is fending off an unsolicited takeover bid from U.S. giant **Kraft Foods** Inc., also had a strong performance last year, growing its sales in the U.K. and Ireland by 10%. But it posted another 10% sales rise in the third quarter of this year, suggesting it is growing market share in the U.K. at the expense of Nestlé.

The U.K. company attributed the "excellent growth in chocolate" to the launch of its Wispa Gold chocolate bar and strong early demand for its Christmas products.

Cadbury's third-quarter performance looks even stronger in the context of Nestlé's numbers, said Warren Ackerman, analyst at Evolution. The U.K. company increased its U.K. market share by about 2.1 percentage points, while Nestlé, U.S. rival **Mars** Inc., or both, most likely saw their own market share decline.

Cadbury said Wednesday that strong sales in its home market contributed to a 7% rise in its third-quarter organic sales, allowing it to raise both its sales and profit target for the full year and strengthening its management as it fends off a £10.2 billion bid from Kraft Foods.

Special Advertising Section

CZECH REPUBLIC

GETTY IMAGES/Allan Baxter

Strong fundamentals help pave way to economic recovery

By Catherine Bolgar

THE CZECH Republic has been in the fast lane for economic growth for years, until it got rear-ended by the global economic slowdown last fall. So far, the damage looks limited, and the country's fundamental strengths should help it win back foreign investment early.

"The Czech Republic is an example of where virtue seems to be paying no dividends," says William Tompson, senior analyst and head of desk for the Czech Republic and Estonia for the Organization for Economic Cooperation and Development in Paris. "Of course it isn't perfect, but it had no housing boom, no credit bubble, the banks were not engaging in questionable practices, the exchange rate is flexible, the current-account deficit was small, not like neighbors running huge current-account deficits. It has been hit very, very hard by others' policy errors."

Having been in good fiscal shape before the crisis, the Czech Republic has had more leeway than some of its neighbors in responding and lessening its impact. It cut interest rates, let its currency, the koruna, weaken and implemented two stimulus packages totaling about 100 billion korunas for 2009-2010. The OECD forecasts that gross domestic product will contract 4% to 4.5% this year, a better performance than the 5% contraction next door in Slovakia or the 6% squeeze in Hungary.

Export emphasis

Like Slovakia, the Czech Republic depends heavily on exports for economic growth, especially of autos, which account for 20% of exports. But the Czech Republic's population of 10 million is twice as large, and, with per-capita GDP at 75% of that of the original 12 euro-zone members, its people have means to buy. According to OECD estimates, private consumption has slowed sharply, to an estimated 0.8% growth for 2009 from 2.6% growth last year, but hasn't dried up.

"It's important, because Czechs can also consume, not just produce," says Pavel Zambersky, professor of international economy at the University of Economics in Prague. Having a robust domestic market is an added attraction for foreign investors.

In the wake of the global recession, foreign investors are casting an eye even further eastward to countries like Ukraine and Bulgaria, in search of ever-cheaper labor. The Czech Republic is still a bargain compared with Western Europe, but as its wages rise and other countries catch up on infrastructure, its mix of foreign direct investment is moving into services and research and development rather than manufacturing.

In 2008, investments in research and development and services surpassed manufacturing for the first time, according to CzechInvest, the government "one-stop shop" that helps both foreign and domestic investors get their businesses going. Examples include IBM Corp. of the U.S.,

> *"Companies may be leaving to the east for manufacturing, but they are keeping their R&D in the Czech Republic."*

which last year relocated its entire group for Central and Eastern Europe to Prague from Vienna. IBM employs over 2,500 people at its Czech offices in Prague and Brno. And eBay opened a marketing and analysis center for Europe in Prague.

The engineering sector had the second-largest number of new investments, while automotive, the traditional leader, was third.

"The policy of the Czech Republic in the past was for the companies to first come here with simple assembly," says Stanislav Martinek, director of the investment division of CzechInvest in Prague. "But there are other activities concerning their businesses. Companies may be leaving to the east for manufacturing, but they are keeping their R&D and technological centers in the Czech Republic. Those are high-value activities."

Incentives available

European Union rules limit the incentives the Czech Republic can offer to attract foreign investors. Companies can receive corporate tax relief for five years, and if they invest in regions with high unemployment they can get retraining grants.

But Mr. Tompson of the OECD says the tax system is more important than outright incentives. He says the Czech Republic's marginal effective tax on investment in machinery in 2007 was less than 70% of that on all other categories, compared with 90% for the EU as a whole.

"That encourages investment in machinery and would contribute to an overspecialization in manufacturing sectors," he says. He suggests that the government ditch policies "that have been inclined to overencourage investment in manufacturing."

Last fall, says Mr. Martinek of CzechInvest, the country felt the global crisis bite as investment projects that had been decided upon suddenly were put on hold. "Fortunately, the situation is definitely getting better in terms of new projects during the last two to three months," he says. Five planned projects that had been canceled when the downturn hit have been revived in the past two months. "We've seen a decrease in the volume of investment during the end of last year, but for 2010, our outlook is quite positive."

CORPORATE NEWS

Hyundai profit soars on demand

Korean car maker says market share rose to 5.5%

By Kyeong-Ae Choi

SEOUL—**Hyundai Motor** Co. said Thursday its net profit more than tripled in the third quarter on robust demand for new models and strong overseas sales.

The company said it expects demand will continue to rise through next year, offsetting the impact of a stronger won.

Net profit for the three months ended Sept. 30 soared to 979.1 billion won ($832 million) from 264.8 billion won a year earlier, the company said in a statement.

The result beat expectations. Seoul-based market research firm FnGuide had forecast a net profit of 548.5 billion won.

Helped by government stimulus packages, Hyundai is expanding its presence in advanced and emerging markets with competitively priced products and aggressive marketing, the statement said.

"The company will be able to absorb the impact of the stronger won, even if the dollar falls below 1,000 won," Chief Financial Officer Chung Tae-hwan said in an investor-relations session after the results were announced. The won's continued appreciation against the dollar is raising doubts about whether the company's pace of recovery can be sustained. The won gained 6.9% against the dollar in the nine months ended Sept. 30.

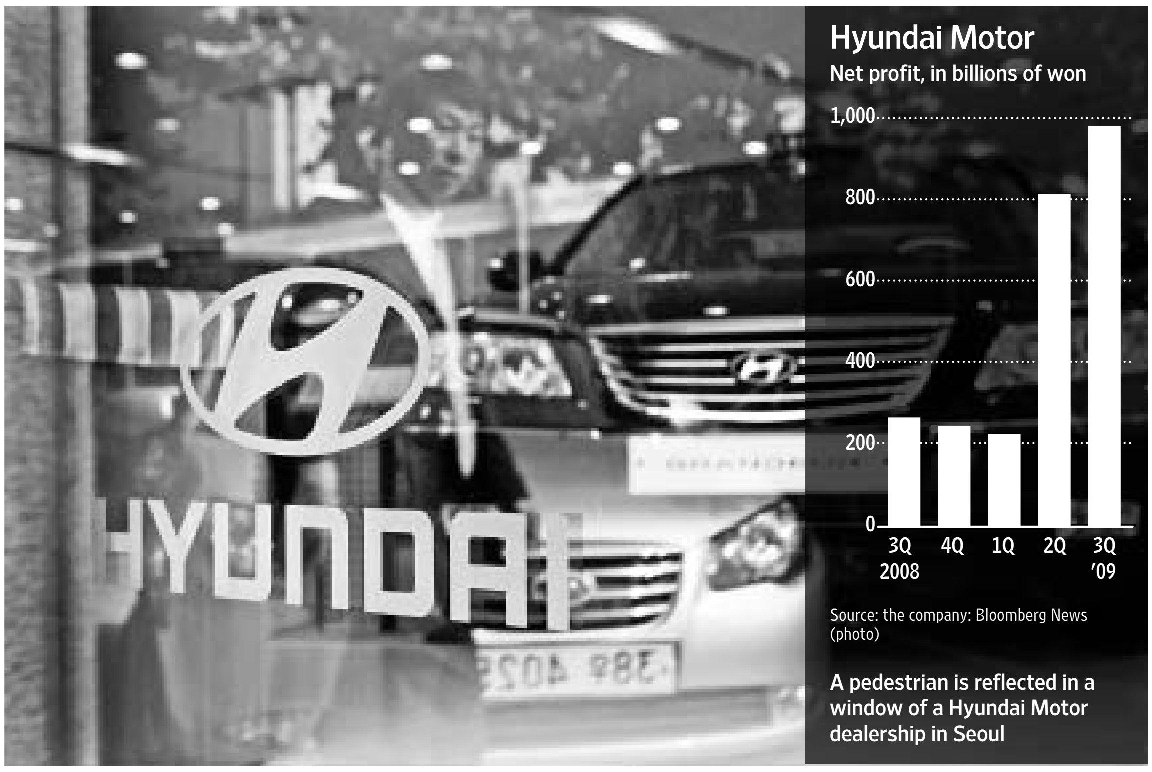
Hyundai expects to sell 3.05 million units globally this year, up from 2.84 million last year, helped by new models, Mr. Chung said. Hyundai sold 2.2 million vehicles in the January-September period this year.

Hyundai said its global market share rose to 5.5% in the quarter from 5.2% in the second quarter.

"Demand for vehicles is expected to recover from the fourth quarter through next year as the worst of the economic downturn is over," said Mr. Chung. He forecast global industrywide demand will be 59.6 million to 60 million vehicles next year, compared to about 57 million for this year.

Operating profit jumped to 586.8 billion won from 104.5 billion won, with the third-quarter operating profit margin rising to 7.2% from 1.7% a year earlier. Sales climbed 34% to 8.098 trillion won from 6.055 trillion won a year earlier.

Hyundai and the union will negotiate a wage deal for this year without strikes to avoid production losses, the statement said.



Source: the company; Bloomberg News (photo)

A pedestrian is reflected in a window of a Hyundai Motor dealership in Seoul

Anglo American shakes up its operations

By Jeffrey Sparshott

LONDON—Anglo American PLC on Thursday ousted three top managers, restructured its operations and said it would sell a handful of assets as it looks to woo investors with a new focus on its core metals and minerals holdings.

The announcement comes a week after rival Xstrata PLC walked away from a proposal to merge the two companies, though speculation continues that it will renew its offer.

"Xstrata has six months before it can rebid, and Anglo American will likely show a renewed sense of urgency through this time and will likely pull out all the stops to win shareholders over," Credit Suisse analyst Michael Shillaker said in a note to clients.

Anglo said businesses that accounted for 11% of core profit last year are up for sale. It plans to sell its Scaw Metals steel business, Copebras fertilizers unit, Catalao alloy division and its portfolio of zinc assets. Aggregates business Tarmac has been slated for disposal since 2007, though the process stalled last year as credit markets seized up.

Altogether, the companies slated for divestment contributed $1.3 billion to Anglo's 2008 earnings before interest, taxes, depreciation and amortization, the company said.

The changes are expected to reduce central-office staff by about 25%, or roughly 2,750 employees, and save $120 million a year, the company said.

Three executives will depart: Philip Baum, chief executive for Anglo Ferrous Metals; Ian Cockerill, head of Anglo Coal; and Russell King, chief strategy officer. They couldn't be reached to comment.

Opel unions in Spain reach agreement with Magna

By Christopher Bjork And Jonathan House

MADRID—Union representatives for Opel workers in Spain have reached agreement with Canadian auto-parts maker **Magna International** Inc. that will maintain the bulk of production of certain Opel models in the country, a Spanish Industry Ministry official said Thursday.

Unions earlier this week threatened to call four strike days in the coming weeks after rejecting an earlier offer from Magna.

If a Magna-led consortium completes its purchase of Opel from **General Motors** Co., it would maintain Spain's share of production of the five-door Opel Corsa, the Meriva and some other models at its current level of about 70%, the official said.

Spanish workers had been concerned that some of this production would be diverted from the factory near Zaragoza, Spain, to Eisenach, Germany.

Also as part of an agreement brokered by Spanish Industry Minister Miguel Sebastian, Magna would lay off about 900 workers, the official said, fewer than the 1,300 it had proposed previously. The Zaragoza plant now employs 7,500 workers.

The agreement needs to be voted on by union members. Salvador Salas, a representative for Comisiones Obreras, said his union will vote Monday. Until then, he said, unions are maintaining their plans to hold four days of strikes to protest Magna's plans for Zaragoza.

Havas Posts Steeper-Than-Expected Drop in Organic Revenue

By Ruth Bender

PARIS—French advertising and marketing company **Havas** SA on Thursday reported a steeper-than-expected 9.3% drop in third-quarter organic revenue, as the economic downturn hit ad spending.

Havas, which owns the Euro RSCG ad agency, the world's largest by number of global accounts, said organic revenue fell to €326 million ($488.9 million) in the quarter ended Sept. 30 from €362 million a year earlier. Organic revenue is a closely watched barometer in the ad industry that strips out currency effects, acquisitions and disposals.

Net new business totaled €318 million in the quarter.

Havas didn't provide a forecast for the year. Chief Executive Fernando Rodes Vila said last month that he expects the global ad market to shrink by between 7% and 11%, and Havas's controlling shareholder, Vincent Bolloré earlier this year said that he expects the company's organic revenue to fall no more than 10% this year.

The company said net profit for the first nine months of the year was stable compared with a year earlier, but didn't provide figures. Net debt fell to €154 million in the latest quarter from €263 million the previous year.

"Even though organic revenue is below expectations, the fact that there is a sequential improvement from the second quarter is important," said Kepler analyst Conor O'Shea.

The ad industry has been hard-hit as companies cut media spending. ZenithOptimedia, a unit of France's Publicis Groupe SA, Monday forecast a 9.9% drop in global ad spending this year, worse than its previous forecast for an 8.5% decline. It expects the market to bottom out before the end of the year,.

National Express lowers profit outlook

By Kaveri Niththyananthan

LONDON—U.K.-based bus and rail company **National Express Group** PLC, the target of takeover approaches after it lost a major U.K. rail franchise, Thursday warned that its full-year profit will be slightly below its previous expectations as the economic downturn continued to hit revenue and costs rose.

The company said its pretax profit would be hit by higher interest costs associated with an increase in debt margin from October, while higher costs were also reducing profitability in North America.

"We are focused on delivering our refinancing, reducing and managing costs, driving revenue and delivering best-in-class customer experience. Despite the recession, we have delivered a resilient trading performance. We are moving forward, with our primary focus to refinance the Group," National Express Group Executive Chairman John Devaney said.

If it strengthens its balance sheet by raising new equity, its debt lenders have agreed to extend the maturity on as much as half of its €540 million ($810 million) facility due to mature in September, to March 2011.

"This would provide additional certainty of funding to the Group and should permit a refinancing in 2010 of remaining bank facilities, including the £800 million revolving credit facility due to mature in June 2011," the company said.

Debt is expected to decline in the fourth quarter, but this will depend on the timing of East Coast payments and the impact of sterling's weakness, which it said added about £30 million ($50 million) to net debt translation in the third quarter.

In addition, "delays created by the recent acquisition interest in the Group have resulted in a 1% increase in the interest margin payable by the group from October 2009," it said.

Like peers, the company is seeing rail revenue decline as the economic downturn and rising unemployment cut passenger numbers. In addition, the U.K. government seized one of its major rail franchises in July after the company said it wouldn't support it financially.

The same day the U.K. government stripped its East Coast rail franchise, its chief executive, Richard Bowker, resigned. The company added that it is making good progress in finding a new CEO and will update the market in due course.

Since it lost the franchise, it has attracted takeover interest from a private equity-led consortium, which eventually withdrew, and now from rival **Stagecoach Group** PLC, which has proposed an all-share merger. National Express said it would evaluate the approach.

National Express said revenue growth in sterling terms for the third quarter was 1% below the year-earlier period but is up 3% in the year to date. U.K. bus revenue was up 2% in the past year, while its growth at its remaining rail franchise, East Anglia, was 1%.

It said it is on track to save £50 million for the year through cuts.

National Express shares closed Wednesday at 416 pence, valuing the company at £636.6 million. The shares have gained 34% over the past three months on the back of takeover interest.