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What's News

Germany's new government will take office Wednesday with a policy plan that relies on deficit spending to support a fragile economic recovery. The program includes income-tax cuts of \$36 billion, lower business taxes and higher family benefits. **Page 3**

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■ **The pilots of a U.S. flight** were set to tell investigators they weren't asleep when they failed to respond to radio calls for over an hour. **Page 5**

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■ **European companies** have bought less natural gas from Russia's Gazprom this year than they are obliged to under long-term contracts. **Page 23**

■ **Confidence among British businesses** reached its highest level in more than 18 months, but falling sales remain a big concern. **Page 12**

■ **The union representing workers** at the U.K.'s Royal Mail said it plans to hold two additional nationwide strikes this week. **Page 35**

■ **A rights activist** in Russia's province of Ingushetia was shot dead in the third killing of an opposition figure in the region in recent months.

■ **Nigeria's main militant group** declared an indefinite cease-fire, raising the prospect of peace in the Delta region.

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Chancellor Merkel ignores her reform mandate. **Page 15**

Breaking news at europa.WSJ.com

Twin blasts kill 147 in Baghdad

Attacks seen as an attempt to create instability and thwart national elections in January

By GINA CHON

BAGHDAD—Two powerful suicide car bombs near high-profile government offices rocked the capital on Sunday in the deadliest attack here in more than two years, killing at least 147 people and raising fresh worry about the capabilities of Iraq's security services ahead of national elections scheduled for January.

The Ministry of Interior said that in addition to the dead, more than 500 people were injured. Charred bodies, limbs and the smoldering shells of dozens of cars littered the area. The explosions also shattered windows throughout the nearby Mansour Hotel, which houses the Chinese embassy. Some ceilings collapsed.

The blasts, which the government said bore the signature of al Qaeda in Iraq, most damaged Baghdad's provincial headquarters and the nearby federal Ministry of Justice. Many of the protective blast walls surrounding those buildings collapsed.

Iraqi Prime Minister Nouri al-Maliki visited the site of the attacks and blamed al Qaeda and members of the Baath party. His office said in a statement that the explosions were meant to create instability and to stop the January parliamentary elections.

U.S. President Barack Obama called the attacks an attempt to "derail Iraq's progress." He said the U.S. "will stand with Iraq's people and government as a close friend and partner as Iraqis prepare for elections early next year."



An Iraqi man weeps as he leaves the site of bomb blasts that hit high-level government offices in central Baghdad on Sunday.

The president spoke with Mr. Maliki and Iraqi President Jalal Talabani by phone to express his condolences.

The timing of the Sunday bombings coincided with plans by Iraq's top political body, the Political Council for National Security, comprising top political leaders and cabinet ministers, to consider ways to end a stalemate over a crucial election law needed to begin work ahead of the elections. The legislation has stalled over disagreements between factions over how the vote will be conducted in Kirkuk, an oil-rich region in the north torn by sectarian

and ethnic tensions among the area's Kurds, Arabs and Turkomen.

The attacks raised immediate parallels to an August bombing that targeted the ministries of finance and foreign affairs, the latter located about 200 meters away from Sunday's blasts.

The August attacks, which killed nearly 100 people, shook the confidence of Iraqi security services ahead of a big drawdown of U.S. troops expected next year. While violence has decreased significantly since the height of sectarian warfare in 2006 and 2007, a series of high-profile

attacks this year has rattled Iraqi and American officials as they gauge how quickly to draw down U.S. forces. The Obama administration has committed to withdrawing all combat forces by August 2010. A bilateral security pact calls for a complete U.S. military withdrawal by the end of 2011.

The U.S. military has said it will assess the pace of its drawdown 30 to 60 days after the elections, and a delayed vote could affect how quickly American forces can pull out of Iraq. A peaceful and successful transition of power could mean an accelerated U.S. withdrawal. About 120,000 American

troops currently are in Iraq, and that figure is expected to drop to about 50,000 by August.

"As we've said in the past, challenges remain, and the security environment's importance is heightened as Iraq moves toward its national elections," U.S. military spokesman Brig. Gen. Stephen Lanza said.

He said it was too early to assess what allowed the attackers to stage the explosions, but "the ultimate retaliation against those who attack Iraq's forward progress is to hold the elections on time." Because of the stalled elections law, there is concern that the

Please turn to page 34

Fear over currencies has gold gaining fans

By E.S. BROWNING

As the world begins recovering from the worst financial crisis in 70 years, an odd couple of winners has emerged: stocks and gold.

So far this year, the Dow Jones Industrial Average, a bet on economic recovery, is up 14%. Gold futures, a bet on calamity, are up 19%.

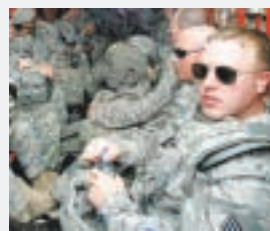
The reason: Low interest rates and heavy government stimulus have poured cheap money into financial markets, helping both the economy and stocks. But the creation of all that money, together with the Federal Reserve's maintenance of near-zero benchmark interest rates and the prospect of heavy government borrow-

ing to fund deficits, threatens to weaken the dollar and fuel inflation and economic volatility later.

Already, leaders of China and some oil-producing countries have indicated a desire to diversify away from unique reliance on the dollar as the world's reserve currency. When governments and investors lose faith in currencies and fear economic trouble, they turn to gold.

"In 5,000 years of human history, gold has been the currency of choice, the store of value, when humans have called into question their governments' efforts to solve problems by running printing presses" and injecting money into the economy, *Please turn to page 35*

Inside



Afghanistan options

Taliban calls for election boycott as plan to boost U.S. troops gains. **Pages 20-21**

Markets

	CLOSE	PCT CHG
DJIA	9972.18	-1.08
Nasdaq	2154.47	-0.50
DJ Stoxx 600	244.89	-0.54
FTSE 100	5242.57	+0.68
DAX	5740.25	-0.39
CAC 40	3808.24	-0.33
Euro	\$1.5022	+0.09
Nymex crude	\$80.50	-0.85



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LEADING THE NEWS

'Dual track' IPOs return

Europe begins to see rise in firms looking for a listing or bidder

BY LIAM VAUGHAN

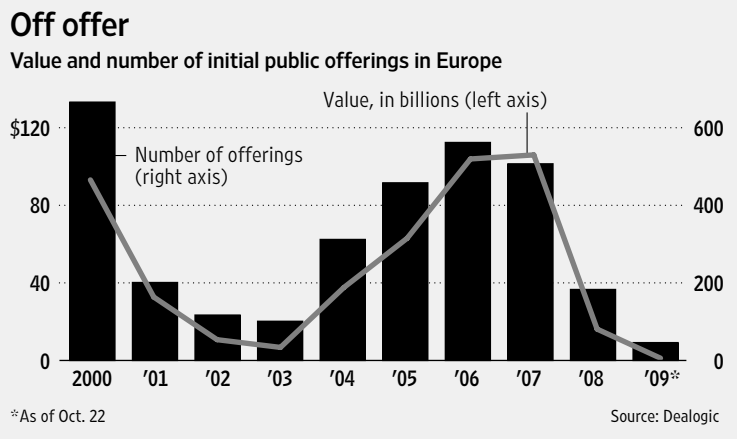
With the European market for IPOs warming up, "dual tracks" are coming back, too, but with a twist.

The dual track is similar to the dating strategy of winning over someone's friends as a way to win over the true object of desire. In the traditional corporate version, a company announces an initial public offering only so it can flush out a bidder who is willing to buy the company outright.

The twist is that this year companies seem to be genuinely interested in both options and are pursuing both tracks to maintain competitive tension so as to get the best price, say advisers to the firms.

"The difference this time around is that we are likely to see more IPO-led mandates in which the bulk of the energy is spent on gearing up for a flotation," said Pat Guerin, joint-head of EMEA M&A at UBS. "The M&A track is likely to be more discreet, and aimed at strategic buyers rather than private equity."

In the U.K., private-equity group Bridgepoint is contemplating a dual-track process for retailer Pets at Home, exploring both a trade sale and a potential IPO, according to a person familiar with its plans. J.P. Morgan Cazenove has been appointed as joint global bookrunner to prepare the business for IPO, and Rothschild has been hired to handle the M&A side. The person familiar with Bridgepoint's plans says that with equity markets rallying but the mergers and acquisitions still



difficult to pull off, Bridgepoint is open to the idea that a flotation may lead to the best returns.

Bridgepoint isn't alone in pursuing the dual track. In the U.S., software group Gomez was acquired last month for \$295 million by rival Compuware after being on file to go public for more than a year.

Few companies advertise they are pursuing a dual track for fear of scaring investors. "There will be a lot of dual-track processes although you may not hear about them," Mr. Guerin said.

In 2004, over-50s travel and insurance group Saga was prepared for flotation by UBS, which was also hired to seek out bidders. Investors who had put in time and energy in analyzing the business before agreeing to support the float made plain their distaste when Saga was instead sold off to private-equity group Charterhouse Group.

"One of the difficulties with a dual track, particularly in the current climate, is that if the market does not think you are serious it can damage

the IPO," said Ken Brown, head of equity capital markets at Nomura. "Investors are focused on rights issues, government sell-downs and protecting their existing portfolio. They will have limited appetite to do the necessary investment analysis if they don't believe an IPO is credible."

There is widespread expectation that there will be an uptick in IPOs next year as equities rally and as private-equity firms come under pressure to book the returns from taking companies private.

The shift to IPO-led rather than M&A-led dual tracks would please the banks, which make considerably more for working on an IPO than they do from straight M&A advice. Bookrunning fees may not be the greatest money-spinner for the banks, but the ancillary business of being a market-maker in the shares, being retained as a broker by the newly listed firm and being first port of call for any follow-on sales make it a highly prized assignment.

—For more, visit efinancialnews.com

Hedge funds edge closer to recouping crisis losses

BY DAVID WALKER

The hedge fund industry is on the brink of recouping all its investment losses sustained during the credit crunch, placing many funds in a position to earn performance fees.

By the middle of last week the average fund needed only a 2% gain to reach its value on June 30, 2007, at the height of the last boom, judging from several indexes from data provider Hedge

Fund Research.

At the current rate, the industry will be back above the highest level of two years ago late next month. Funds on average have returned 18.3% this year to Oct. 21, helping repair almost all the damage from the relatively controlled losses they made in the second half of 2007, and the more dramatic 19% fall of 2008.

A return to the previous top is vital for managers, because only after hitting the level again—known as the high-water mark—can they earn 20% of fresh profits. The fact that global shares, as represented by the MSCI World index, have to claw back 27% after their slump in 2008 is little comfort for managers still under water.

Christopher Miller, chief executive of hedge fund rating agency Alenbridge Hedgeinfo, said the industry was now "fantastically close" to pre-crunch levels. "It seems managers have regained their self-confidence," said Rickard Lundquist, a portfolio strategist at SEB Private Banking.

However, not all the funds are near their own 2007 level and how close they are to it depends on their strategy. Equities-focused managers are still 9% short, and multi-strategy managers must still add 4%. Global macro funds, which aim to bet on broad global trends, are 15% above their mid-2007 level after making 4.8% last year amid strong market trends they could exploit. And, despite losing 16% this year as shares rose, short sellers' gains in 2008 leave them 14% above pre-crunch levels.

Also, while the industry as a whole is close to regaining ground it

High water

The percentage above or below mid-2007 levels that various kinds of hedge funds were at on Sept. 30

Global shares	-30.0%
Equities hedge	-8.9
Multi-strategy	-4.4
Hedge fund industry*	-3.0
Relative-value	1.2
Convertible arbitrage	2.3
Short bias	14.0
Global macro	15.0

Sources: Hedge Fund Research; MSCI

lost in the crunch, estimates of how far it has left to go vary with the data provider.

By Oct. 20, 32 of Europe's 50 best performing hedge funds this year had not recovered the losses they suffered last year, according to analysis of industry databases by Collins Stewart Wealth Management. Although the best funds have made, on average, 80% this year, they are almost 20% off where they were at the start of 2008.

Data firm Credit Suisse/Tremont calculated that, by the end of September, three quarters of the industry's funds hadn't made up for last year's losses; half of all funds were 15% or more away from doing so.

Some funds above their respective pre-crisis values are Odey European, which has more than doubled its pre-crunch value; Henderson European Absolute Return, which is 26% to the good; and Capula Global Relative Value, which is 35% up, according to investors. Henderson, Odey and Capula declined comment.

Nadia Papagiannis, a strategist at Morningstar, said: "Hedge funds began to regain their swagger in the third quarter. The road to recovery was paved by strong performance in riskier asset classes."

Richard Hodgetts, Collins Stewart Wealth Management fund of funds manager, said: "An awful lot of managers are doing very well, but still can't charge performance fees."

—For more, visit efinancialnews.com

Trade data underscore weakness in global recovery

LONDON—Global trade flows slipped in August after rising for the two previous months, an indication that the economic recovery is more fragile and anemic than previous data have hinted.

The Netherlands Bureau for Economic Policy Analysis said trade volumes fell 2% from July, according to

an algorithm based on customs data from 23 developed countries and 60 emerging markets, accounting for 95% of global trade. The report is closely watched because it comes out before those compiled by the World Trade Organization and other institutions.

Global trade flows plummeted in

the final months of last year as demand slowed and banks financed fewer cross-border transactions. Volumes were down 13% in August compared with the previous year.

The International Monetary Fund says world trade will fall 11.9% overall in 2009. The IMF sees a modest 2.5% increase in 2010.

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LEADING THE NEWS

Merkel unveils new plan

German government to rely on spending to maintain recovery

BY MARCUS WALKER

BERLIN—German Chancellor Angela Merkel's new center-right government will take office Wednesday with a policy program that foresees heavy deficit spending to support the fragile recovery in Europe's biggest economy.

The governing program, which Ms. Merkel and other leaders of her center-right alliance presented in Berlin Saturday, includes income-tax cuts of €24 billion (\$36 billion), lower business taxes and higher family benefits—measures expected to add to Germany's fast-rising public debt.

Incoming Finance Minister Wolfgang Schäuble, an experienced conservative whose selection was confirmed this weekend, said Germany wouldn't achieve a balanced budget within the government's four-year term.

The past year's financial crisis meant the economy was too weak for spending cuts, Mr. Schäuble said

in an interview with German newspaper Welt am Sonntag. "It makes no sense to talk about savings measures at a time when you are having to push through stimulus measures," he told the paper.

Economists had forecast that Germany's budget deficit would rise to 5% or more of gross domestic product next year, even before the new government's tax and spending measures. That's still less than the gaping deficits in many other countries that have suffered in the financial crisis.

But rising public debt threatens Germany's ability to finance its costly welfare state in the long run, against the background of an aging population and a shrinking work force. That demographic trend will hurt tax revenues while pushing up pension and health-care costs.

An amendment to Germany's constitution this year forces future governments to cut the budget deficit in stages from 2011 and run virtually balanced budgets from 2016. That could force Mr. Schäuble to make unpopular spending cuts later in his term.

For the moment, however, the government's priority is a financial boost for businesses and middle-class households. That policy re-

wards key constituencies of Ms. Merkel's conservative Christian Democratic Union and its partner, the business-friendly Free Democratic Party.

The policy program presented over the weekend includes longer lives for Germany's nuclear power plants, which previous governments had planned to shut down by 2021.

The program avoids radical overhauls of the tax system or labor laws of the kind that Ms. Merkel, as well as the FDP, used to advocate.

However, the new government plans significant changes in the medium term to parts of Germany's cherished welfare state. Health-care funding could shift away from levies that are proportional to people's salaries and are partly paid by employers, to a system of flat-rate health-insurance fees for individuals. Meanwhile, elderly care could be funded partly through individual private savings accounts, instead of purely through payroll taxes.

Both changes would cap or reduce companies' tax burden, which conservatives hope will be good for job creation. But the proposals are controversial because they could create new financial burdens for lower- and middle-income households.



Incoming Finance Minister Wolfgang Schäuble, shown at a June conference in Berlin, said Germany wouldn't balance its budget within the new government's four-year term.

Authorities review Lockerbie bombing case for new leads

BY PAUL SONNE

LONDON—Scottish authorities are searching for new lines of inquiry in the Lockerbie bombing case, including a search for possible accomplices, now that convicted Lockerbie bomber Abdel Baset al-Megrahi has dropped his appeal, according to Scottish officials.

Mr. al-Megrahi—the only person convicted for the 1988 bombing of Pan Am Flight 103 that killed 270 people including 189 Americans—dropped his appeal before being sent from Scottish prison to Libya in August on compassionate grounds.

The Crown Office, Scotland's public prosecutor, which has long contended that Mr. al-Megrahi didn't act alone, is reviewing the case to unearth any leads that could point to additional suspects or information about the bombing.

Because Mr. al-Megrahi's appeal was dropped, his 2001 guilty verdict will remain unchanged. Mr. al-Megrahi is now home in Libya, where he is suffering from terminal prostate cancer.

"Now that Mr. Megrahi has decided to abandon his appeal against conviction, a further review of the case is under way in respect of others who acted with him in the murder of 270 people," said Patrick Shearer, chief constable at the Dumfries and Galloway Constabulary, the Scottish police department handling the case. "The work that is being undertaken is the latest in a series of reviews which have formed part of an investigative strategy in keeping with our determination to pursue every possible lead."

Mr. Shearer noted that Scottish authorities weren't relaunching

the investigation but rather reviewing the evidence on hand to look for additional clues.

Lindsey Miller, a Crown Office official, confirmed to members of the U.K. victims group in September that a further review of the

A U.K. victims group is seeking answers regarding financing behind the bombing.

case is under way, according to a forwarded email. Ms. Miller wrote that prosecutors were following several potential lines of inquiry by undertaking a document review and consultations with forensics

experts. "Please be assured that this is not simply paying lip service to the idea of an 'open' case," she wrote to the family members of the U.K. victims.

The U.K. victims group has welcomed the continuation of the Scottish prosecutor's criminal investigation and has called for Prime Minister Gordon Brown to initiate a wider public inquiry, on the national level, to resolve unanswered questions in the Lockerbie case that may go beyond a more narrow criminal inquiry. In particular, the victims group is seeking answers regarding the financing and motivations behind the bombing, and reasons why intelligence and security services weren't able to prevent it.

"I'm glad to know that they're not giving up," Pamela Dix, a member of U.K. Families Flight 103, said regarding the Scottish review of

the case. Her brother Peter died in the bombing. "Al-Megrahi was convicted as a co-conspirator, and the only other person who has been accused was found innocent. Therefore the co-accused are somewhere out there."

Though Ms. Dix applauded the continuation of the Scottish criminal investigation, she said it was also worrisome, because the open case has been cited, in the past, as a reason for the U.K. government to reject a broader independent inquiry, something the U.K. victims group's members has backed for years.

U.K. Foreign Secretary David Miliband dismissed the group's call for a full public inquiry on the national level in a BBC interview Sunday. "If there's any suggestion of an inquiry, that should be a matter for the Scots, because that's the way our system works," he said.

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LEADING THE NEWS

U.N. inspects Iranian plant

IAEA's examination of latest site tests Tehran's good faith

BY CHIP CUMMINS

DUBAI—A team of monitors from the United Nations nuclear watchdog started an inspection on Sunday of Iran's recently disclosed uranium-enrichment plant, presenting another big test of Tehran's willingness to cooperate with the West over its nuclear program.

The team from the Vienna-based International Atomic Energy Agency arrived in Tehran on Saturday evening and reached the facility, near the holy city of Qom, on Sunday, according to state media. The team will remain in Iran until Tuesday, Iran said.

The inspection will offer Washington and other Western capitals an indication of Tehran's good faith amid continuing talks over its nuclear program.

On Friday, Tehran failed to approve by the agreed deadline a

deal Iranian negotiators agreed to last week that would require Iran to ship the bulk of its nuclear fuel out of the country. The fuel would be further enriched in Russia for a medical-research reactor and returned to Iran.

Several senior Iranian officials have publicly criticized the deal. On Saturday, Iranian parliamentary speaker Ali Larijani said that the deal would "deceive" Iran and that Tehran prefers to buy fuel outright, according to state media. Western officials have said, however, that they will wait for an official answer from Tehran before gauging Iran's intentions.

U.S. President Barack Obama has suggested he will give Iran until the end of the year to show progress in talks, before pursuing other options, including new economic sanctions.

Iran has vowed it won't give up its right to enrich uranium for peaceful nuclear energy. Western and Arab powers worry that Tehran harbors ambitions to build weapons.

That concern increased markedly after the U.S., France and Brit-

ain said last month that Iran was building a previously undisclosed enrichment facility near Qom. Iran had told the IAEA about the plant just ahead of the dramatic announcement by the West. Western officials and analysts said such a small facility, heavily guarded and undisclosed for so long, heightened suspicion that Iran was working on a clandestine nuclear-weapons program.

Iranian officials appeared caught off guard, and as they prepared to sit down with members of the U.N. Security Council and Germany for talks related to the country's nuclear program earlier this month, they invited IAEA inspectors to the site to reassure them.

The atomic agency has long complained about lack of Iranian cooperation in information requests related to the nuclear program. If the IAEA inspectors come away from the visit satisfied with Iran's cooperation, it could go some way to increase confidence in Tehran's willingness to pursue more dialogue. If they come away frustrated, however, the visit could raise new suspicion about Iran's intentions in the talks.



IAEA nuclear inspectors arrive at the Imam Khomeini International airport, south of Tehran, at the weekend to inspect Iran's recently disclosed enrichment plant.

Palestinian protesters clash with police in Jerusalem

BY CHARLES LEVINSON

JERUSALEM — Israeli police clashed violently with Palestinians in Jerusalem on Sunday and occupied the Al Aqsa Mosque compound, the holy site that is revered by Jews and Muslims alike and that was the flashpoint for the last Palestinian uprising in 2000.

Palestinian demonstrators hurled rocks and threw at least one Molotov cocktail at police in Jerusalem's walled Old City, and a 21-year-old Palestinian woman reportedly stabbed an Israeli border guard in the stomach at a West Bank checkpoint.

Israeli police responded to the protests with tear gas and stun grenades, and arrested at least 18 Palestinians, according to police spokesman Mickey Rosenfeld. They occupied the mosque compound and closed it temporarily to visitors but refrained from entering the mosque itself, Mr. Rosenfeld said. The mosque is part of the compound known to Jews as the

Temple Mount and to Muslims as the Noble Sanctuary.

Violence by both Jewish settlers and Palestinians has been increasing in recent weeks. Israel's internal security agency, Shabak, has released data showing that monthly attacks by Palestinians against Israeli targets nearly doubled to 95 in September from 53 in August. Attack numbers in Jerusalem increased sixfold, the agency added.

Though the violence has been contained by Israeli authorities, many observers fear a potentially explosive mix of raised, then dashed, hopes for a peace breakthrough; an embattled Palestinian leadership seen as conceding too much; and an uncompromising hardline Israeli government. The combination is seen as parallel with conditions in 2000 before the second *intifada*.

"I sense there is a great popular feeling of anger and disappointment, a feeling that everything we do is futile and that too many of our

people think that peace is impossible no matter what we do," an official close to Palestinian President Mahmoud Abbas said. "People felt this same way in 2000 and we know what happened then."

In the West Bank, Jewish settlers defiantly close ranks in the face of increased U.S. and international pressure on Israel to restrict and eventually uproot their settlements. Three settlers were arrested on Saturday after throwing rocks at Palestinians and Israeli soldiers at an illegal outpost in the West Bank.

"There is definitely some increase in violent activity, but not at all close to levels of the past years," a senior Israeli military official said.

The recent flareups in Jerusalem have been at least in part a result of agitation by extremists on both sides of the conflict. Jewish hardline groups dedicated to rebuilding the Second Temple, Judaism's holiest site, which occupied the same area as the Al Aqsa Mosque until de-

stroyed by the Romans in A.D. 70, have called for Jews to pray there. One such prayer was scheduled for Sunday night.

Islamist leaders in Israel have seized on those calls to call for protests in defense of the mosque.

U.S. President Barack Obama's early engagement in the Mideast peace process, including an unprecedented U.S. demand for a full freeze on all building in Jewish settlements in the West Bank, ushered in fresh optimism among Palestinians. But those hopes were dashed after the Obama administration softened its stance when Israel refused to give in to U.S. demands.

Many analysts and former officials involved in the peace process today attribute the widespread disappointment that followed the failure of the Camp David peace talks in 2000 with helping enflame the violence that subsequently erupted.

That failure left then-Palestinian President Yasser Arafat facing do-

mestic criticism that peaceful negotiations were futile. He soon after began clandestinely supporting a return to armed struggle.

Today, Palestinian President Mahmoud Abbas is facing widespread criticism that he has agreed to concede too much to Israel without getting sufficient concessions in return.

Palestinian Authority government officials say they remain committed to nonviolence. Still, they have tried to defuse some of the popular anger by calling for a general strike earlier this month that coincided with the last outbreak of violence in Jerusalem. Among those arrested in East Jerusalem on Sunday was Hatem Abdel Qadar, Mr. Abbas's adviser on Jerusalem affairs, for incitement and organizing an illegal demonstration.

Meanwhile, one thing U.S. officials have said is key to helping defuse current tensions—more far-reaching Israeli concessions—hasn't been forthcoming.

Pakistan seizes control of militant stronghold, hometown of Taliban chief

BY ZAHID HUSSAIN

ISLAMABAD—Pakistani security forces seized control of a militant stronghold and the hometown of the Pakistan Taliban's chief Saturday after several days of fierce fighting, claiming the first major success for the military since the start of its offensive in the northwestern border region neighboring Afghanistan.

Major General Athar Abbas, chief military spokesman, said the capture of Kotkai in South Waziristan indicated a breakthrough for the security forces.

Kotkai is the birthplace of Hakimullah Mehsud, the Pakistani Taliban chief, and also the hometown of Qari Hussein, another senior militant commander who ran a Taliban camp to train suicide bombers.

The battle for the town was important for both the government forces and the Taliban. Its fall deals a blow to the militants fighting to

maintain their control over the rugged mountainous region, which also serves as a base for al Qaeda.

"Every house in the area was a Taliban bunker and troops had to fight for every inch," said Gen. Abbas. Three soldiers and 21 militants were killed in the fighting since Friday. More than 95 insurgents and 23 soldiers have been killed in the fighting since the start of the offensive a week ago.

The capture of Kotkai also has opened the way for Pakistani troops to advance toward the other militant stronghold of Saragoha, Gen. Abbas said.

In another tribal area, a U.S. missile strike from a pilotless drone Saturday killed 14 militants, including three foreign fighters. A Pakistan security official said the missile hit a militant hideout in Damadola village in the Bajaur tribal area near the Afghan border.

Malvi Faqir, a top regional Taliban commander, narrowly escaped



A police officer stands guard as people displaced by fighting between security forces and militants in Waziristan arrive Sunday at a post near Bannu, Pakistan.

the attack but one of his sons, a nephew and a son-in-law were killed, said a senior Pakistani official overseeing the tribal area.

It was the second time U.S. mis-

siles have targeted the border village, which Pakistani intelligence officials said had often been visited by senior al Qaeda leaders. Ayman al Zawahiri, a deputy to Osama bin

Laden, was believed to have escaped the previous attack in 2006. Thousands of Pakistani troops are battling insurgents in Bajaur.

Around 30,000 Pakistani troops backed by air-force jets are battling the Taliban in South Waziristan. The operation is viewed as a test for the Pakistani army's resolve and ability to fight the militants.

"We have the ability to take the battle to its conclusion," said Gen. Abbas. He denied that the military was getting any support from the U.S. "It is our fight and we don't want any foreign help."

In another incident, a suicide bomber blew up a car packed with explosives on a highway, killing one police officer. The assault occurred Sunday when police stopped a car with two men inside, some 100 kilometers (62 miles) from Islamabad. The two men planned to detonate the explosives in eastern city of Lahore, said Waseem Kausar, a senior police officer.

LEADING THE NEWS

Air France warns pilots

Safety procedures are focus of memo; union fights back

BY DAVID GAUTHIER-VILLARS
AND DANIEL MICHAELS

PARIS—Almost five months after an Air France jetliner crashed in the Atlantic Ocean, the airline is warning its pilots to follow safety procedures more closely and to stop criticizing the company. But the carrier's pilots are bristling at what they perceive as a rebuke, saying that management is blaming them for its own failure to maintain safety.

In a memo sent to all cockpit crew last week, the unit of Air France-KLM SA said a review of recent safety incidents showed that some of them occurred because pilots had disregarded basic procedures. It cited, for example, a case in which a pilot ignored alarms during takeoff, but it offered no details. The memo, however, made clear that the cause of the fatal June 1 crash of Flight 447 en route to Paris from Rio de Janeiro remains unknown.

Since the Airbus A330 crashed, killing all 228 people on board, the airline has been at odds with its pilots over safety rules. Some pilot unions said last week's memo underscores growing tensions within the airline.

"The letter is unacceptable," said Erick Derivry, spokesman for SNPL, Air France's largest pilot union. "It highlights how pilots have lost confidence in management."

The memo chastised pilots for

what it described as deviating from industrywide practices. "There is no need to fix procedures or create new ones," it says. "The mere application of planned procedures would have helped avoid the problems."

A copy of the memo, which was signed by Air France head of operations Pierre-Marie Gautron and head of safety Etienne Lichtenberger, was reviewed by The Wall Street Journal.

Air France said in statement Saturday that the memo is an internal document meant to "reinforce safety," and that it has "full confidence in its pilots."

Mr. Derivry, the union representative, said he was "shocked" by the memo because it could be interpreted as blaming pilots not only for several small safety lapses, but also for the Flight 447 crash.

The accident's cause remains unclear, at least in part because only small amounts of debris have been recovered. Most of the plane, including digital recorders that register cockpit conversations and flight data, are miles beneath the ocean.

In the memo, Air France doesn't assign any blame for the crash. Indeed, the airline says that if investigators remain unable to recover the recorders, the accident's cause may never be known.

A preliminary report released by French investigators leading the probe also stopped short of pinpointing a cause. Among the elements suspected of contributing to the crash are technical problems, pilot error and severe weather conditions.

The airline, however, criticized what it called "self-proclaimed experts" touting their own explana-

tions for the crash. "Those who pretend to act in the interest of flight safety are, in fact, contributing to a debasement of it," the memo said.

Air France pilots say the comment is an attack on two colleagues, Gérard Arnoux and Henri Marnet-Cornus, who recently released their own analysis of the Flight 447 crash.

In their document, the pair say the catastrophe could have been avoided if the airline had replaced potentially faulty speed sensors as soon as problems with them became evident over recent years. The small sensors outside the cockpit, known as Pitot tubes, have a history of providing unreliable speed data to airplane computers, according to aviation authorities.

Air France replaced the probes on its long-haul aircraft after the crash. But the airline, as well as French authorities in charge of investigating the accident and officials at aircraft maker Airbus, a unit of European Aeronautic Defence & Space Co., have said repeatedly that there is no evidence the speed probes alone caused the accident.

Mr. Arnoux said in an interview



People in Paris in June mourn for the passengers and crew members Air France Flight 447, which crashed in the Atlantic Ocean.

that he and Mr. Marnet-Cornus stand behind their analysis. "The plane crashed because its speed probes malfunctioned," he said.

Air France executives said in the memo that the company was ready to discuss all issues with pilot unions as long as the debate remained dispassionate.

Mr. Derivry at the SNPL union called the memo counterproduc-

ive, saying it wouldn't contribute to a dispassionate debate.

The memo listed what it said were a number of recent incidents in which pilots failed to abide by safety procedures. Without providing details on when and where the problems occurred, it cited a pilot ignoring an alarm during takeoff and cockpit crews overlooking elements in their checklists.

Pilots of errant flight tell U.S. they were awake

BY ANDY PASZTOR

The pilots of Northwest Flight 188 were set to tell U.S. investigators Sunday that they lost track of time and location—but never went to sleep—when they failed to respond to air-traffic controllers for more than an hour, according to people familiar with the crew's statements and the status of the probe.

During the afternoon session with the National Transportation Safety Board, these people said, the cockpit crew planned to recount the same sequence of events it previously sketched out for airline superiors: They became distracted in conversation while cruising at about 11,275 meters Wednesday night, didn't realize how long the plane had been out of radio contact and flew about 240 kilometers past their airport destination. According to their recollections, a flight attendant's question on the intercom demanding to know why the jetliner hadn't started its descent startled them out of a daze. Controllers have said a radio transmission from a nearby plane also prompted the Northwest crew to resume radio contact with controllers.

Safety officials at Northwest and its parent, Delta Air Lines Inc., seemingly support the pilots' statements, according to one person involved in the deliberations. Even so, government investigators are pressing to see whether fatigue may have played a role in the bizarre flight. A Delta spokesman couldn't immedi-

ately be reached for comment.

The latest developments come amid signs that a growing faction of senior Delta and Northwest pilots—as well as some industry-safety experts—now believe the two pilots may not have been sleeping. But without clear-cut data from the plane's cockpit voice or flight-data recorders, it may be hard for investigators to conclusively back up the pilots' assertions or precisely determine what happened.

As investigators conduct interviews and prepare to assemble a transcript of crew conversations during the final 30 minutes of the flight, they hope to unravel the mystery of why the pilots didn't respond to frantic calls from controllers for more than 75 minutes as the Airbus A320 with 149 people aboard streaked across several states. The safety board has declined to comment on specifics of the investigation.

Separate from what investigators uncover over the next few days or weeks, the incident is likely to spark further debate over the issue of whether video cameras should be installed in commercial airliner cockpits to record the actions of pilots. The safety board for years has urged airlines and aviation regulators to embrace such technology—precisely to help unravel mysterious accidents or incidents. But pilot unions have strongly resisted such a move on privacy and other grounds, and that opposition isn't likely to ease in response to the Northwest flight.

What makes Samsung SSD so fierce?



SAMSUNG

CORPORATE NEWS

Big marketers go on hunt for new agencies

Hunger for fresh ideas points to easing of slump but may not mean better days for Madison Avenue

By SUZANNE VRANICA

A long list of major marketers, including General Motors, Yum Brands and Emirates Airlines, are on the prowl for new advertising firms, a signal that the ad recession may be easing but not necessarily a herald of better days for Madison Avenue.

During the economic downturn, many companies held off on searching for new ad partners. Reviews to select a new ad agency can be disruptive—and expensive.

The process can run a marketer \$50,000 to \$100,000 for a domestic review and several hundred thousand dollars for a global one involving many regions, industry executives say.

Even so, the hunt appears to be on again. “Clearly we are seeing the beginnings of an ad recovery. The volume of ad reviews is way up,” says Russell Wohlwerth, principal of Ark Advisors, a consulting firm that matches ad firms with marketers.

Randall Weisenburger, chief financial officer of **Omnicom Group**, echoed those sentiments last week during a call with analysts, saying “new-business activity is improving.” New business is one of the more important measures Wall Street uses to analyze the health of an agency.

But the industry isn’t celebrating yet. Ad executives and new-business consultants, who are hired by marketers to help them find new agencies, say an effort to tamp down ad agencies’ fees is playing an increasingly important part in the reviews.

“A lot of it is being driven by the need to save money,” says Matt Weiss, chief growth officer for **In-**



Pizza Hut, which has used Jessica Simpson in its ads, is seeking a new agency.

terpublic Group's McCann World-Group, North America.

“Big corporations want more for less and are putting pressure on agencies to cut services or cut fees to win their business,” says Dick Roth, who heads New York’s Roth

Associates, a new-business consulting firm.

On Thursday, **WPP's JWT** pulled out of a four-way contest for **United Parcel Service's** \$140 million account because the review was largely being led by procurement

executives eager to push down costs, according to a person familiar with the matter.

In a memo to his top executives, **JWT Chief Executive Bob Jeffery** said the review “centered on protracted legal/contractual/financial discussions that are not in the best interests of JWT. In fact, the contract discussions, and terms which they are mandating, are the worst we have seen in years.”

The memo went on to say, “These terms would seriously compromise our financial credibility with other clients if there was any inkling that we had agreed to them.”

A spokeswoman for **UPS** declined to comment.

JWT's withdrawal is sure to surprise ad executives, given the pressures they face to keep revenue coming in the door. Typically they just try to find ways to offset the cuts in fees by servicing the business more efficiently.

Unilever, which spends more than \$5 billion globally a year on ad time and space, is currently conducting a global media-buying review. Executives familiar with the review say reducing the fees Unilever pays its media-buying firms is an important factor. A spokesman for Unilever declined to comment.

There are many reasons marketers review their ad accounts. They may want fresh creative ideas. A new marketing chief may want to bring in a shop he or she is familiar with. And fees have always been a factor.

But over the past few years, the process of searching for a new advertising or media-buying firm has dramatically changed. Companies are involving their procurement departments in the process more, rather than leaving it up to their

marketing departments. That’s part of a broader effort to wring costs from advertising and marketing, new-business consultants say.

“The chief procurement officer has become more important than the chief marketing officer inside some companies,” says Joanne Davis, a new-business consultant in New York.

About 80% of reviews now include procurement departments, up from 30% to 40% about five years ago, consultants say. Decades ago, ad accounts often changed hands over a round of golf.

With the ad recession, in which most firms have suffered steep declines in revenue and cut hundreds of jobs, new business has become even more important. Agencies are pulling out all the stops to land accounts. When the online shoe retailer **Zappos.com** invited pitches for its small account earlier this year, more than 100 ad agencies submitted credentials.

The agencies went to great lengths to impress the company, now owned by **Amazon.com**. One ad firm sent an ice cream truck to **Zappos**. Another sent over dozens of pizzas. One sent a huge **Zappos** box filled with **Red Bull** energy drink, to signal the agency would pour all its energy into working on the account.

“New business has been tough to come by, and dollars are thin, so agencies are saying, ‘How do I find a way to stand out?’” says **Arron Magness**, business-development manager for **Zappos**.

The U.S. Army is expected to put its account up for bidding by the end of the year, and ad firms already are in high gear. **WPP's Grey Advertising** has already sent some of its creative executives to an actual boot camp to prepare for battle.

Heineken's debt crimps brewer as it eyes Femsa deal

By MAARTEN VAN TARTWIJK

AMSTERDAM—Femsa Cerveza came into play at just the wrong moment for **Heineken NV**.

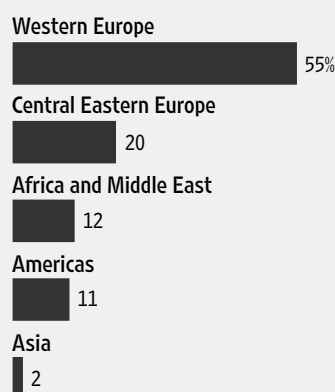
Earlier this month, Mexico-based **Fomento Economico Mexicano SAB**, or Femsa, said it was in talks with several partners to explore opportunities involving its beer business, Femsa Cerveza, adding that “there can be no assurance that such discussions will lead to any definitive agreement.” Heineken has been one of the companies in the talks, along with London-based **SABMiller PLC**, said people familiar with the matter.

Heineken is under pressure to go beyond its core strategy of selling premium beers in Western Europe and the U.S., where consumption is set to flatten or even decline. Analysts say it would be better to expand into growth markets in Latin America and Asia. But whereas rivals such as **Anheuser-Busch Inbev** and **SABMiller** have aggressively expanded their presence in emerging markets over the years, Heineken, the world’s third-largest brewer by volume, has lagged.

It has limited its involvement in developing markets to a number of leading positions in Africa, particularly in Nigeria. Heineken also has

Old world

Heineken depends on mature markets for much of its revenue, first-half 2009 revenue sources



Source: the company

some operations in the Asia-Pacific region, including a minority stake in India’s biggest beer maker, **United Breweries**. Still, these positions are relatively small compared with Heineken’s exposure to Europe, where it generates about 80% of revenue.

Heineken’s acquisition of parts of **Scottish & Newcastle Ltd.** last year, in a €10.34 billion (\$15.51 billion) deal along with Denmark’s **Carlsberg**

A/S, extended its traditional focus on European and U.S. beers. So far, this takeover has had lackluster results, while also cramping Heineken’s deal-making ability with debt. In the first half of this year, the company managed to offset shrinking sales volumes by cutting costs and bolstering prices.

That makes Femsa Cerveza an attractive but difficult purchase for Heineken. Femsa would give Heineken access to the highly profitable Mexican beer market and obtain the ownership of **Kaiser**, a Brazilian brewer in which the Dutch company already holds a 17% stake. Heineken also collaborates with the Mexican brewer. In the U.S., Heineken has an exclusive contract to import, market and distribute Femsa products.

Brewers around the world have been rapidly consolidating, and Femsa is one of the few large companies left that could give Heineken easy access to growth in developing markets. The Latin American beer market is set to grow 2% between 2008 and 2010, according to data from **Canadean Ltd.**, a beverage-research firm.

“Losing Femsa would close down one of [Heineken’s] most obvious options to diversify away from low-growth Europe,” **Sanford Bernstein** analyst **Trevor Stirling** said in a re-

cent report.

Heineken’s “positions in current and future global profit pools are small, nonexistent or worrying and need to be expanded,” **ING** analyst **Gerard Rijk** said in a report. The opportunity to buy Femsa “forces Heineken to make a crucial decision on its future,” he added.

The debt burden from the **Scottish & Newcastle** deal is a constraint to make a fully debt-funded offer.

Amid the beer industry's consolidation, Femsa is one of the few large companies left that could give Heineken easy access to growth in developing markets.

However, any deal is likely to be done using stock, rather than cash, said a person familiar with the matter, meaning Femsa’s owners would continue to have a stake in an enlarged beer business. But if Heineken issues shares to win Femsa, it could dilute the majority share the Heineken family indirectly owns and which it is unlikely to give up.

The Heineken family owns Hei-

neken through a 58% stake in **Heineken Holding NV**, which in turn holds 50.01% of the beer company.

Still, the family has enough options to issue new shares and still retain control, analysts say. **ING's Mr. Rijk** reckons the Heineken family could cut its stake in the holding company to about 50%, while allowing Femsa’s owners to acquire 8%.

Mr. Stirling suggests the Heineken family establish a new shareholding entity, which will have a majority stake in the company and into which both Femsa and Heineken Holding can pool their shares. A similar structure was established after the 2004 merger of **Belgium's Interbrew** with **Brazil's AmBev**, in which the owners of **Interbrew** kept a majority stake.

Meanwhile, Heineken faces stiff competition from rival **SABMiller**, which is in a better position to buy Femsa Cerveza because of its stronger balance sheet and large presence in Latin America, **Mr. Rijk** said. **SABMiller** declined to comment.

Heineken declined to comment on a possible bid for Femsa Cerveza. On its Web site, the company says it aims to reduce its dependency on mature markets by acquiring new businesses in emerging markets. Heineken will publish a third-quarter sales update Wednesday.

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(1), (2): Based on data provided by a major server storage company using an HDD-only system and SSD applied systems.
(3): Based on Samsung evaluation of average failure rate under 24/7 operating conditions.



CORPORATE NEWS

Tribal standoffs stall steelmakers in India

Arcelor and Posco hit opposition to new plants

BY PRASENJIT BHATTACHARYA
AND SAHIL MAHTANI

NEW DELHI—Steel companies have pledged billions of dollars to expand in India, but they are struggling to secure the land they need in two of the nation's mineral-rich states because of fierce opposition from local tribes and slow-moving governments.

The standoffs in the northeastern states of Orissa and Jharkhand have hit two of the world's top five steel producers, **ArcelorMittal** and **Posco**, and are threatening to stall a key driver of India's industrial activ-

ity in the years ahead. According to the steel ministry, projects worth \$82 billion are being held up because of delays related to land acquisition and environmental clearances.

"India will face severe problems in expanding its steel-production capacity if the land-acquisition problem isn't dealt with soon," said N. K. Patnaik, executive director (Orissa), **Uttam Galva Steels Ltd.**, an Indian steelmaker.

Companies bet that India's demand for steel will grow more than 10% a year in the next decade, led by India's gradual emergence as an auto-making hub. State and private spending on power plants, bridges, ports and a slew of low-cost housing projects are also expected to keep steel demand rising.

Land acquisition for new plants has been a problem for years as

state governments and manufacturers seek to move farmers and others who live off the land to make way for industrial expansion.

About 66% of India's 275 million tons of new steel capacity in the next decade is expected to come in Orissa and Jharkhand, according to government data, because of the abundance of iron ore, coal and water, which are essential for setting up a steel plant. Few other states offer such possibilities, so shifting elsewhere is extremely difficult.

But nowhere has the land acquisition sparked as much anger and protest as in the two impoverished states, where a large portion of the population consists of tribal groups. These groups, often with the backing of activists and left-wing political organizations, have succeeded in halting land acquisition for several mining and industrial projects.

The issue attracted renewed focus recently after Lakshmi Mittal, chief executive of the world's largest steel producer, ArcelorMittal, vented his frustration over progress on new, or greenfield, projects earlier this month.

"The company continues to work on its two greenfield projects in Jharkhand and Orissa. However, in the event that land acquisition continues to prove difficult, we will start to search for alternate sites in India," Mr. Mittal said.

South Korea's Posco signed a deal with the Orissa government in June 2005 to set up a 12-million-ton-a-year steel plant but has yet to begin construction. "We are willing to offer both financial compensation and employment in our project," said Posco's general manager in India, S. K. Mohapatra. The company's projection is that plant construction

could be completed by 2014.

Dayamani Barla, a prominent tribal activist in Jharkhand, says tribal identity is linked to land, forest and water, and once they are displaced, the cultural and social identity of these people would be destroyed. "Tribals can't live without the forest or without farming," she said. "Our battle is for saving our environment, forests, culture and social values."

Ms. Barla is the founder of the protest movement, Adivasi Moolvasi Astitva Raksha Manch (Indigenous Peoples Survival Forum), which has been at the forefront of protests against ArcelorMittal's proposed steel plant in the state of Jharkhand.

"Instead of destroying our forests, polluting rivers and destroying homes, the government should evolve policy to give only wastelands to industrial projects, so no conflict rises," she added.

Miners have been targeted too. The most vocal protest has been by Dongria Kondh, a tribal group in Orissa, protesting against the bauxite mines of Vedanta Resources in the state. In Jaduguda in Jharkhand, protests also have erupted over uranium mining.

In the face of angry protests, state governments consider it politically risky to push through projects. Many of the tribal groups live in forests, which are state property, but since they have lived there for centuries, governments don't want to antagonize them by forced eviction.

In September 2008, three land surveyors of Bhushan Power and Steel Ltd. were beaten up and their faces smeared with cow dung by villagers for conducting a land survey in Jharkhand for the company's proposed steel and power projects. Last year, hundreds of tribal members assembled near the proposed site of ArcelorMittal's steel plant in Orissa chanting slogans such as "Go back Mittal."

"The tribal groups are not going to give up their land for any industrial project, be it Mittal or anyone else," said Dilip Minz, an activist with the Jharkhand Mines Area Coordination Committee. "Forced eviction of tribal population for industrial projects causes cultural, social and political damage to tribal populations that are very hard to repair."

Many locals are suspicious after past projects failed to adequately compensate landholders for their eviction, making it difficult for companies now to persuade them to relinquish land even with offers of compensation and employment. "The people in the state are upset about being underpaid in past industrial projects," said N.N. Sinha, Jharkhand's industries secretary.

While several industrial projects do offer jobs to one member of a tribal family, widespread illiteracy and lack of skills, other than farming, among tribal groups mean a small portion of them get jobs in factories. Most factory jobs are filled by nontribals living in small towns or larger villages, where education and skills training is more available.

Local governments also now get involved to vet terms, creating multiple layers of bureaucracy. "Since there were complaints of earlier deals undervaluing land, all matters related to land acquisition have to be approved by the district administration," said Tuhin K Mukherjee, executive director of **JSW Steel Ltd.**, one of the India's largest steel companies. "Matters...often move back and forth in as many as 60 to 70 layers of bureaucracy."



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CORPORATE NEWS

Ford gains while many competitors stumble

Car maker is closer to turning a profit; market share rises

BY MATTHEW DOLAN

Ford Motor Co. has weathered the car industry's downturn better than many competitors. Now some analysts think the company has turned the corner so far it could report break-even results for its core North American operations or even an overall profit when it releases third-quarter earnings Nov. 2.

At the heart of Ford's relative success has been its ability to minimize its year-over-year sales declines while taking advantage of its competitors' weakness and grabbing market share.

According to CNW Marketing Research, Ford gained more than five percentage points of U.S. retail market share in the third quarter compared with the same period of 2008, while Detroit rivals General Motors Co. and Chrysler Group LLC lost ground.

"The Ford story is that they have taken advantage of the fact that they were sole domestic brand not to take a government bailout and not to file for bankruptcy," said Efraim

Levy, an auto-industry stock analyst at Standard and Poors. "But those benefits will fade in 2010 as the weaker competitors distance themselves from the bankruptcy filings and start to introduce some fresh product."

In the past week, several Wall Street analysts expressed optimism that Ford's North American operations could break even in the third quarter—a significant achievement after several years of steep losses—though they still expect the company to post a loss for its operations overall. One analyst, J.P.Morgan's Himanshu Patel, even forecast a quarterly profit overall at Ford.

"Obviously, I'm very pleased with the progress that we're making all around the world, and our market share is going up in every major market," Ford Executive Chairman Bill Ford said last week. "And our products are being very well received." He declined to talk about earnings, citing the quiet period before their release.

For now, Ford continues to benefit from stronger prices for both its new and used cars that should boost results at its wholly owned financing arm, Ford Motor Credit. The trend could help the company reverse large losses accounted for in 2008 at the unit based on anticipated declines in the value of its leased vehi-



Ford has profited from troubles at GM and Chrysler. Above, a dealer in Virginia.

cles.

Another positive sign could come in the future value of Ford vehicles sold today. In a report expected to be released soon from auto guide Kelly Blue Book, two Ford vehicles will appear on the list of 2010 model-year vehicles projected to retain the greatest amount of their original retail price after five years of ownership, according to a person familiar with the matter. Last year, no Ford car or truck held a spot on the 2009 model year list.

Ford is also expected to perform well in the influential annual auto reliability survey by Consumer Reports, due out Wednesday.

In the second quarter, the car maker reported a profit of \$2.3 bil-

lion, though that came mainly from gains it recorded as part of efforts to restructure its debt. Excluding those gains, Ford would have reported a loss of \$424 million, still narrower than a comparable loss of \$1.03 billion a year earlier and much better than Wall Street analysts expected. The company has lost more than \$30 billion since 2006.

The improved results have helped build an image of Chief Executive Alan Mulally as a turnaround leader. But the company still carries massive debt after Ford borrowed \$23.5 billion in 2006 to fund its restructuring efforts. Many on Wall Street are waiting to see how Ford will cut its debt load.

The optimistic earnings outlook

comes at a delicate time for Ford. It recently won additional concessions from the leadership of the United Auto Workers, including a reduction in work rules and a no-strike pledge. But the new agreement, the second amendment to its labor accord this year, is in the midst of a ratification vote from the union rank-and-file, and some have already voiced opposition to the concessions.

Despite an improved outlook, Ford hasn't revised its profitability forecast, stating that the company won't break even or make money until 2011. A person familiar with the matter at Ford said that even if encouraging signs about the company's prospects continue to emerge, Ford may stay conservative about how quickly it can return to sustained moneymaking.

Nonetheless, analysts sounded a positive note on Ford in the last week, predicting its quarterly loss could be smaller than they estimated earlier. Mr. Patel at J.P.Morgan was even more optimistic, writing in a report that "we estimate Ford can return to a profit position in 2010."



Alan Mulally



William Clay Ford, Jr.

Labor unrest in India disrupts Ford Canada output

BY MATTHEW DOLAN AND PETER WONACOTT

A Canadian plant owned and operated by Ford Motor Co. is shutting down temporarily this week because of labor strife affecting an auto-parts supplier in India.

Starting Monday, Ford plans to shutter its Oakville, Ontario, plant for the five-day workweek, a Ford spokesman said. Ford builds the Edge sport-utility vehicle and the Flex and Lincoln MKX crossover vehicles at the plant. Crossovers are truck-like vehicles built on car frames.

The temporary shutdown is a result of a shortage of transmission parts from Rico Auto Industries Ltd., in Haryana state in India, the site of recent labor unrest. A Rico employee died Oct. 18 as a strike at the company's plant outside New Delhi turned violent, leading to broader labor disturbances.

The strike has offered another glimpse into India's mercurial manufacturing sector. Labor unrest can erupt quickly in India, leaving companies with little time to negotiate with disgruntled employees or adjust to a strike. The labor troubles, prompted warnings from foreign

companies that they might consider shifting operations from the country if strikes continue to hamper production.

Ford recently announced it would build a new lower-priced, small car for the Indian market called the Figo, which is also expected to be exported to other parts of Asia and Africa.

The Oakville plant normally runs two shifts and employs about 3,000 workers, the Ford spokesman said. The idled employees get 65% of regular pay from a combination of funding from the company and employment insurance.

The Canadian closure is expected to cost Ford 5,000 vehicles, according to a person familiar with the matter. The Ford spokesman would say only that the week-long shutdown is expected to cause the loss of thousands of vehicles. He said the company will continue to monitor the issue to decide whether a longer shut down is necessary.

Surinder Chaudhary, vice president for human resources at Rico Auto Industries, said the 3,000-person factory was continuing to take back workers after weeks of work stoppages because of strikes. On Friday, 900 workers showed up for

shifts, and he expects 2,000 to return over the next few days—a number that would allow Rico to meet most of its orders for foreign customers.

"Things are improving," said Mr. Chaudhary in an interview.

Another senior Rico executive said the company had been updating its foreign customers about the unrest as it simmered over the past two months. He said no customer of the Indian parts supplier had severed its ties as a result of the strike.

In addition to Ford, the Rico executive said, General Motors Co. is also a customer in North America.

Upside surprises in earnings reports offer stocks a lift but signs of vitality are few

BY JOHN SHIPMAN AND PAUL VIGNA

It's hard to judge just how happy Wall Street is with corporate profits in the middle of earnings season. The stock market rises and falls with almost every bellwether that hits the tape. But it is possible at this stage to glean some broad themes.

Stocks were choppy last week, and finished roughly flat, but overall, Wall Street and investors seem pleased with the progress of third-quarter earnings.

For instance, the percentage of S&P 500 companies topping Street expectations is running at about 79%, Brown Brothers Harriman noted Thursday. That's the highest level the brokerage firm has seen since it started tracking the numbers in 1994.

That sounds impressive, but may not mean too much. Historically,

about two-thirds of the S&P 500 companies beat expectations, S&P's senior equity analyst Howard Silverblatt points out.

Banking is one sector that certainly seems to be back in the pink. Most of the big banks except Citigroup Inc. reported profits, and the financial sector is posting the best year-over-year profit performance of any industry, according to Brown Brothers.

The technology sector has also done fairly well. Microsoft Corp.'s fiscal first-quarter results exceeded expectations, and strength in its videogame and advance Windows 7 software sales suggest some recovery for the consumer.

Amazon.com Inc.'s shares surged 27% Friday to a record high after the Internet retailer logged strong sales and gave a rosy holiday outlook.

But compared with last year's earnings reports, the picture isn't

quite as attractive. According to S&P, overall operating earnings were expected to contract by 7.4%. So far, with 199 companies reporting, operating earnings are down 11% from a year ago. But sales, which were expected to fall 14%, are down only 6.6% so far.

Similar to the second quarter, that sales slide is being offset by cost cutting. Often, that means job losses, and many of these companies don't expect to start hiring again any time soon. Railroad CSX Corp., for example, is operating its business with 14% fewer "active employees," Chief Operating Officer Tony Ingram said on a conference call last week. And, he added, the company has no plans to "add resources back on a one-to-one level as business levels improve."

Commentary from other transportation companies—particularly freight haulers—last week also cast some doubt on the strength of an

economic recovery. Truckers suggested few signs of any pick-up in volume. Railroad Burlington Northern Santa Fe Corp.'s third-quarter profit fell 30%, and the company expects the fourth-quarter to be just as bad; its stock fell more than 6% Friday.

If a recovery is indeed under way, we'd expect to see it more clearly in transport sector results. The lack of an upturn there is giving some folks the jitters. "When a big transport like Burlington Northern lays an egg, I go pale," said Joan McCullough, market strategist at brokerage East Shore Partners in Hauppauge, N.Y.

So, expect companies to keep operations as lean as possible, which doesn't bode particularly well for hiring.

It is no wonder that the White House's chief economic advisor, Christina Romer, said she expects the unemployment rate to remain

around 10% through the end of next year.

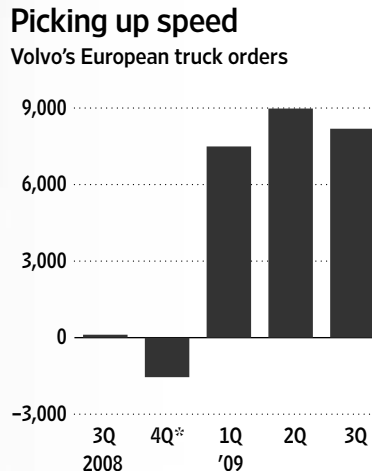
This week brings another cavalcade of earnings, including steel companies, a few maritime shippers, consumer-products companies and real-estate investment trusts.

With consumer-focused companies such as Alberto-Culver Co., Rent-A-Center Inc., RadioShack Corp. and Under Armour Inc. reporting, look for more hints about the vitality of the consumer and the prospects for holiday retail sales.

A slew of REITs, including Boston Properties Inc. and Simon Property Group Inc., report throughout the week, and may bring some fresh color on the state of the troubles in commercial real estate.

U.S. Steel and several other big steel companies report third-quarter results, which include August, the first month in more than 50 years in which the U.S. was a net exporter of steel.

CORPORATE NEWS



Volvo CEO Leif Johansson at a news conference Friday

AB Volvo swings to loss

Demand stabilizes but firm is to shed 2,500 more jobs

BY IAN EDMONDSON

STOCKHOLM—**AB Volvo** on Friday said demand for trucks stabilized in the third quarter as the world's No. 2 truck maker by sales reported a fourth consecutive quarterly net loss.

The company reported a net loss of 2.92 billion Swedish kronor (\$429.8 million) in the three months to Sept. 30, compared with a profit of 1.98 billion kronor a year earlier. The loss was an improvement on the loss of 5.57 billion kronor in the second quarter and beat forecasts of a loss of 3.33 billion kronor.

"There are some positive signs indicating that the decline in demand has bottomed out and that we are now beginning a gradual recovery," said CEO Leif Johansson.

Still, the maker of trucks, buses and construction equipment said it planned to cut a further 2,500 per-

manent, temporary and consultant jobs by year end after it cut 2,170 in the third quarter. Volvo, based in Gothenburg, Sweden, had 92,066 employees at the end of the third quarter, down from 101,381 at the end of 2008.

Truck companies such as Volvo have reduced production in response to plummeting orders in the past year as customers cut back on new purchases. Volvo stuck to its July forecast that the total European market for heavy trucks will be at least halved in 2009 compared with 2008 and that the North American market will decline by between 30% and 40%.

Volvo, which sells trucks under the Mack, Renault and Nissan Diesel brands as well as its own name, had a net order intake of 31,998 trucks in the quarter, stable from a year earlier but up 20% from the second quarter of this year when Volvo reported its biggest quarterly net loss to date.

The rise was largely because of European truck orders, which surged to 8,189 from just 115 last year. All other regions showed a slower rate of decline from the sec-

ond quarter, although they remain at low levels.

Sales fell 31% to 48.48 billion kronor from 69.78 billion kronor and the company swung to an operating loss of 3.29 billion kronor from a profit of 3.18 billion kronor a year earlier. Analysts had expected sales of 49.39 billion kronor and an operating loss of 3.75 billion kronor.

Handelbanken analyst Hampus Engellau said sales were largely in line and there were positive signs from order intake. He has an "accumulate" rating on the stock with a 75-kronor price target.

Daimler AG of Germany released preliminary third-quarter earnings last Monday that showed its truck division reporting a loss before interest and tax of €127 million (\$190.5 million). Daimler is the world's biggest truck maker. Swedish truck maker Scania AB is to report earnings Monday.

U.S. construction equipment maker Caterpillar Inc. on Tuesday exceeded third-quarter earnings expectations with a net profit of \$404 million and said there were encouraging signs that an economic recovery may be under way.

Maruti to upgrade car plant

BY NIKHIL GULATI

NEW DELHI—**Maruti Suzuki India** Ltd., India's biggest car maker by sales, on Saturday posted a 93% jump in its fiscal second-quarter net profit and said it plans to invest 1.5 billion rupees (\$32.3 million) to raise capacity at one of its factories.

The company will upgrade its Gurgaon factory in the northern state of Haryana, expanding the

plant's capacity to 790,000 cars a year from 700,000 cars currently.

"This is a short-term strategy in which we are modernizing our Gurgaon plant," Shinzo Nakanishi, managing director and chief executive of Maruti, said at a news conference. The plan is to be completed by December, he added.

Maruti, based in New Delhi, has two factories in Haryana state, Gurgaon and Manesar, with a combined capacity of one million cars a year.

"We are formulating a long-term expansion plan also," Mr. Nakanishi said. "A decision to implement that plan will be taken after our next board meeting."

Maruti's higher quarterly net profit came as the company benefited from robust demand for cars in both local and overseas markets.

Net profit for the July-September quarter rose to 5.7 billion rupees from 2.96 billion rupees a year earlier, according to the affiliate of **Suzuki Motor** Corp.

The profit was lower than the average estimate of 5.94 billion rupees in a Dow Jones Newswires poll of 10 analysts. Sales rose 47% to 70.5 billion rupees.

Maruti's local sales rose 21% to 209,083 vehicles in the latest quarter. Exports more than doubled to 37,105 vehicles.

The company expects rising raw-material prices and a strengthening Japanese yen to put pressure on its profit margins in the near future, Mr. Nakanishi said. The company paid 52.55 billion rupees to buy steel, aluminum and other raw materials during the most recent quarter, up 47% from a year earlier.

Auto makers in India were hit last year by a liquidity squeeze and reluctance by banks to extend new car loans. However, sales this year have benefited from a slew of stimulus packages from the federal government, falling lending rates at commercial banks and model launches by auto makers.

Maruti, which makes two of every three cars sold in India, introduced the Estilo small car in August. The company produces 12 vehicles, including seven small-car models.

Demand in the July-September quarter was helped by the Hindu festive season, considered by many as an auspicious time to make new purchases.

India schedules auctions for telecom bandwidth

BY R. JAI KRISHNA
AND SATISH SARANGARAJAN

NEW DELHI—India will launch auctions on Jan. 14 to allot radio bandwidth for third-generation, or 3G, telecommunications services.

The government will hold a separate bandwidth auction for broadband wireless access, a document on the Department of Telecommunications Web site said Saturday.

The telecom department said it will auction about four blocks of radio bandwidth in most of the country's 22 telecom service areas.

It will offer three blocks each in the Uttar Pradesh (West) and Himachal Pradesh service areas, and two blocks each in the Delhi and Gujarat service areas.

The government is validating the frequency available across all circles for the auction, the department said. "Final details of the frequencies to be auctioned will be notified in the notice [that invites applications for bidding]," the note said.

The department will also auction one block for telephony services on code division multiple access, or

CDMA, technology.

Indian companies holding licenses to offer telephony services would be allowed to bid for 3G bandwidth, the department said. Companies without an existing Indian license will be allowed to bid, but will have to procure a license before they launch their 3G services.

Foreign telecom companies that don't have telecom operations in India may bid directly or through a majority-owned subsidiary. Such companies—if they win the bid—also would have to procure a license to offer telephony services in India before they commercially launch 3G network services.

India's federal Telecommunications Minister A. Raja had said the government expects to raise 250 billion rupees (\$5.37 billion) from the coming bandwidth auctions. India plans to sell at auction slots of radio bandwidth for 3G services and has set a base price of 35 billion rupees for one such slot.

The department said Dec. 21 would be the last day for companies to submit applications for the auctions.

BSkyB's net profit soars as customer base grows

BY LILLY VITOROVICH

LONDON—Strong consumer demand for pay-television, Internet and phone services helped **British Sky Broadcasting Group** PLC deliver strong fiscal first-quarter results.

Net profit for the three months ended Sept. 30 rose 75% to £128 million (\$212.7 million) from £73 million a year earlier, boosted by higher revenue and lower finance costs. Year-earlier results included a £24 million impairment charge related to its investment in U.K. commercial broadcaster ITV PLC.

Revenue increased 10% to £1.38 billion from £1.25 billion. Operating profit before exceptional items, the key figure tracked by U.K. analysts, rose 8.8% to £198 million from £182 million.

Chief Executive Jeremy Darroch said the company has made a good start to the new financial year, with strong demand for its Sky+HD set top boxes, which offer high-definition television.

Amid a tough economic climate, more Britons are staying home for their entertainment, fueling demand for BSKyB's services. The company

added 94,000 customers in the quarter, raising its customer base to 9.5 million.

BSkyB, which competes against telecommunications giant BT Group PLC and media-and-cable group Virgin Media Inc. in the U.K., added 287,000 new Sky+HD customers—a three-fold increase from a year earlier.

Its push into the more expensive HD TV package resulted in a 9.1% increase in average revenue per user to £469 from £430.

The pay-TV giant's churn rate, which measures the number of customers leaving the company, rose to 11.3% from 10.9%. Bernstein analyst Claudio Aspesi, however, said the rise in churn was unsurprising given the first fiscal quarter is when "new pricing typically hurts them ... and the economic environment is relatively difficult."

Shares of BSKyB lost 0.7% Friday to 555.5 pence on a broadly higher London market. The stock has risen about 20% since January on signs the company will emerge strongly from the economic downturn. News Corp., which owns Dow Jones & Co., publisher of The Wall Street Journal, holds about a 39% stake in BSKyB.

EU clears Merck-Schering deal

The European Union approved the proposed tie-up between U.S. drug makers **Merck & Co.** and **Schering-Plough** Corp., which would create the second-biggest global producer of prescription medicines.

The EU's antitrust authorities said in a prepared statement on Friday that the "transaction would not significantly impede effective competition" in Europe. The \$41.1 billion acquisition of smaller Schering-Plough will allow Merck to leapfrog to No. 2 world-wide in prescription

medicine, just behind Pfizer Inc.

The new Merck-Schering company would have about \$42.4 billion in annual sales. The two companies hope to fully close the deal in the fourth quarter after shareholders approved it on Aug. 7.

To avoid antitrust problems, Merck has sold its 50% stake in animal-health company Merial Ltd. to France-based Sanofi-Aventis SA, its partner in the joint venture. The deal still needs approval from the U.S. Federal Trade Commission.

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