Money & Investing: Will the London Stock Exchange add Turquoise to its palette?

THE WALL STREET JOURNAL.

VOL. XXVII NO. 170 | EUROPE | FRIDAY - SUNDAY, OCTOBER 2 - 4, 2009

DOWJONES A NEWS CORPORATION COMPANY

europe.WSJ.com

BAE faces corruption charges

U.K. authorities push to punish defense contractors' alleged bribes after settlement talks fail

BY CASSELL BRYAN-LOW AND DANIEL MICHAELS

LONDON—U.K. authorities said they are pursuing corruption charges against BAE Systems PLC in a long-running saga over alleged bribes paid in Eastern Europe and Africa, escalating the stakes in a key test of the government's stepped-up efforts to get tough on corporate crime.

The move by the U.K.'s Serious Fraud Office, which investigates complex crimes, comes after failed efforts to negotiate a settlement with BAE, Europe's largest defense contractor. It marks a renewed push by British authorities to resolve a highly controversial case that has dragged on for five years and cost millions of pounds to investigate.

For BAE, the case raises an old ghost that the London-based firm long has tried to put to rest. A successful prosecution against it would dent the company's reputation, likely limit its ability to get public contracts in Europe and the U.S., and could prompt the U.S. government to tighten already-strict regulations on their operations there.

The SFO said Thursday that it plans to press charges against BAE pending approval from the U.K.'s attorney general. Investigators have been probing potential bribes paid by BAE to win contracts in various countries, including the Czech Republic, Romania, South Africa and Tanzania.

BAE, in a statement, said it is working to resolve the matters being investigated by the SFO "at the earliest opportunity." It added that the company "has at all times acted responsibly in its dealings with the SFO."

A spokesperson for the attorney general said the government's legal adviser will assess whether there is sufficient evidence to prosecute and if it is in the public interest to do so.

The BAE probe is rooted in allegations involving not the Eastern European and African countries, but rather Saudi Arabia. In 2004, the SFO launched a probe into whether bribes had been paid by BAE to Saudi officials to secure a massive fighter-jet deal, known as the Al Yamamah contract, with the government of Saudi Arabia. An investigation quickly

Please turn to page 27

What's News

The euro-zone economy may have returned to growth in the third quarter, but recovery from its deepest recession since World War II looks likely to be gradual, as unemployment hits a decade high. **Page 2**

■ **The U.K. recovery** looks set to be modest and hampered by the manufacturing sector, data showed. **Page 2**

■ **Bernanke said** a council of U.S. regulators, rather than the Fed alone, should be charged with monitoring threats to the U.S. financial system. **Page 3**

■ **Stocks kicked off** the fourth quarter on a down note in the U.S. and Europe as weak economic data pressured shares. **Page 18**

■ **BofA directors**, blindsided by Ken Lewis's resignation announcement, are considering whether to bring in a short-term CEO. **Page 17**

■ **Comcast and GE** are discussing a plan to merge Comcast's cable networks with GE's NBC Universal. **Page 19**

■ **U.S. car sales slid** in September after the government's "cash for clunkers" program ended. **Page 8**

■ **A deal to save** GM's Saturn brand fell through after former race-car driver Roger Penske scrapped a bid to buy its network of dealers. **Page 8**

■ **Indonesia began** searching for survivors buried in the rubble left by Sumatra's earthquake, with 1,100 deaths reported so far and more believed trapped. **Page 11**

■ **Asda hopes** to gain customers' loyalty by giving them more say in how the Wal-Mart-owned U.K. grocery chain runs its stores. **Page 5**

■ **France's finance chief** voiced support for France Télécom's CEO, who is under increased pressure over suicides at the company. **Page 7**

■ **Ukraine's Naftogaz said** it failed to redeem the principal on its $500 million Eurobond, but made the final coupon payment on the debt. **Page 21**

■ **Cisco agreed to buy** Norway's Tandberg, a maker of video conference systems, for about $3 billion. **Page 7**

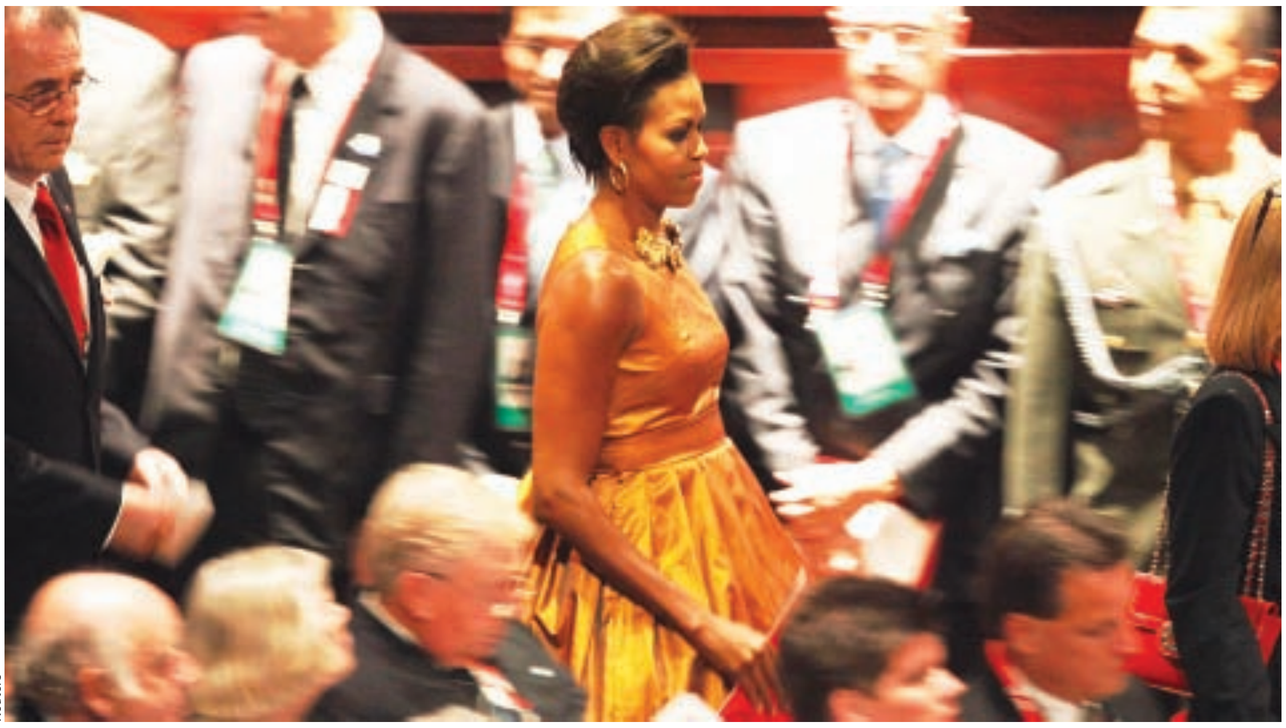
■ **The fall of Romania's** ruling coalition could delay major fiscal changes needed to meet conditions for international bailout loans. **Page 10**

EDITORIAL&OPINION

Casus Belli
The Russians started the Georgian war. **Page 12**

Breaking news at europe.WSJ.com

First lady leads U.S. toward Olympic bid's finish line



Reuters

GAME FACE: Michelle Obama arrives at the opening ceremony of the Olympic Congress in Copenhagen on Thursday. The International Olympic Committee will decide the host of the 2016 Summer Games on Friday. Get live updates on the selection process, at WSJ.com.

Tehran will send uranium abroad

BY MARC CHAMPION

GENEVA—Iran agreed in principle to send "most" of its known stockpile of enriched uranium for processing abroad to make fuel rods for a medical-research reactor, in what U.S. and European officials said after daylong talks in Geneva on Thursday would be a significant move that would delay Iran's potential to build a nuclear weapon.

While diplomats were cautious about the outcome of the talks, held in an 18th-century villa on Lake Geneva, they said that the deal to transfer enriched uranium, if carried through, could go a long way to establishing confidence in Iran's intentions and reassuring concerns in the region.

Analysts believe Iran recently has acquired sufficient low-enriched uranium to make one nuclear bomb if the material were enriched further to weapons grade. Asked how much of that material Iran would have to send away, a senior U.S. official said "most of it."

U.S. and European officials also said Iran had agreed to allow inspectors from the International Atomic Energy Agency to inspect the recently revealed uranium-enrichment facility that Iran has has been building in secret at Qom, in north-central Iran. The officials said they expect Iran to comply fully with the IAEA within two weeks. The two sides agreed to meet for further talks by the end of the month.

Thursday's meeting was the first in six years of negotiations between the interna-

Please turn to page 4

EU says top banks pass tests

Long-awaited financial-system stress tests showed Thursday that the European Union's top 22 banks could survive a potential €400 billion, or $585 billion, in credit losses this year and next if the region's economy deteriorates more than expected.

By Stephen Fidler, Alessandra Galloni and Adam Cohen

In an upbeat interpretation of the exercise, finance ministers from the 27-nation bloc said the tests showed the large banks had sufficient capital to handle "a severe macroeconomic deterioration."

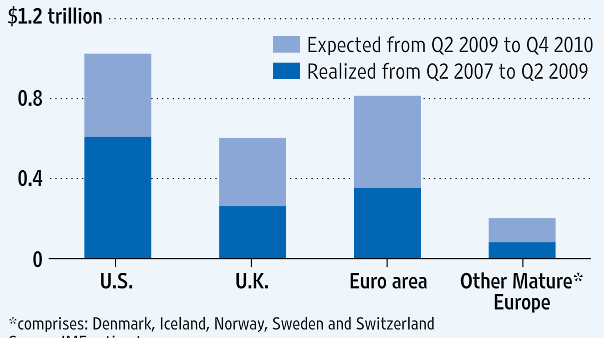
The seemingly soothing report feeds into tension between EU and U.S. policy makers over whether or not European banks are sufficiently capitalized to support an economic recovery. The U.S. thinks European banks need more capital, but the stress-test results seem to indicate otherwise.

However, banking supervisors who carried out the tests didn't provide country-by-country breakdowns or other details, raising questions about the rigor of the exercise and its usefulness. The 22 banks weren't named.

Please turn to page 3

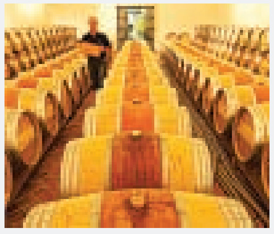
More pain to come

Realized and expected writedowns or loss provisions for banks by region



*comprises: Denmark, Iceland, Norway, Sweden and Switzerland
Source: IMF estimates

Inside



Winning reds

Austrian winemakers look for success beyond whites

Weekend Journal, page W8

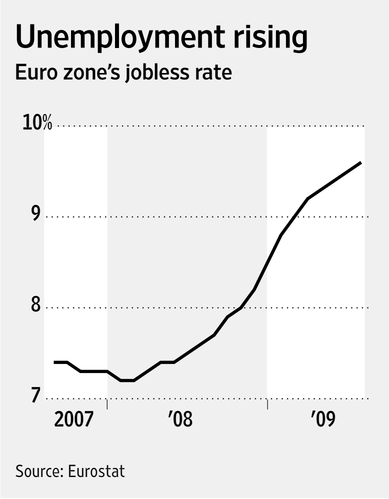
Markets

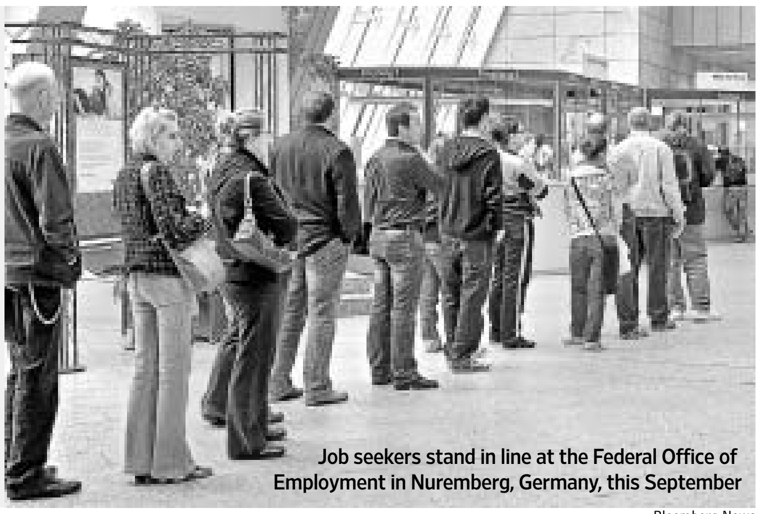
4 p.m. ET

	CLOSE	PCT CHG
DJIA	9509.28	-2.09
Nasdaq	2057.48	-3.06
DJ Stoxx 600	238.62	-1.59
FTSE 100	5047.81	-1.68
DAX	5554.55	-2.13
CAC 40	3720.77	-1.97
Euro	$1.4560	-0.38
Nymex crude	$70.82	+0.30

THE WALL STREET JOURNAL.

LEADING THE NEWS




Job seekers stand in line at the Federal Office of Employment in Nuremberg, Germany, this September

Bloomberg News

Euro-zone upturn sags

Unemployment rises and output declines; IMF lifts forecast

By Nicholas Winning

LONDON—The euro-zone economy may have returned to growth in the third quarter, but the common-currency area's recovery from the deepest recession since World War II looks likely to be gradual.

Economic data released Thursday showed unemployment in the 16 countries that share the euro has hit a 10½-year high, manufacturing output is falling and German retail sales are slumping. The International Monetary Fund raised its euro-zone growth forecasts, but said the recovery will be sluggish.

"The modest pace of recovery is consistent with continued housing-market pressures in some economies, enduring strains in the largely bank-based financial sector, and a drag from the labor markets," the IMF said in its latest quarterly World Economic Outlook.

The Washington-based body said it now expects the euro-zone economy to contract 4.2% this year rather than 4.8%, then grow 0.3% in 2010 rather than shrink 0.3%. Low inflation should allow the European Central Bank to maintain very low interest rates to support the recovery, it said.

The ECB is expected to leave its key interest rate at a record low of 1% after its monetary policy meeting next Thursday.

Euro-zone gross domestic product shrank 0.1% on a quarterly basis in the second quarter, a surprisingly big improvement on the record 2.5% slump seen in the first three months of the year. Many economists say the region returned to quarterly growth between July and September.

But even though many European countries have launched measures to support their labor markets—such as Germany's incentives for companies to put workers on shortened hours rather than lay them off—the euro zone's unemployment rate is still edging higher, albeit at a slower rate.

Eurostat, the European Union's statistics agency, said the euro zone's jobless rate rose to 9.6% in August from 9.5% in July, the highest rate since March 1999 and two percentage points higher than in August last year.

Job losses have been particularly acute among people under the age of 25, a sign that the economic crisis may be marking a whole generation of graduates and those who decide to leave school. Eurostat said the youth unemployment rate in the euro zone soared to 19.7% in August from 15.6% in August last year.

"We expect euro-zone unemployment to continue to trend higher into 2010, particularly as short-time working schemes start to expire," said Martin van Vliet, an economist at ING.

Destatis, Germany's Federal Statistics Office, said retail sales in the euro zone's biggest economy were 1.5% lower in August than in July and down 2.6% in real terms from August last year. That is the sharpest monthly decline this year and below market expectations of a 0.1% rise.

The data look particularly weak, but economists note that they don't include car sales, which have been boosted significantly by the government's €5 billion ($7.32 billion) car-scrappage program, which has now expired.

The latest survey of manufacturing companies across the euro zone by Markit Economics showed output in that sector fell for a 16th consecutive month in September, although it is edging gradually closer to growth.

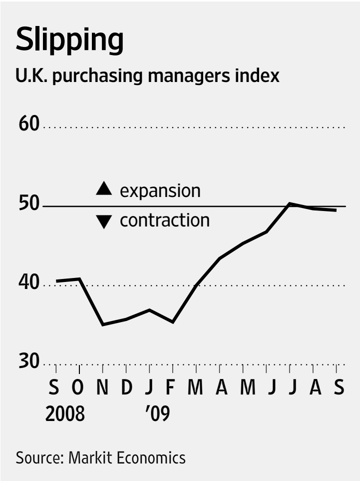
The purchasing managers index for the sector rose to 49.3 in September from 48.2 in August. A reading below 50 indicates output is declining while a reading above 50 shows it is expanding.

"While output and orders rose at increased rates, the pace of expansion was lackluster, held back by signs of momentum waning in some countries, notably Germany, the Netherlands and Spain," said Chris Williamson, chief economist for Markit.

—Geoffrey T. Smith in Frankfurt and Ilona Billington in London contributed to this article.

Manufacturing woes hit U.K. economic recovery

By Ilona Billington



LONDON—A raft of economic data lent weight to the belief that the pace of Britain's economic recovery looks set to be modest and hampered by the manufacturing sector, which contracted again in September.

A survey showed that manufacturing output fell for a second straight month, coming in at 49.5 after dropping to 49.7 in August. The key 50-point level defines whether the sector is contracting or expanding.

Markit Economics and the Chartered Institute of Purchasing and Supply, which compile the survey, said job cuts and low output levels weighed on the more positive aspects of the survey. Those included a rise in orders, largely because a weakened pound has buoyed exports.

"The second successive modest retreat in the manufacturing purchasing managers' index in September is obviously disappointing, and highlights the fact that the U.K. economy still faces difficult times despite a probable return to growth in the third quarter," said Howard Archer, chief U.K. and euro-zone economist for IHS Global Insight.

The PMI's decline was also in line with a survey out earlier that reported a slight retreat in business confidence, with manufacturing companies weighing on the index.

"September's confidence has clearly been driven by weakening optimism amongst manufacturing firms, caused perhaps by the leveling off of an upturn in global trade volumes," said Trevor Williams, chief economist for Lloyds TSB Corporate Markets, which compiled the survey.

CIPS Chief Executive David Noble said it is important to remember that the September PMI figure doesn't alter the fact that manufacturing has staged a "significant rebound" from November's "unprecedented low."

Somewhat more encouraging was a survey of lenders from the Bank of England Thursday showing that companies found credit more widely available in the third quarter.

—Adam Cohen in Brussels and Natasha Brereton in London contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Garry Kasparov and Anatoly Karpov played their final world-championship chess match in 1990. A Tuesday Marketplace article about their recent match in Spain incorrectly said their last world-championship match was in 1987. In addition, Bobby Fischer played the chess opening Alekhine's Defense a number of times prior to his 1972 match with Boris Spassky. The article incorrectly said Mr. Fischer had never played the opening before. Mr. Fischer also opened his sixth game with Mr. Spassky with the move c4. The article incorrectly said he opened with d4.

Jean-Dominique Senard is a Non-General Managing Partner of Cie. **Générale des Établissements Michelin**. A Thursday Corporate News article about the company incorrectly described him as chief financial officer.

In Europe, 19 initial public offerings raised $189 million in the third quarter, down from 30 that raised $584 million a year ago. A Money & Investing article Thursday misstated the value of the IPOs in this year's quarter as $189 billion.

Clarium Capital Management's hedge fund lost nearly 16% through mid-September. A chart with a Tuesday Money & Investing article about hedge-fund managers with contrarian views on the economy incorrectly gave the loss as 12%.

INDEX TO BUSINESSES

This index of businesses mentioned in today's issue of The Wall Street Journal Europe is intended to include all significant references to companies. First reference to these companies appear in boldface type in all articles except those on page one and the editorial pages.

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 Fax: 32 2 741 1600
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799
Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Patience Wheatcroft M-17936-2003

INDEX TO PEOPLE

This index lists the names of businesspeople and government regulators who receive significant mention in today's Journal.

WSJ.com **For more people in the news, visit CareerJournal.com/WhosNews**

LEADING THE NEWS

Fed chief calls for team effort to monitor risk

Bernanke proposes council of regulators to protect U.S. system

By Maya Jackson Randall And Tom Barkley

Bloomberg News

Fed Chairman Ben Bernanke testifies at a House Financial Services Committee hearing in Washington on Thursday.

WASHINGTON—A council of U.S. regulators—rather than the Federal Reserve alone—should be charged with monitoring threats to the U.S. financial system, Fed Chairman Ben Bernanke told a congressional panel Thursday.

Mr. Bernanke's view that systemic risk-monitoring should be a group effort could address some fears that the Obama administration's plan to rework the U.S.'s finance rules would give the Fed too much power.

Speaking before the House Financial Services Committee, Mr. Bernanke continued to voice concern about another controversial element of the proposed financial-regulation overhaul: efforts to strip the central bank of its consumer-protection role. "I think there are some costs to separating enforcement and rule-writing," Mr. Bernanke said in response to a question at the hearing.

He also shed some light on the Fed's efforts to review executive pay at financial institutions, and said that while the economic recession may be coming to an end, he remained concerned about a lack of job creation.

The Obama administration and the Fed have called on Congress to rework financial regulations to better prevent future crises. But key proposals that would boost the Fed's power to protect the stability of the financial system have come under fire. Critics argue that the Fed should scale back its regulatory role and focus more intensely on monetary policy. They also question whether the central bank has the resources to be a new uber-regulator of systemic risks.

The proposal to create a Consumer Financial Protection Agency has also drawn criticism from regulators, who say stripping out that area of responsibility would hurt their efforts to protect the soundness of the banking system, and from some Republicans, who say it would restrict competition.

In his testimony, Mr. Bernanke said monetary policy alone is a "very blunt tool" in seeking to prevent asset-price bubbles, because you can't target just one sector. "I do think that the first line of defense needs to be a stronger regulatory system that would, on one hand, prevent the excessive buildup of risk in the first place," he said.

"All federal financial supervisors and regulators—not just the Federal Reserve—should be directed and empowered to take account of risks to the broader financial system as part of their normal oversight responsibilities," Mr. Bernanke said.

The White House's top economic adviser also recently suggested that other regulators could join the central bank in regulating systemic risk. "Systemic-risk regulation has a number of elements," National Economic Council Director Lawrence Summers told a group of reporters.

The proposed financial-rule overhaul would also require that bank employees' pay be approved by the Fed. Mr. Bernanke said Thursday that the Fed will soon issue guidance for comment on executive compensation.

He named two principles that will guide the Fed in its effort: The structure of executive pay shouldn't provide incentives for taking risks, and there should be appropriate links between performance and pay.

The Fed's plan would, for the first time, inject government regulators deep into compensation decisions traditionally reserved for the banks' boards and executives.

On the economy, Mr. Bernanke said that while growth may be starting to come back, it is unlikely to be fast enough to bring job losses down to "a pace that we would like to see," and thus government assistance with education or training could be useful.

Growth has to come in above the economy's potential to create a sufficient number of jobs, he said, so the Fed doesn't expect a rapid decline in the unemployment rate next year. If the economy expands at a 3% pace next year, the jobless rate will likely remain 9%, he said.

He said he was confident that the central bank can exit from the unconventional steps it took at the height of the financial crisis to keep credit flowing without stoking inflation.

"I want to assure you that we have every means of exiting from the situation and avoiding inflation even if we do not sell any of these assets," he said.

—Michael R. Crittenden contributed to this article.

EU finance ministers say top banks passed stress tests

Continued from first page

Several European bank analysts said they hadn't followed the exercise, and European stock indexes showed little investor reaction to the tests. One official observer said the tests were "designed to reassure."

By contrast, U.S. bank stress tests completed in May, while viewed by some analysts and investors as choreographed, concluded that 10 U.S. banks needed to raise an additional $74.6 billion in capital and pinpointed how much capital each bank needed. U.S. stock indexes, and the banking sector, rose sharply throughout the spring and summer.

The losses for the 22 European banks, which represent 60% of EU banking assets, were calculated assuming an economic contraction of 5.2% this year and 2.7% next year. That compares with the current forecasts calling for negative growth of 4% this year and positive growth of 0.4% in 2010.

In their statement, the ministers said: "This resilience of the banking system reflects the recent increase in earnings forecasts and, to a large extent, the important support currently provided by the public sector to the banking institutions."

They said based on current economic forecasts, an important measure of capital adequacy—the so-called Tier 1 capital ratio—would be well above 9% for the 22 banks, compared with a minimum requirement of 4%. Under the stress tests' more pessimistic economic scenario, no bank would see its Tier 1 capital ratio fall below 6%.

The results aren't directly comparable with a more extensive study of the European banking system by the International Monetary Fund, which was published earlier this week. Nor are the results comparable with the U.S.'s stress tests earlier this year.

The IMF said banks in the 16-nation euro zone wouldn't need to raise capital to ensure that banks had at least a 6% Tier 1 ratio, but banks would need to raise $150 billion to increase the ratio to 8% and $380 billion to boost it to 10%.

The adequacy of European bank capital cushions has been a source of friction between European governments and the U.S., which had spilled into meetings of the Group of 20 leading and developing economies, whose leaders met in Pittsburgh last week.

Agence France-Presse/Getty Images

ECB President Jean-Claude Trichet, left, with Swedish Minister for Finance Anders Borg during gathering of European finance ministers on Thursday.

The U.S. is worried that poorly capitalized banks could undermine economic recovery—as they did in Japan in the 1990s. Ahead of the G-20 meeting, the U.S. proposed that all banks increase capital to comply with a leverage ratio, or total assets as a multiple of equity capital, that would imply the need for major capital-raisings for some big European banks.

European governments, led by France and Germany, succeeded in diluting the U.S. initiative. The capital-adequacy measures used in Europe incorporate capital other than equity and calculate it as a proportion of risk-weighted assets, which are adjusted for their perceived riskiness by regulators. For example, bonds issued by a bank's national government are rated zero.

The IMF calculated that insisting on a leverage multiple of 25, a potential future target for big global banks, would force U.S. banks to raise $130 billion in new capital. But banks in the euro zone would need to raise much more: $310 billion. Those in the U.K. would also need a $120 billion capital boost. These extra requirements would also fall most heavily on big banks engaged in capital markets and derivative activity, bank analysts said.

Even without new rules firmly in place, some banks are taking advantage of buoyant stock markets to boost capital, if modestly. Three European banks announced this week they intended to tap the financial markets for money to boost their capital.

BNP Paribas SA, France's largest bank by market value, announced Tuesday that it would launch a €4.3 billion rights issue that it would use, along with other funds, to pay back the French state for the €5.1 billion in nonvoting shares it bought in BNP.

Two Italian banks, **UniCredit** SpA and **Intesa Sanpaolo** SpA, also unveiled capital-raising plans, effectively turning their backs on government-sponsored bonds that had been made available to Italian banks amid the financial crisis and said they would tap the financial markets.

The Italian state-aid packages came with several strings attached—including restrictions on dividends and bonuses—so most Italian banks have decided not to take up the government's offer.

UniCredit announced a €4 billion capital increase, while Intesa Sanpaolo said it would issue a Tier 1 hybrid bond worth up to €1.5 billion to strengthen its finances.

Because BNP is buying out a government stake, its Tier 1 ratio rises only slightly from 9.1% from 9.3%. UniCredit's Tier 1 ratio rises to 8.46% from 7.66%, while Intesa's increases to 8.1% from 7.7%, according to bank analysts.

News in Depth

Open expression

Artists test limits as China allows a few flowers to bloom > **Pages 14-15**

LEADING THE NEWS

U.S. enforces existing sanctions on Iran

Washington moves to crack down on American firms

By Chip Cummins

DUBAI—The U.S. has begun to ratchet up enforcement of existing sanctions on Iran, including cracking down on illegal exports of American products, even as it has threatened fresh economic restrictions on Tehran.

Over the past three decades, the U.S. has imposed a wide range of unilateral measures against Iran, essentially prohibiting American citizens and companies from doing most business there. But the measures haven't kept American products out of Iran's bazaars, showrooms and high-end retailers.

For years, American authorities concluded there was little U.S. enforcement agents could do about it. There has been longstanding debate among policy makers about whether to spend resources trying to halt the flow of seemingly harmless consumer products into Iran. Critics say such sanctions don't pressure policy makers in Tehran and hurt U.S. exports.

But as Washington ratchets up the pressure on Iran, sanction enforcement has become a top priority. The U.S. Treasury's Office of Foreign Assets Control, the agency spearheading American sanctions enforcement, has beefed up its investigative and enforcement teams, officials say.

"We've been more effective, more aggressive and more public in our enforcement," said Adam Szubin, OFAC's director, in an interview.

As part of that broader push, OFAC has held discussions with some American manufacturers about whether they are doing enough to ensure their products aren't illegally making it into Iran, U.S. officials said.

Agence France-Presse

An Iranian woman buys various items, including a bottle of Coca-Cola, at a grocery in Tehran

Years of sanctions | Some of the highlights of U.S.-Iranian trade troubles

1979: After the Iranian revolution and seizure of the U.S. embassy in Tehran, President Carter freezes Iranian assets and orders broad sanctions.

1987: Amid the tanker war in the Persian Gulf pitting Iran against Iraq, President Reagan orders an embargo on Iranian-origin goods.

1995: President Clinton restricts U.S. involvement with petroleum development in Iran, citing Iranian sponsorship of international terror and Iran's pursuit of nuclear weapons.

1997: Clinton further tightens sanctions, effectively barring U.S. citizens and companies from most trade and investment.

2000: The U.S. allows Americans to buy Iranian carpets, dried fruit, pistachios and caviar.

2007: Bush administration imposes broad economic sanctions on Iran's Revolutionary Guard, state-owned banks, companies and individuals.

2008: U.S. Treasury sanctions Iran's state-controlled shipping company.

2009: U.S. officials say they will push for new U.N. sanctions if talks fail to convince Iran to cooperate with the West over nuclear ambitions. U.S. Congress and Obama administration mull fresh, unilateral sanctions.

Sources: U.S. Treasury; WSJ research

"It is reasonable for us to ask, what have you done to make sure your export doesn't go to Iran," Mr. Szubin said. "We won't countenance willful blindness."

Agencies are focusing in some cases on instances where they suspect American manufacturers could be turning a blind eye to foreign subsidiaries, distributors or customers who are improperly reselling goods into Iran, according to another U.S. official. Other agencies, including the Departments of Justice and Commerce, are increasingly cooperating with Treasury, officials say.

Earlier this year, the U.S. Securities and Exchange Commission queried **Hewlett-Packard** Co. about its Iran business. In correspondence released by the SEC, the Palo Alto, Calif., company said a European subsidiary sold products to third-party distributors in the United Arab Emirates, which resold them into Iran.

It said the sales didn't break any rules, but that it had stopped doing business with the distributors. In a statement, H-P said the query was part of a "routine staff review" of Hewlett-Packard's annual SEC filing. A spokesman for the SEC declined to comment. The status of the SEC query isn't clear.

There are exceptions to restrictions on American exports to Iran, making it sometimes difficult to determine what is legal and what' isn't. Foreign subsidiaries, for instance, sometimes aren't under the same restrictions as their American parent, according to officials.

Caterpillar Inc., of Peoria, Ill., says that under current U.S. sanctions its foreign subsidiaries may, under some circumstances, sell its heavy machinery to independent dealers that resell to users in Iran.

Closely held **Arya Machinery**, with offices in Tehran, markets itself on its Web site as Iran's exclusive dealer of Caterpillar equipment. A senior sales executive at the company, in a telephone interview, said Arya buys equipment from a Caterpillar subsidiary in Europe.

A Caterpillar spokesman declined to comment about Arya, but said in a statement that Caterpillar has no assets, operations or employees in Iran and is in "full compliance with all applicable laws."

At Dubai's bustling downtown wharf, Iranian sailors load goods bound for a handful of Iranian ports, some as close as a day's voyage. Stacks of Chinese tires, South Korean batteries and German white goods stand in long rows, waiting to be loaded onto wooden dhows.

There are no laws here against shipping everyday, American-brand goods across the Persian Gulf to Iran.

"If the product is legal here and legal in Iran, we take it," says a captain loading his dhow with Chinese-made food products.

Iran to hand over most of its uranium stock, say envoys

Continued from first page

tional community and Iran over its nuclear fuel program in which the U.S. has participated fully. The talks included a rare one-on-one meeting between the U.S. State Department's No. 3 official, Undersecretary of State for Political Affairs William Burns, and Saeed Jalili, secretary of Iran's national security council.

The senior U.S. official described that meeting, held in a sitting room off the villa conference hall where the main talks were held, as "direct and businesslike." The official said Mr. Burns had stressed U.S. concerns over the Qom site and other questions regarding Iran's nuclear program that it has yet to answer fully to the IAEA, as well as human-rights issues.

In turn, Mr. Jalili raised issues that Iran has said it wants future talks to focus on, including regional security, the disarmament of nuclear-armed states, and the global economic crisis. Mr. Jalili said at a press conference later that it is these issues that Iran wants to discuss when the negotiators meet again.

"This is only a start [of a negotiating process], and we shall need to see progress on some of the practical steps we have discussed today," said Javier Solana, the European Union's foreign-policy coordinator, who has acted as point man for the so-called P5+1 group—the U.S., Russia, China, France, the U.K. and Germany—in nuclear talks with Iran.

Those steps include an initial trip to Tehran by IAEA Director-General Mohammed ElBaradei on Saturday to discuss access to the Qom facility; access for IAEA inspectors within weeks; a meeting of Iranian experts with IAEA counterparts to work out the details of a deal on processing uranium abroad for the medical-research reactor; and discussions to prepare the ground for a second round of talks by the end of the month.

Asked if thought the Iranians had come to the meeting with a different approach than before, Mr. Solana said he thought they had. They arrived knowing there was "a different setting," particularly since the U.S. was for the first time fully involved in the talks, Mr. Solana said.

Iran recently asked the IAEA to provide uranium enriched to 19.75%—more refined that that needed for a civilian power plant, but substantially less refined than weapons grade fuel—for a medical-research reactor in Tehran. The fuel for the reactor was provided by Argentina in 1993, and Iran said the fuel will run out by December 2010, according to the U.S. official.

In response, the IAEA, backed by the P5+1, has proposed that Iran provide the low-enriched uranium required to be further enriched in Russia and then turned into fuel rods in France. Iran lacks the technology to make the rods on its own or to reprocess them into weapons-grade fuel if it received them, the U.S. official said.

Russia and the West have long tried to persuade Iran to buy enriched uranium rather than enrich the material itself, a process that could give Iran the capacity to "break out" and create fuel for nuclear weapons. The U.S. official said the current deal was merely a "small step" toward confidence building, rather than toward such an outcome.

Associated Press

Iran's chief nuclear negotiator, Saeed Jalili, speaks to reporters after talks in Geneva.

Asda seeks to raise customer loyalty

Under new policy, company will consult shoppers about products, packaging; rewards offered for bright ideas

By Lilly Vitorovich

LONDON—**Asda Group** Ltd., the U.K. supermarket business of **Wal-Mart Stores** Inc., said it will try to gain customers' loyalty by giving them more say in how the stores are run.

Asda said that under its new policy, customers would be consulted about every aspect of the business, having input on things like product development and the feel of packaging. Beginning in January, 18,000 regular Asda shoppers will be given access to products before they are launched in its stores.

Making a dig at its rivals' customer-loyalty programs, Asda Chief Executive and President Andy Bond said he thought customer loyalty couldn't be bought with plastic points or discount vouchers.

Loyalty plans are one of the many ways that the British supermarkets compete with each other. For more than a decade, they have tried to outdo each other.

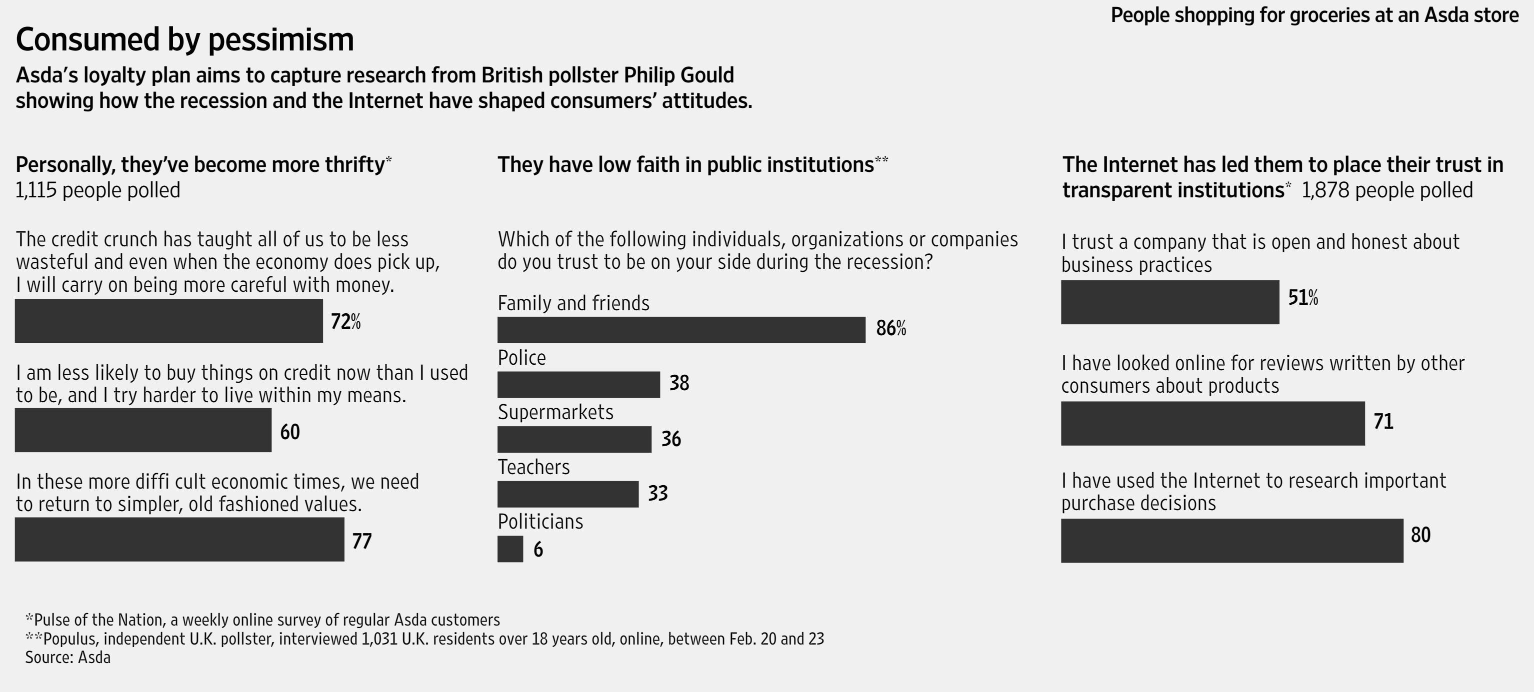
Market leader **Tesco** PLC started the trend with its successful Clubcard, which gives customers points for each pound spent and allows them to trade those points for Tesco goods. Based on the sales data it collects, Tesco then tailors offers to each customer's shopping habits. Most of Tesco's rivals have followed suit with card or voucher programs of their own.

Asda instead has focused more on advertising its competitive prices. Now Asda, the second-biggest supermarket chain by U.K. market share behind Tesco, is hoping that involving customers more in business decisions will gain their loyalty as much as specially tailored discounts.

"My ambition for Asda is to actively involve customers in every aspect of the business, to lift the lid on how we do things, and enable our customers to help make decisions that have an impact on what we sell and how we sell it," Mr. Bond said.

Reuters

People shopping for groceries at an Asda store



Asda also unveiled a new blog, "Aisle Spy," and introduced a number of webcams within its operations—including a dairy farm, a carrot processing plant, and its head office in Leeds.

It will also open a new "transparent" store in Gorseinon, South West Wales, next year. Glass walls will replace brick walls to expose areas of the supermarket normally kept out of view.

Since Tesco introduced its Clubcard in February 1995, 15 million shoppers have signed up for the plan in the U.K. In May, the retailer said it would spend £150 million ($239.7 million) on the relaunch of Clubcard—offering double the number of points for each pound spent that it previously offered—which it hopes will lure one million additional members.

In response, rival Sainsbury launched a new "multimillion-pound" in-store voucher program last month, designed to tailor money-off coupons to individual customers. It is also part of another card-reward program, Nectar, where members receive points when they spend money at a number of retailers or service providers.

Mr. Bond didn't say whether Asda was planning its own card or voucher loyalty plan.

However, starting early next year, Asda also will reward customers who come up with the "brightest idea" that saves the business money. If the suggestion is implemented and saves Asda £2 million, a customer could be in line to receive a check for £100,000, or 5% of the first year's saving.

—Kathy Sandler contributed to this article

Many health-food claims struggle with scientific rigor

By Matthew Dalton

BRUSSELS—European scientific authorities Thursday rejected dozens of health claims made by food companies, in a sign of how tricky it will be for them to get some of their most popular claims past a European Union drive to bring scientific rigor to the health foods.

A panel of the European Food Safety Authority issued nearly a hundred opinions on health claims, about two-thirds of which were negative. The rejections included claims on special bacteria that are supposed to aid digestion and boost the immune system beta carotene additives for sunscreen and shark cartilage for healthy joints.

The panel rejected two-thirds of the claims, and half of these were rejected because the substance in question wasn't adequately described, the EFSA said in a statement. The claims that were accepted related mainly to vitamins and minerals known to promote health, dietary fiber, fatty acids for lowering cholesterol and sugar-free gum that is good for the teeth.

EU governments agreed more than two years ago to submit health claims to scientific scrutiny, with the goal of producing a list of allowed claims for products sold anywhere in the EU. The panel's opinions now will be reviewed by the European Commission, the EU's executive branch, and officials from the EU national governments before coming into force.

The reviews will be particularly important for **Danone** SA, since the appeal of two of its major yogurt brands, Activia and Actimel, are founded on the company's claims that strains of bacteria help digestion (Activia) and boost the immune system (Actimel).

The EFSA panel took a dim view of some bacteria supplements—known as probiotics—in the opinions released Thursday, though none of the opinions were on health claims specifically used by Danone or **Nestlé** SA, which also sells products with bacteria supplements. A Danone spokesman declined to comment. A spokeswoman from Nestle said the company is reviewing the EFSA panel's opinions and wouldn't comment further.

Associated Press

EU reviews of health claims will be particularly important for Danone, which claims that strains of bacteria in its Activia yogurt help digestion.

In one opinion, the panel said the data provided weren't compelling enough to justify the claim that the bacteria Lactobacillus casei F19 improves bowel functioning. The panel also rejected claims that several other bacteria reduce levels of harmful intestinal organisms.

Danone has previously fought criticism of the claims it makes on its probiotics products. Two weeks ago, the French firm's U.S. unit agreed to change its marketing practices and reimburse customers $35 million for its probiotic products to settle a class-action lawsuit.

The opinions released Thursday by the European panel were mainly in response to claims submitted by EU national governments and not by specific companies, which have submitted their own applications to use health claims

Beta-carotene added to sunscreen wasn't shown to maintain the skin's immune response under exposure to ultraviolet rays, the panel said. Nor did shark cartilage help the joints: The panel said the studies presented didn't demonstrate an effect and also that the actual composition of the shark cartilage wasn't adequately described.

—William Horobin contributed to this article.

CORPORATE NEWS

Lagarde backs Lombard

France Télécom CEO is pressured by spate of suicides to resign

By Max Colchester

PARIS—French Finance Minister Christine Lagarde on Thursday voiced her support for **France Télécom** SA's chief executive, who is coming under increased pressure from French unions and opposition politicians over a recent spate of suicides at the company.

Ms. Lagarde summoned France Télécom Chief Executive Didier Lombard to a meeting after the telecoms company confirmed earlier this week that one of its employees had committed suicide. It was the 24th suicide at the company in 18 months.

In a statement released after the meeting, Ms. Lagarde said she had "full confidence" that Mr. Lombard could get the company through "this difficult and painful moment."

The French state, which owns a 27% stake in France Télécom, has been keeping a close eye on the company, following complaints by unions that an ongoing restructuring plan at the company is putting workers under undue stress. The suicide rate among the company's 100,000 employees is in line with France's national average. Still, unions say that the relocation of staff to different branches of the company around France has added pressure onto employees and their families.

A spokesman for France's opposition Socialist Party had called on Tuesday for France Télécom's top management to take responsibility for the suicides and step down. Several hundred France Télécom workers also took to the streets to protest against working conditions.

In the statement released after Thursday's meeting, France's Finance Ministry said Mr. Lombard had set up an emergency hotline aimed at providing help to depressed workers. The company has also increased the number of psychologists available to staffers, according to the statement.

France Télécom said earlier in the week that it had appointed a supervisor to oversee all future job transfers within the company. The company also said it would hold off relocating staffers until October 31.

Mr. Lombard announced earlier this year he would step down as France's Télécom's chief executive in 2011 and be replaced by Stéphane Richard, a former top aide to Ms. Lagarde.

Bloomberg News

Christine Lagarde, shown Thursday in Paris, supported France Télécom CEO Dider Lombard following calls for his resignation from the opposition Socialist Party.

Femsa opens new front in wave of beer mergers

By Dana Cimilluca And Jeffrey McCracken

Femsa, one of the largest beverage companies in Latin America, is in talks to merge its beer operations with a larger rival in a deal that could be valued at as much as $9 billion and would continue a global wave of brewing consolidation, people familiar with the matter said.

Fomento Economico Mexicano SAB, as Femsa is officially known, has held discussions with beverage companies including **SABMiller** PLC and **Heineken** NV, the people say. It is being advised by **NM Rothschild & Sons** Ltd. The talks recently have become more formal and serious, the people said, adding that no deal is imminent.

Femsa, which traces its roots to a brewery founded in Monterrey, Mexico, in 1890, is comprised of three businesses: soft drinks, beer and a retailer. The beer operation produces and distributes brands including Tecate, Sol and Dos Equis and has roughly $4 billion in annual sales. The Monterrey-based company, controlled by Mexican families, is led by Chairman and Chief Executive José Antonio Fernández Carbajal.

A wave of consolidation in the global beer market that culminated with the November 2008 purchase of Anheuser-Busch Cos. by the Brazilian-Belgian company InBev NV for about $52 billion has put pressure on smaller brewers to find larger homes. Femsa controls just under half of Mexico's beer market as the No. 2 player in a duopoly with **Grupo Modelo** SAB.

Acquiring Femsa's beer unit would give SABMiller or Heineken a big stake in Mexico, one of the most profitable beer markets in the world. The deal also would put them into competition with **Anheuser-Busch InBev** NV in Brazil, where Anheuser is the dominant player through its AmBev division.

Femsa has "moved beyond just contemplating it," said a person familiar with the matter. "I think they want to do it now."

Associated Press

Femsa Chairman and CEO José Antonio Fernández Carbajal

A spokeswoman for Femsa declined to comment, as did representatives for SABMiller and Heineken.

Buying Femsa also offers opportunities for growth in the U.S., where its Tecate and Dos Equis brands have enjoyed healthy sales growth. Heineken, based in the Netherlands, is the exclusive importer of Femsa brands in the U.S. under a long-term agreement.

Femsa's Coca-Cola Femsa unit is the largest Coke bottler in Latin America, as measured by sales volume. **Coca-Cola** Co. owns 31.6% of the bottler and the public owns 14.7%.

Amid competition with Modelo, Femsa's beer division has underperformed the company's other units, according to J.P. Morgan Chase analyst Alan Alanis. Volumes fell 6% and 8% in Mexico and Brazil, respectively, in the second quarter.

Femsa's American depositary receipts rose 17% to $44.40 at 4 p.m. Thursday in composite trading on the New York Stock Exchange.

—David Kesmodel contributed to this article.

EU gains an ally on mobile rates

By Mike Gordon

LUXEMBOURG—A legal adviser to Europe's highest court on Thursday recommended the court uphold a Europe-wide law forcing mobile-phone operators to cut the rates they charge for using a mobile phone abroad.

Four of Europe's largest mobile-telecommunications operators—**Vodafone Group** PLC, **Telefónica** SA's O_2, **Deutsche Telekom** AG's T-Mobile and **France Télécom** SA's Orange—have challenged the legal basis of the European Union's roaming regulation, passed in 2007, which mandated a substantial reduction in charges.

The regulation initially set caps of 49 European cents (72 U.S. cents) a minute for making calls and 24 cents for receiving calls when traveling abroad. Further annual reductions will take the caps down to 35 cents and 11 cents, respectively, by 2011. The caps apply to all 27 EU countries, as well as Norway, Iceland and Liechtenstein.

Before the EU regulation, a call in the EU could cost about €1.70 a minute for a German traveling in Austria and €2.50 for a Belgian calling from Cyprus, according to data from the European Commission, the EU's executive arm.

The idea that consumers should pay more when they are traveling in Europe than in their home country goes against the principles of the European single market, said Viviane Reding, the EU's telecommunications commissioner. The EU has since forced similar roaming rate cuts for SMS text messaging and mobile Internet downloads.

While the move was a hit with consumers, mobile operators across Europe complained they lost a significant revenue stream. Vodafone, O_2, T-Mobile and Orange brought their case before the U.K. courts, challenging the British law that was brought in to comply with the Europe-wide legislation.

The U.K. High Court has asked the European Court of Justice to rule on whether the roaming regulation was passed on the proper legal basis. The court is also asking whether certain elements of the roaming law imposing the same rates across Europe are excessive or violate national sovereignty.

Advocate General Poiares Maduro said Thursday the EU was entitled to impose limits on the prices charged by mobile-phones companies for roaming calls in the interests of the internal market.

"The differences in price between calls made within one's own member state and those made while roaming could reasonably be regarded as discouraging the use of cross-border services, such as roaming," he said. "Such discouragement has the potential to impede the establishment of an internal market in which free movement of goods, services and capital is ensured."

A Vodafone spokesman said the company will continue to present its case. "Clearly we need to look at the details of the court adviser's opinion," he said. "This is not about retail roaming prices—they'll continue to fall. This is about a point in principle."

A Deutsche Telekom spokesman said the company was sticking to its opinion that regulatory measures were unjustified, as there was enough competition in the European mobile market, while a spokesman for France Télécom said the company would wait for the court's final decision. O_2 wasn't immediately available to comment on the issue.

—Ruth Bender in Paris and Archibald Preuschat in Düsseldorf, Germany, contributed to this article.

Cisco acquires Tandberg to expand role in video

By Ben Worthen

Cisco Systems Inc. agreed to buy Norway-based **Tandberg** ASA for about $3 billion, expanding its push into video conferencing systems that help people work together from different locations.

The deal, announced early Thursday, is an all-cash tender offer that Cisco characterized as an 11% premium to Tandberg's closing price Wednesday.

The move allows Cisco to use utilize some of its $35 billion in cash reserves and steps up competition with **Hewlett-Packard** Co., which like Cisco sells high-end video-conferencing systems to businesses. H-P also resells some Tandberg video systems.

Tandberg, which reported revenue of $809 million in 2008, makes a range of video-conferencing products, including high-end systems that compete with Cisco's and video software that runs on a personal computer.

The acquisition "instantly expands our portfolio of high-end video products to go from the desktop to the boardroom," said Ned Hooper, Cisco's chief strategy officer.

High-end telepresence is still a small market, with world-wide sales of the big, multiscreen systems in which Cisco specializes still less than $500 million a year, according to an estimate by Wainhouse Research. But it's one of the few technologies that has benefited from the recession, rising 30% from last year as businesses look to reduce travel expenses.

Cisco Chief Executive John Chambers said he will move Cisco's telepresence business under Tandberg CEO Fredrik Halvorsen.

"Fredrik has almost an unlimited blank check," Mr. Chambers said. "This isn't a matter of synergies or cutting costs."

—Roger Cheng contributed to this article.

CORPORATE NEWS

Pact to save GM's Saturn unit unravels

Penske abandons bid after failing to reach manufacturing agreement with Renault; GM says it will close dealers

BY SHARON TERLEP AND JOHN D. STOLL

A deal to save **General Motors** Co.'s Saturn brand fell through after former race-car driver Roger Penske unexpectedly abandoned a bid to buy its network of dealers, prompting GM to say it would shut the operation down.

The novel bid to create a car company that didn't build cars fell apart when **Penske Automotive Group** Inc. failed to secure a related agreement to have France's **Renault** SA supply autos for dealers to sell when GM stopped building Saturns in about two years, people familiar with the matter said.

Consequently, Penske Automotive ended discussions with Renault on Wednesday—hours after GM's board approved the sale, according to people familiar with the situation.

The sudden collapse of the sale puts at risk 13,000 more jobs in the auto sector. It also likely will add Saturn's 350 dealers to the thousands of U.S. auto retailers that are closing in the car industry's worst downturn since World War II.

GM Chief Executive Frederick "Fritz" Henderson said in a statement that Saturn and its dealership network will be phased out. "This is very disappointing news and comes after months of hard work by hundreds of dedicated employees and Saturn retailers who tried to make the new Saturn a reality," Mr. Henderson said.

"We will move quickly to wind down Saturn so we can get on with [GM's] four core-brand strategy," GM Treasurer Walter Borst said at an analysts' conference Thursday in Scottsdale, Ariz. Mr. Borst added that GM is "redoubling" its efforts to finalize a deal to sell Hummer to China's **Sichuan Tengzhong Heavy Industrial Machinery** Co., and expects the sale tol close by the end of the year.

The Penske announcement came as a "huge surprise" to dealers, GM and Treasury Department officials, according to people familiar with the matter. The government had pressed for GM to jettison money-losing brands Saturn, Pontiac, Saab and Hummer as a condition of the $50 billion in Treasury loans the company received. GM's board on Wednesday approved Mr. Penske's bid to take over Saturn dealers, people familiar with the matter said.

Associated Press

Former race-car driver Roger Penske didn't want to acquire Saturn's manufacturing assets. His plan would have created the first car brand without its own factories.

But Mr. Penske didn't want to acquire Saturn's manufacturing, setting up what would have been the first car brand without its own factories. Under their agreement, GM would have continued producing Saturn vehicles for about two years.

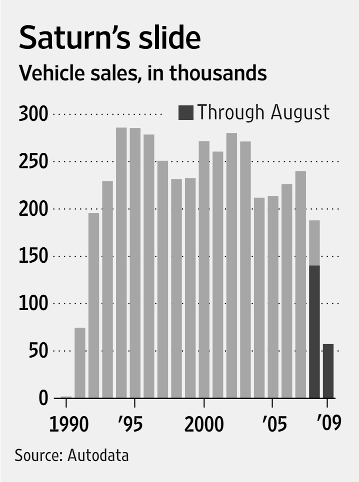
Mr. Penske had thought he had an agreement with Carlos Ghosn, Renault's chairman and chief executive, to supply Saturn models after that, but the Renault board balked at the plan, people familiar with the matter said. Mr. Penske received a phone call Wednesday informing him of Renault's decision, these people said.

Penske Automotive declined to comment on the Renault talks. It said in a statement that it believed it had an agreement with an unidentified car maker to supply Saturns and, "without that agreement, the company has determined that the risks and uncertainties related to the availability of future products prohibit the company from moving forward with this [Saturn] transaction."

In a statement, a spokeswoman for the French car maker said: "Renault has been in contact with Penske to supply cars, parts and technology to Saturn through an OEM [original equipment manufacturer] agreement. The conditions for an agreement have not been found."

For Saturn, it likely means the end of the road for a quirky brand that analysts believe never made money in its 19-year history. GM created Saturn in an attempt to better compete against Japanese auto makers such as Toyota Motor Corp.

Saturn won loyal fans who liked its customer-friendly image and no-haggle sales policy. But GM produced few new Saturn models in the 1990s and, despite a flurry of critically acclaimed cars added this decade, it never met its sales targets.



People familiar with the situation said a deal with Penske was due to be announced as soon as Thursday, and Penske had already distributed new franchise agreements to dealers. "We were running 300 miles an hour about three hours ago to get this done, and then we hit a wall," GM spokesman John McDonald said Wednesday. "This is disappointing."

The chance of another buyer stepping in to purchase Saturn is remote, a person familiar with the situation said.

"I don't know where this puts us," said Marty Mollway, sales manager of Saturn of Oak Lawn in Oak Lawn, Ill. "I don't know where we go from here."

Up until earlier Wednesday, Saturn dealers were being told that the sale of the unit would be complete "in the next few days," this person said. These dealers were asked to rush to complete several initiatives needed for the closing, including submitting customer service information, and inventory data.

Saturn has 350 dealers and the Penske deal was seen saving some 13,000 jobs. The dealers had pressed GM to seek a sale after the auto maker initially planned to phase out production.

Without cash for clunkers, U.S. auto sales drop sharply

BY MATTHEW DOLAN AND JEFF BENNETT

U.S. auto sales fell significantly in September after the end of the federal government's "cash for clunkers" incentive program, with **General Motors** Co. and **Chrysler Group** LLC suffering the sharpest declines.

Car makers sold an estimated 740,000 vehicles in September, down roughly 25% from the same month last year, **Ford Motor** Co. estimated. An exact total was unavailable Thursday afternoon because some companies were still reporting results.

September's seasonally adjusted annualized selling rate came in at about 9.3 million vehicles, car makers estimated. That's a big drop from July and August, when clunkers rebates caused the sales pace to spike. The July annualized rate was 11.4 million and August's was 14.2 million.

"Call it the 'cash-for-clunkers' hangover," said Mike Adamson, who sells new cars and trucks from Ford and Hyundai in Rochester, Minn.

GM's September sales fell 45% to 155,679 cars and light trucks, while Chrysler's dropped 42% to 62,197. Both GM and Chrysler were hurt by a shortage of vehicles on dealer lots, a hangover of the bankruptcy restructurings both companies endured.

"I don't think customers, when they drive by a dealership and see there's nothing there, feel very motivated to come in," said Steve Cook, a GM dealer in Vassar, Mich.

Honda Motor Co. also suffered a sizable decline of 20.1%, to 77,229 vehicles. Ford fared better, with its sales falling 5% to 114,241 vehicles. Sales at **Toyota Motor** Corp. dropped 12.6% to 126,015 vehicles.

Despite Chrysler's steep decline, Chief Executive Sergio Marchionne said Thursday the auto maker is "not bleeding like people think we are," although Chrysler will continue to experience "painful" sales results while it restructures.

Mr. Marchionne said Chrysler, which has an alliance with **Fiat** SpA, continues to cut costs and September's 42% decline in new-vehicles sales doesn't reflect the company's future. He added that the clunkers incentive, which drove purchases in August, was a disturbance.

"We are undergoing a painful process," Mr. Marchionne said during a press briefing with Italian Economy and Development Minister Claudio Scajola, who was visiting the company's headquarters in Auburn Hills, Mich. "But we need to go back to the real starting point."

The September selling rate was in line with June's, an indication the clunker program gave the industry a short-term shot in the arm but perhaps without stealing sales from future months. Car makers remained hopeful new-vehicle sales will edge higher in the fourth quarter amid a modest recovery in the economy.

"Fortunately, the fourth quarter looks brighter and our year-over-year comparisons should look more favorable," Mark LaNeve, vice president for G.M.'s U.S. sales, said in a statement. "We are hopeful we will see a year-over-year increase in the fourth quarter."

Emily Kolinski Morris, a senior economist at Ford, said the U.S. car market was very difficult to interpret, saying that overall conditions were improving even though the general economy and credit markets remained "fragile."

As its competitors flagged, Ford estimated it gained over two points of market share versus last year in September and the third quarter. September marked the 11th time in the last 12 months Ford gained retail market share.

The clunkers program offered as much as $4,500 to customers who traded in old vehicles for new, more-fuel efficient models. More than 700,000 vehicles were sold with the rebates between July and Aug. 24, when the Transportation Department stopped the program because it was about to exhaust its budget.

Despite the end of the government stimulus, auto makers didn't appear to raise significantly their own customer incentives in September. Edmunds.com, an automotive Web site, estimated that the average U.S. incentive was $2,557 per vehicle sold, up 3.4% from August 2009 but down 11.9% from September 2008.

In Europe, France is planning to cut back some of its support for the auto industry, according to the government's draft budget. It is trimming a €1,000 ($1,462) car-scrapping incentive that was introduced this year to get old, fuel-thirsty cars off the road.

Those and other incentives, alongside company promotions, were credited with boosting September new-car registrations 14.1% on year, the French Automobile Manufacturers Association said. France also pays a bonus to buyers of fuel-efficient cars and adds surcharges to prices of fuel guzzlers.

Clunker programs also helped September car registrations in Italy, where they rose 6.8% compared to September 2009, and in Spain, where they were 18% higher on the year.

ECONOMY & POLITICS

Paths on Iran policy start to take shape

Nation's early cooperation points the way on some disputes, but a road map for long-term success is more blurry

By Gerald F. Seib

Reuters

Undersecretary of State for Political Affairs William Burns, head of the U.S. delegation, left, and European Union foreign-policy chief Javier Solana attend a meeting in Geneva on Thursday to discuss Iran's nuclear program.

Iran, it appears, was more cooperative than many expected in its much-anticipated talks with the U.S. and other world powers on its nuclear program.

Now comes the next phase: deciding whether that's a good thing or a bad thing.

Good, because in Thursday's talks Iran toed the mark set down for it on at least one important item—opening up its newly disclosed covert uranium enrichment plant to outside eyes—and in general seemed to be taking the talks seriously.

CAPITAL JOURNAL

Or bad, because the outcome showed the Iranians know how to give just enough ground to string out the talks, earning international legitimacy without giving up anything essential to their nuclear program.

It's way too early to know which of those paths is opening up, of course. This is the phase of first impressions, not final outcomes.

Still, expectations were so low heading into Thursday's talks that anything short of a food fight inside that 18th-century villa in Geneva where they were held would have been judged a success.

And in the end there was more than just the absence of a debacle to show for the day's work. Most significantly, Iran dealt with the glaring substantive and symbolic problem it was handed last week, when U.S. President Barack Obama and his French and British counterparts disclosed the existence of a previously secret uranium-enrichment facility near the Iranian holy city of Qom.

The question going in was whether Iran would simply bluster and stonewall about a secret facility with obvious potential military applications—as Iranian officials had hinted they would—or instead do something to come clean. The Iranians did the latter by agreeing to allow inspectors from the International Atomic Energy Agency into the plant, apparently within two weeks. That isn't quite within "days," as the U.S. had sought, but it's close.

Beyond that, Western diplomats said beforehand that, given the deep suspicions on all sides, a simple agreement to hold a second round of talks would be a sign that something serious happened Thursday. And indeed, there was an announcement of another round, later this month.

In addition, there was a bit of a surprise: an agreement that the U.S. and other powers would enrich uranium for Iran to use in a medical-research reactor. That may not sound very significant, but it's at least a nod toward a path the West has suggested Iran could travel if it genuinely wants nuclear power rather than nuclear weapons: Let other countries (Russia, most likely) enrich nuclear fuel and send it to Tehran, giving it fuel for nuclear power plants without developing an enrichment capability that could produce weapons.

So now we all know the path just ahead. Longer term, the Obama administration faces the tougher job of deciding what constitutes success—or failure—in this process, and when to decide which is emerging.

The broader proposal the U.S. and its partners—France, Britain, Russia, China and Germany—have put on the table is the "freeze for freeze" plan: Iran agrees to freeze its enrichment of uranium, while the big powers agree to freeze international economic sanctions on Iran at the level already in place.

Then, the goal would be moving beyond a freeze to an actual suspension of Iran's enrichment program. If things get that far, defining the terms will be tricky. Does suspension mean permanent suspension, including destruction of enrichment equipment? Would Iran indeed be given nuclear fuel from the outside?

More difficult still will be deciding how long to let this process unfold before deciding whether it's working. French President Nicolas Sarkozy has suggested a deadline of year's end, at which point the outside powers would move on to imposing new sanctions if things aren't working out. For now, that seems to be the prevailing timetable.

On the other side of the ledger, though, the classic fear about such negotiations is that they become an end in themselves—that the goal of talking becomes continued talking. That's a particularly acute concern now, because of worries that Iran may string out the process precisely so it can keep enriching uranium, or that an impatient Israel will conclude it has to take military action to stop a nuclear threat that's only being enabled by diplomacy.

There's also a risk that the embattled Iranian regime may hope to use protracted negotiations for another reason: Its leaders could decide that simply being seen talking with world powers helps them "recoup the enormous legitimacy they've ceded domestically" because of this summer's disputed presidential election, says Karim Sadjadpour, an analyst at the Carnegie Endowment for International Peace.

Meanwhile, some in the U.S. will question what the real goal of policy toward Iran ought to be. Previously, there was little dispute that stopping the Iranian nuclear program was the goal. Now, some analysts are starting to ask whether all those Iranians marching in the streets to protest the presidential election indicate the regime is more seriously imperiled than was thought—and whether that means the goal of American policy and international sanctions ought to be changing the regime rather than just its nuclear program. That, of course, is hardly a subject for negotiation at all.

Iraq's prime minister builds a broad election coalition

By Gina Chon

Agence France-Presse

Iraqi Premier Nouri al-Maliki spoke in Baghdad on Thursday to members of his new State of Law coalition, an alliance of 40 parties entering January's elections.

BAGHDAD—Iraqi Prime Minister Nouri al-Maliki announced a broad new electoral coalition, made up of more than 40 parties, that he hopes will propel him to victory in next year's parliamentary polls.

The coalition mirrors a nonsectarian agenda the Shiite prime minister campaigned on this year in local elections. It reaches across Iraq's deep ethno-sectarian divides to include prominent Sunnis, who may help him broaden support beyond his own Shiite constituency.

The move comes amid efforts by Mr. Maliki and other politicians to capitalize on growing disaffection among voters over lackluster achievements by Iraq's traditional sectarian and religious parties that have dominated post-Saddam Hussein Iraq.

Mr. Maliki's "State of Law" slate enjoyed relative success in local elections in January, running on nonsectarian issues such as security gains. But his new alliance comes with risks, especially in Iraq's mostly Shiite southern heartland, where the political machines of Iraq's biggest Shiite parties are still effective vote-getters.

On Thursday, popular Sunni tribal leader Sheikh Ali Hatem Suleiman and several Sunni politicians stood on stage at the Rasheed Hotel in Baghdad alongside Mr. Maliki and other Shiite ministers and lawmakers to announce the new alliance.

Mr. Maliki will lead the new slate, which will keep State of Law name used in the local polls. The new list includes more than 40 political groups, members said. "Our principle is national unity," Mr. Maliki said.

Mr. Maliki's aides have said he wanted to form a broad coalition to appeal to both Sunnis and Shias as he vies to win a second term as prime minister in parliamentary elections scheduled for Jan. 16.

Since the 2003 overthrow of Mr. Hussein, Iraqi politics have been dominated by sectarian and ethnic splits between the country's Shiite, Sunni and Kurdish blocs. While security has improved significantly across Baghdad, high-profile attacks have been on the increase, including a series of bomb attacks targeting key ministries in Baghdad in August that killed nearly 100.

Officials accuse the perpetrators of those attacks of trying to sow tension between sects ahead of the polls.

"I joined this list for the unity of Iraq and to make sure we don't go back to the bad old times," said Mr. Suleiman of Anbar province, which had been a stronghold for Sunni extremists until he and other tribal members joined the fight against the insurgency in 2007.

Mr. Maliki held talks with other high-profile Sunni tribal leaders, like Sheikh Ahmed Abu Risha, also of Anbar. But Mr. Risha partnered with Interior Minister Jawad Bolani, an independent Shia forming his own nonsectarian list.

The Sunni members of Mr. Maliki's list could help him win votes in Sunni provinces, such as Anbar and Salahaddin, especially since Sunni politicians have been unable to unite under one banner of their own.

But the prime minister will face tough competition in the Shiite south. He enjoyed a surge in popularity there following a military offensive against Shiite militants in the Spring of 2008. Since then, Iraqis have grown frustrated with lagging basic services, such as adequate clean water. Mr. Maliki also has been criticized for recent security lapses.

Mr. Maliki's main rival is the Iraqi National Alliance, a largely Shiite coalition that the premier belonged to in the last national, parliamentary contest in 2005. He declined to rejoin that slate, which includes a small group of Sunnis.

ECONOMY & POLITICS

A new judicial body gets a new home in the U.K.

Reuters

LEGAL TEAM: Justices of the Britain's Supreme Court pose before being sworn in Thursday at the Middlesex Guildhall in London's Parliament Square, where the country's highest court of appeal will begin to hear cases on Monday.

Fall of Romania coalition threatens reform

By Clare Connaghan And Joe Parkinson

LONDON—The collapse of Romania's ruling coalition Thursday could delay major fiscal changes needed to satisfy conditions set by international lenders when they agreed to bail out the country in March.

The government fell after the Social Democratic Party, or PSD, ministers resigned in protest over the dismissal of one of their members.

The breakup could trigger early parliamentary elections even as Romania is in the midst of a campaign to choose the next president. Having to choose a new government could lead to policy paralysis at a time when the country needs to push through spending cuts to comply with the loan conditions set by the IMF.

"A political crisis is the last thing that Romania needs as the government battles to comply with an International Monetary Fund program, which plans far-reaching structural reforms," said Timothy Ash, an emerging-markets analyst at Royal Bank of Scotland in London.

Romania needs to cut its budget deficit from an expected 7.3% of gross domestic product this year to below 3% by 2011. It must undertake major reforms that include the politically toxic cutting of the public-sector payroll by as much as 15%.

If President Traian Basescu can't pull together a coalition to form a new government, the result could be a general election. "If Romania is going to joint presidential/parliamentary elections, the implementation of these reforms could well be delayed, possibly delaying the release of the next IMF tranche," Mr. Ash added.

Romania has received about €6.9 billion ($10.1 billion) of the €12.3 billion IMF loan, part of a broader international rescue package from March totaling about €20 billion.

The latest political infighting is the result of Mr. Basescu's endorsement of Prime Minister Emil Boc's decision to fire Interior Minister Dan Nica for warning of possible vote manipulation in the election.

Greek parties give voters choice of economic cures

By Alkman Granitsas

ATHENS—Greeks will choose a new government Sunday in an election focused on the country's withering economy and a choice between two radically different programs to fix chronic fiscal and structural problems.

Greece's center-right New Democracy government, lagging in opinion polls, vows an austerity program to clean up public finances, coupled with measures to liberalize the heavily regulated economy.

But with an economy headed for its first recession in more than 15 years and unemployment around 9%, New Democracy is having a tough time persuading voters to return it to power after 5½ years in office.

The opposition socialist party, Pasok, is riding a wave of public discontent and leading by about seven percentage points in opinion polls. It says the economy needs stimulus, not austerity.

It is promising a €3 billion ($4.39 billion) package to jump-start growth, and an additional €1 billion or more on new public-works spending. Pasok's long-term fix for Greece's budget problems: cracking down on waste and corruption in the public sector.

"There has never been a Greek election campaign in the past 30 years so focused on the economy," said Anthony Livanios, chief executive of Alpha Metrics, a polling company. "And you have two distinctly different economic plans."

The different plans show a marked contrast not just in specifics, but also in their vision for Greece's economy, the role of the public sector, and the country's long-term growth prospects.

At issue on the one hand is the slowing economy—estimated to shrink by as much as 1% this year. On the other, is how to deal with a debt burden equal to more than 100% of gross domestic product.

Fixing the economy, say the socialists, depends first on stimulating demand and redistributing wealth, before moving to a growth model based more on developing renewable energy and Greece's unique natural environment and less on construction and consumer debt.

"If we don't have a vibrant economy, we'll never deal with the debt," Pasok party leader George Papandreou said in an interview.

Mr. Papandreou promises to introduce a series of economic measures in his first 100 days in office, including raising taxes and eliminating special tax privileges for the wealthy.

Since it was elected in 2004, New Democracy has made economic reform the centerpiece of its program. It has privatized state-owned companies, including deficit-ridden national carrier Olympic Airlines; cut taxes; unified a fragmented pension system; used private investors for large public works; and liberalized labor laws.

New Democracy promises to open up Greece's domestic shipping sector to foreign cruise ship operators; slash red tape for new businesses; continue with privatizations; further overhaul the pension system; and take additional steps to liberalize the labor market. But its main focus is on cutting the deficit.

"One of the most significant challenges will be to decisively confront macroeconomic imbalances, which we intend to address by restraining state spending and battling tax evasion," Finance Minister Yannis Papathanassiou said.

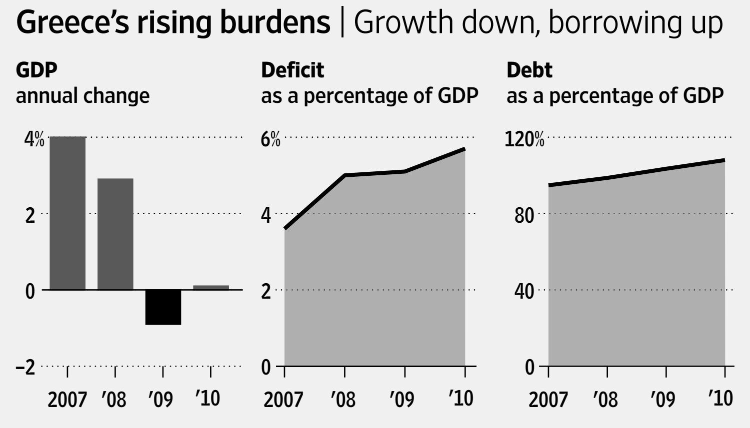
Just before the financial crisis, thanks partly to euro-zone membership, the Greek government had to pay only half a percentage point more than Germany to borrow money on financial markets. Now, because of fears that the debt load will prove too much, Greece pays 1.1 percentage points more, adding more than €1 billion a year to the cost of debt servicing.

The parties show a marked contrast in their vision for Greece's economy.

Earlier this year, the government froze public sector wages and pensions, and it pledges to extend that freeze for another year, while slimming down the civil service over the next two years.

Neither program appears to offer the kinds of permanent fiscal reforms sought by the European Commission, however. The commission has given Greece until the end of 2010 to bring its budget deficit below the European Union-mandated ceiling of 3% of GDP from a projected 6%-8% this year, a goal economists say the country is unlikely to meet.

The country's problems follow 35 years during which they have alternated in government, and politics has been dominated by a narrow class. Mr. Papandreou, the Pasok leader, is the son of Andreas Papandreou, who was prime minister with a brief interruption from 1981 to 1996. Prime Minister Mr. Karamanlis is the nephew of former Prime Minister Constantine Karamanlis.



Note: 2009 and 2010 figures are estimated

Source: European Commission