Money & Investing: Swiss banks start to lose European clients

THE WALL STREET JOURNAL.

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What's News

EU leaders agreed to demands by Czech President Klaus, clearing the way for him to sign the bloc's stalled Lisbon Treaty, diplomats said. Leaders were drafting a last-minute opt-out for Klaus from the Charter of Fundamental Rights. **WSJ.com**

■ **Moody's placed** Greece's credit rating on review for a possible downgrade and changed Portugal's rating outlook to negative. **Page 3**

■ **German unemployment** fell in October for the fourth straight month, due in part to subsidies for workers on shorter shifts. **Page 3**

■ **Lloyds has an agreement** in principle with EU regulators to divest assets as part of a multibillion-pound capital-raising plan. **Pages 2, 32**

■ **U.S. and European stocks** rose as news the U.S. economy grew more than expected made investors more willing to take on risk. **Page 20**

■ **Airbus is pocketing** less U.S.-dollar revenue from its new A380 jetliner as the strong euro cuts into profit and increases costs. **Page 7**

■ **Shell reported** a 62% decline in third-quarter profit, showing how oil firms still face hurdles despite rising crude prices. **Pages 5, 32**

■ **Volkswagen's profit fell** 86% in the third quarter, though the car maker said it should continue to expand market share. **Page 6**

■ **Russia cut interest rates** by half a percentage point, aiming to stimulate the banking sector. **Page 22**

■ **The Bank of England** is likely to announce an increase to its bond-buying program next week. **Page 2**

■ **Pakistan says** an alleged member of the Hamburg cell linked to the 9/11 attacks may be helping militants in South Waziristan. **Page 4**

■ **Afghanistan plans** to boost the number of polling centers for the runoff, fueling concerns of a repeat of widespread fraud. **Page 14**

■ **K1 Group's founder,** Helmut Kiener, was arrested following allegations of fraud at his hedge fund. **Page 21**

■ **A French court decided** not to pursue an investigation into three African heads of state for money laundering, citing insufficient evidence.

EDITORIAL&OPINION

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A bad idea from across the pond.
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Breaking news at europe.WSJ.com

U.S. economy returns to growth

Third-quarter expansion of 3.5% suggests end to recession, but recovery is likely to slow

The U.S. economy expanded in the third quarter after shrinking for four consecutive quarters, likely marking an end to the worst recession since World War II. But the recovery is expected to be slow, as the economy continues to fight rising unemployment and a persistent credit crunch.

By ***Luca Di Leo, Jeff Bater*** *and* ***Conor Dougherty***

Gross domestic product rose by a higher-than-expected seasonally adjusted 3.5% annual rate in the three months ended Sept. 30, the Commerce Department said Thursday in its first estimate of third-quarter GDP. Economists surveyed by Dow Jones Newswires had forecast 3.2% GDP growth. GDP is the broad measure of economic activity in the U.S.

President Barack Obama said the data affirm "that this recession is abating and the steps we've taken have made a difference."

"This is obviously welcome news," Mr. Obama said in remarks prepared for delivery at the White House. "But I also know that we have a long way to go to fully restore our economy."

U.S. share prices rose Thursday as investors saw the bigger-than-expected expansion as a signal to return to riskier investments. (See article on page 20.)

The rise in GDP was the first since the second quarter of 2008. It served as an unofficial confirmation of the end of the longest and deepest recession since the Great Depression in the 1930s. The purveyor of the official word on recessions, the National Bureau of Economic Research, has declared the slump began in December 2007. The private, nonprofit research group has yet to announce an ending date.

The growth was driven by consumer spending, which rose by 3.4% in the third quarter, compared with a 0.9% drop in the April-to-June period. Consumer spending contributed 2.4 percentage points to GDP growth.

Economists said stimulus funds injected by the U.S. government, such as the "cash for clunkers" program that lifted car sales, helped boost consumer spending. But with some stimulus programs reaching their maximum effect in the third quarter and the unemployment rate still high, economists question whether the pace of growth can be sustained.

Price gauges showed the

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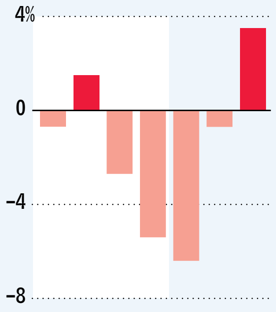
Expansion
U.S. Gross Domestic Product growth, quarterly data



Note: seasonally adjusted, at annual rate
Source: U.S. Commerce Department

Billionaire Oleg Deripaska attends an investment forum in Moscow on Sept. 30. He is a regular member of the delegation on former President Vladimir Putin's international trips.

U.S. let in barred Russian tycoon

One of Russia's most powerful tycoons—barred entry to the U.S. for years due to U.S. government concerns about alleged ties to organized crime—entered the country twice this year under secret arrangements made by the Federal Bureau of Investigation.

By ***Evan Perez*** *in Washington and* ***Gregory L. White*** *in Moscow*

Aluminum magnate Oleg Deripaska met with FBI agents in August and earlier this month as part of a continuing criminal probe, according to two administration officials. The focus of that probe couldn't be learned.

Mr. Deripaska used the opportunity of his recent U.S. visits to meet with top executives of U.S. investment banks Morgan Stanley and Goldman Sachs. The aluminum giant he controls, UC Rusal, is preparing for an initial public offering, a vital part of Mr. Deripaska's efforts to save his debt-burdened business.

The U.S. trips came at an opportune moment to help reassure bankers his visa difficulties may be easing. Mr. Deripaska's visa troubles are a potentially sensitive issue for investors, bankers say.

Mr. Deripaska also stopped in Detroit to meet with top executives at General Motors Corp. to discuss the sale of a stake in its Adam Opel AG unit to a Russian-backed consortium that includes Mr. Deripaska's AO GAZ auto maker, people familiar with the visit said.

The State Department, which rules on requests for U.S. visas, hasn't publicly said why it previously denied entry to Mr. Deripaska, and declined to comment on the recent visits.

Mr. Deripaska controls a Russian business empire that stretches from metals to finance to construction and which, by itself, accounts for just under 2% of Russia's GDP. He enjoys good relations with the Kremlin, which provided a $4.5 billion bailout loan—the biggest granted to any Russian company—through a state bank to Rusal a year ago as the financial crisis hit Russia hard.

He is a regular member of the delegation on former President Vladimir Putin's international trips, and the Kremlin lobbied hard in support of the GAZ-backed bid for Opel.

In the past, Russian officials including Mr. Putin repeatedly have raised the visa issue with their U.S. counterparts. Mr. Deripaska also hired top Washington lobbyists in 2003 and 2005, including former Republi-

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Repsol taps Gulf of Mexico in big oil find

MADRID—Spanish oil firm **Repsol YPF** SA has discovered a "fairly sizable" amount of crude oil in the Gulf of Mexico.

Repsol's chairman and chief executive, Antonio Brufau, said the company struck additional oil in two wells at the Shenzi field, which came onstream in June and produce 120,000 barrels a day.

With a 28% stake, Repsol is leading exploration at Shenzi, while **BHP Billiton** Ltd. is lead operator for production from the field, with a 44% stake. **Hess** Corp. holds a 28% stake.

Repsol didn't provide a reserve estimate for the finds.

Full story on page 29.

Inside

Haunt couture

A pilgrimage through Paris's and London's star cemeteries
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9962.58	+2.05
Nasdaq	2097.55	+1.84
DJ Stoxx 600	241.73	+1.85
FTSE 100	5137.72	+1.13
DAX	5587.45	+1.66
CAC 40	3714.02	+1.37
Euro	$1.4820	+0.39
Nymex crude	$79.87	+3.11

LEADING THE NEWS

U.K. is expected to boost bond purchases

Weak lending signals quantitative easing is likely to continue

By Natasha Brereton

The Bank of England's Monetary Policy Committee is more likely to boost its bond-buying program next week, after weak money supply and lending figures indicated it has yet to achieve a key goal.

The bond-buying program, launched in March, was intended to boost the supply of money and credit to households and companies, supporting spending and ensuring that the annual rate of inflation remained at the BOE's 2% target.

But according to figures released Thursday, the BOE's preferred measure of the money supply, M4 excluding the holdings of intermediate and other financial corporations, fell £14.6 billion ($23.9 billion) in September from August, a decline of 0.9%. That followed a 0.1% rise in August and a 0.4% gain in July.

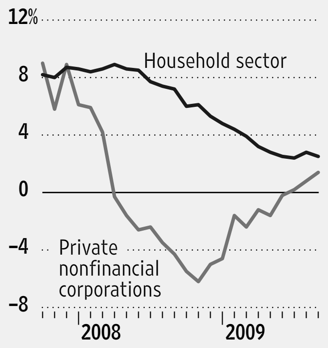
Coming hot on the heels of data showing the U.K. economy remained in recession for a sixth consecutive quarter in the period from July to September, the figures added to expectations that the MPC could increase its bond-buying program—also known as quantitative easing—when it concludes its two-day monthly meeting on Nov. 5.

"It is clear that money growth is still well below rates needed for a decent economic recovery," said Vicky Redwood, U.K. economist at Capital Economics. "More QE still looks likely next week."

A growing number of economists now expect the MPC to increase the bond-buying program to between £200 billion and £225 billion from £175 billion now. The program was already been increased twice from its initial £75 billion.

Still weak

Growth in bank lending to companies and households, in percent changes



Note: Monthly data, seasonally adjusted
Source: BOE

The drop in broad money supply in September represented a 1.7% three-month annualized fall and a 2.3% rise on the year. The Bank of England has previously indicated that an annual rate of broad money-supply growth of around 6% to 9% would be sufficient.

However, the MPC has recently sent some mixed messages about how it judges the success of quantitative easing, so it isn't certain that it will respond to the money-supply data by upping its bond purchases.

Having initially highlighted the money-supply data as a means of measuring the effectiveness of the policy, MPC members have recently claimed that the policy's main impact has been to make it easier for companies to issue bonds, providing them with an alternative to scarce bank loans.

Corporate-bond issuance has increased since the policy was launched. But most U.K. firms say they still can't access the bond markets, and indications are that they are finding credit hard to come by.

Also Thursday, the BOE released more detailed data that showed net consumer lending rose a weaker-than-expected £660 million in September, following an upwardly revised £911 million increase in August.

That overall increase disguised significant weaknesses. While mortgage borrowing stood at £922 million, consumers repaid £262 million in bank loans and other borrowings. It was the third straight month of repayment, and suggests that outside the housing market, borrowing is no longer a support to spending.

—Paul Hannon and Nicholas Winning contributed to this article.

Lloyds may avoid U.K. aid program through asset sales

By Alistair MacDonald And Sara Schaefer Muñoz

LONDON—**Lloyds Banking Group** PLC moved closer to its goal of escaping a government-backed asset-insurance plan, as people familiar with the matter said it has an agreement in principle with European Union regulators to divest assets as part of a multibillion-pound capital-raising plan.

Lloyds shares closed up 7.5% on the London Stock Exchange on Thursday as investors embraced the idea that Lloyds Chief Executive Eric Daniels is close to pulling off a tricky maneuver. Mr. Daniels is trying to convince the U.K. government that Lloyds is healthy enough to bow out of a government bailout program, while at the same time limiting divestitures that European regulators will demand from the bank for receiving state aid.

Lloyds indicated on Thursday that it is closing in on both goals. It confirmed it is seeking to raise billions of pounds in fresh capital as part of its effort to extricate itself from the bailout program it agreed to participate in last spring, when the banking sector was in crisis.

At the same time, Lloyds said it is in "advanced discussions" with EU regulators, and based on the talks to date, it is "confident that the final terms of the restructuring plan, including any required divestment of assets, will not have a material impact" on the bank.

That calmed fears that the EU would impose harsh conditions on Lloyds. Those fears spiked early this week after EU regulators required ING Groep NV, which also received billions in state funds, to spin off its insurance and investment-management businesses.

Indeed, people close to the matter on Thursday said regulators have reached an "agreement in principle" that would be less tough than the commission's ruling for ING. The bank is currently shopping its capital-raising plan, including the EU's unofficial decisions, to investors, these people say.

Lloyds didn't specify how much capital it planned to raise. As an indication that demand may be strong, the underwriters are now looking to raise as much as £13 billion ($21.29 billion) in the rights issue—in which existing investors subscribe to shares at discount—about a billion pounds more than previously expected. The bank will also raise as much as an additional £10 billion in a debt-to-equity conversion or contingent capital—hybrid capital that converts to equity if the bank gets into trouble. Such a move would allow Mr. Daniels to realize his goal of avoiding the government insurance plan Lloyds agreed to in March.

A risk of the rights issue, however, is that it could fail. That is why the Treasury is keen for the bank to test the market before it makes its decision.

The underwriters, which include Bank of America Merrill Lynch and UBS, plan to spend two to three days gauging the market's interest in a rights issue, a person familiar with the matter said. Assuming the government signs off on the issue, it could be launched in the first part of next week and as early as Monday.

The U.K. Treasury is still withholding a final decision on whether it will let Lloyds back away from the government plan. People close to the matter say Treasury officials believe a rights issue has the attraction of allowing it to share risk with shareholders and keep its ownership of the bank to a minimum, a person familiar with the matter said.

Under the rights issue, the U.K. government, which owns 43% of Lloyds, would have to invest around an additional £5 billion in Lloyds. Under the government program to insure Lloyds' toxic assets, the government would buy £15.5 billion of nonvoting "B" shares, increasing its share in the bank, and assume the risk of insuring £260 billion of assets.

A risk of the rights issue, however, is that it could fail. That is why the Treasury is keen for the bank to test the market before it makes its decision. The government is also waiting on the European Commission judgment on Lloyds' restructuring plan.

A person close to the matter declined to say which portions of the business Lloyds might be required to sell but said EU officials are looking at a portion of the retail business that could be sold to a small rival or new entrant that would give a "significant foothold" in the U.K. banking market. Among assets that could be divested are Cheltenham & Gloucester, a mortgage lender; the Lloyds TSB Scotland branches, and Scottish Widows, an insurance business.

—Dana Cimilluca and Charles Forelle contributed to this article.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Moody's warns Portugal and Greece

Lisbon's outlook swings to negative; Athens under review

By Christopher Emsden And Alkman Granitsas

ATHENS—Moody's Investor Services warned the Greek and Portuguese governments of possible future downgrades of their sovereign debt, citing hemorrhaging public finances.

Moody's placed Greece's A1 credit ratings on review for possible downgrade, and it also changed the outlook on Portugal's Aa2 rating to negative. Moody's said both countries had serious fiscal challenges.

Economists said Moody's actions were a reminder of the increasing differences in the credit quality among the 16 countries sharing the euro currency. Last week, Greece drew an unusual rebuke from the European Commission, which criticized the country for failing to meet its deficit targets and questioned the veracity of Greek budget statistics.

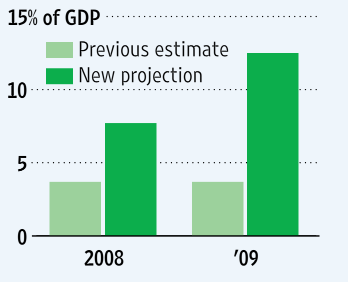
Greece now expects to run a budget deficit of 12.5% of gross domestic product this year, almost four times as large as the target it submitted to Brussels earlier in the year. It also revised upward its 2008 budget deficit, to 7.7% of GDP from an earlier estimate of 3.7%.

Reacting to Moody's decision, Greece's new finance minister, George Papaconstantinou, said the Greek central bank will head a new independent committee to examine the way public-finance statistics are compiled. Last week, he responded to a similar downgrade by saying he would make the state statistics agency independent.

"The goal of the independent committee is to submit a report before the end of the year on the state of public finances, problems with the way in which they are calculated and proposals for improving procedures," Mr. Papaconstantinou told journalists.

Deeper in the red

Analysts at Moody's questioned the Greek government's ability to manage budgets and warned of a possible downgrade of the country's debt.



Source: Greek government

Moody's also said "subdued global growth ... will lead to seriously adverse debt dynamics for Portugal," whose euro-zone membership meant it wouldn't suffer the kind of currency crisis that once would have required government action.

Portugal's finance ministry said that the government remains committed to economic reform and that its rising debt load is the result of the global economic downturn.

The news spooked investors in government bond markets Thursday. The yield spread between 10-year Greek government bonds and comparable German government bonds, or bunds, widened to 1.42 percentage points from 1.36 points on the news. The impact was milder on Portuguese yield spreads, which widened to 0.56 point from 0.54 point against German bunds, because a possible downgrade appeared less imminent.

Moves in yield spreads are a measure of changes in investors' risk appetite as well as their interest in an issuer's bonds. Yield spreads in the euro zone are usually compared with German bunds, considered the region's benchmark.

Moody's said it hoped to complete the review process promptly, and within three months in the case of Greece. It added that it might keep Greece on a negative outlook even if it decides upon a downgrade.

Standard & Poor's downgraded both Portugal and Greece in January, while Fitch downgraded Greece last week and revised its outlook on Portugal to negative in September.

The magnitude of the revisions suggests a "total collapse" of the Greek economy during the middle of 2009, which is not plausible, said ING senior economist Paolo Pizzoli. Still, the revisions "deliver yet another blow to Greece's credibility," he added.

Economists warn of a similar risk among countries carrying high debt loads and lacking productivity-driven growth that can reap the most benefit from a global recovery.

—Emese Bartha contributed to this article.

Government scheme props up Germany's job numbers

By Brian Blackstone

FRANKFURT—Germany's labor market once again defied expectations of rising joblessness and in October saw unemployment fall for the fourth straight month.

Adjusted for seasonal fluctuations, unemployment in Europe's biggest economy dropped by 26,000. The unemployment rate nudged lower to 8.1%.

Economists had expected a considerably worse result with a higher jobless rate of 8.3%. Still, they warn that unemployment is set to rise again in coming months even as the euro zone's largest economy recovers.

"I'm positively surprised at this point," said Timo Klein, economist at IHS Global Insight.

The resilience, in an economy that's on course to contract by around 5% this year, partly reflects the success so far of government subsidies for workers who are on short-hours shifts because their companies' output has fallen during the recession.

The German government gambled that companies would be loathe to shed experienced workers in response to the downturn, and that subsidizing semi-idle workers would be cheaper than paying them jobless benefits. So far, the gamble is paying off.

Other factors also help explain why German unemployment is up only about half a percentage point since late last year, when the global downturn deepened. In contrast, the U.S. unemployment rate has increased about three percentage points since then.

One factor is statistical: New classification methods are shaving thousands off the official jobless tally every month. Still, even absent that change, German unemployment still fell in October, analysts say.

Under the short-hours subsidy program, firms can scale back the working time of their employees and have the bulk of wages for the lost hours, including social insurance payments, paid by the government for up to 24 months, so workers see little if any change in their paychecks.

But for the short-hours scheme, known as Kurzarbeit in German, to work as a bridge to recovery, the recession has to be relatively brief; otherwise the government is simply spending a lot of money to delay layoffs that would have to happen eventually anyway.

"The end reality is, to keep the qualified workforce more or less stable, there must be the expectation that this downturn will not last so long as some experts suggested," said Volker Treier, chief economist at Germany's chamber of commerce and industry, or DIHK.

Germany's economic contraction was particularly severe at the start of 2009, with gross domestic product shrinking at a double digit annual rate in the first quarter. But it expanded slightly in the spring and it expected to have posted solid growth in the 3% range, at an annual rate, in the third quarter.

Germany's relatively benign employment picture contrasts other major economies, particularly the U.S., where companies in 2008 and into this year shed employment in anticipation of lower demand. Even as the U.S. grew 3.5% last quarter, at an annual rate, the economy continues to lose jobs, albeit at a slower rate than at the dowturn's peak.

So U.S. households took a major hit, but companies were also able to maintain healthy productivity, which economists say is good for incomes, asset values and living standards in the long run.

German companies, in contrast, prefer to hold on to workers rather than go through the expense process of firing, rehiring and retraining them. But maintaining high staff levels during the downturn results in lower productivity, which unless improved later could hamper Germany's ability to grow without inflation over the long run.

The question, economists said, is whether it's better to take your economic medicine quickly or spread it out in small doses. Mr. Klein of IHS Global Insight expects German unemployment to steadily rise and peak at 9.2% in early 2011. Some economists expect the number of unemployed to eventually top 4 million. It's a little over 3.2 million now.

The risk for Germany—and the euro zone more broadly—is that a consumer recession might occur in 2010 even after the region starts to recover. That could in turn dampen any lift from rising exports and inventory building, keeping German gross domestic product growth only in the 1% range next year, analysts say.

"We don't think Germany will fall back into recession, but private spending will be weaker" next year, said Alexander Koch, economist at UniCredit Group.

Separately, the European Commission reported a surprisingly sharp rise in consumer and business confidence. Its economic sentiment indicator rose to a 13-month high in October, further raising hopes for a recovery in the single currency zone.

LEADING THE NEWS

Clinton confronts Pakistani detractors

Meetings in Lahore illustrate resistance to U.S. ambitions

BY JAY SOLOMON

Reuters

U.S. Secretary of State Hillary Clinton is escorted by Pakistani Rangers in Lahore on Thursday, on a trip she said was aimed at 'turning the page' in relations. Students, businessmen and journalists greeted her warmly but voiced distrust of the U.S.

LAHORE, Pakistan—U.S. Secretary of State Hillary Clinton, visiting Pakistan's cultural heartland, came face-to-face with the challenges of winning local support for the U.S. campaign against Islamist militants along the Afghanistan border.

The chief U.S. diplomat was warmly greeted by students, journalists and businessmen during a one-day tour of the capital of Punjab province, renowned for its Mughal-era mosques and British-colonial architecture. Law students and corporate chieftains gushed at meeting the former first lady and Democratic presidential candidate.

But beneath the smiles and applause was a deep distrust among Pakistanis toward the U.S.'s actions in their region, a dynamic that has plagued Washington-Islamabad relations for years.

A stream of people grilled Mrs. Clinton on the merits of a new multi-billion-dollar U.S. aid bill for Pakistan that they claimed was tailored to constrain Islamabad's military and nuclear program. Lahore university students argued that the Pentagon's drone strikes against Taliban and al Qaeda militants in Pakistan's tribal regions were increasingly causing violence to spill out into their country's major cities and urban areas.

"The U.S. has betrayed Pakistan. That's a fact," a student leader told Mrs. Clinton at a forum hosted by the Government College of Lahore. "What is the Obama administration going to do differently?"

Mrs. Clinton shot back at some of her critics, arguing the Pakistan couldn't blame all its problems on Washington.

In a particularly blunt exchange, Mrs. Clinton told a gathering of newspaper editors that the U.S. didn't believe Pakistan's government had done all it could to hunt al Qaeda leaders such as Osama bin Laden and Ayman al Zawahiri, whom Washington believes are still hiding in the tribal areas bordering Afghanistan.

"Al Qaeda has had safe haven in Pakistan since 2002. ... I find it hard to believe that nobody in your government knows where they are and couldn't get them if they really wanted to," Mrs. Clinton said. "Maybe that's the case; maybe they're not gettable. I don't know."

Pakistani security forces shut down traffic in Lahore, a city of 10 million people, because of security concerns surrounding Mrs. Clinton's trip. Normally teeming streets were empty, with thousands of people standing behind military cordons to steal a glimpse of the secretary's motorcade.

Mrs. Clinton's three-day diplomatic mission to Pakistan, which began Wednesday, was aimed at "turning the page" in U.S.-Pakistan relations, she said.

The Obama administration views Islamabad as central to American efforts to stabilize Afghanistan, as Taliban fighters regularly use Pakistani soil to launch attacks on American forces across the border.

Mrs. Clinton this week praised a Pakistani military offensive against Taliban forces based in the tribal region of South Waziristan. The chief American diplomat met late Thursday with Pakistan's two most powerful military officers, Army chief Gen. Ashfaq Kayani and Islamabad's top spymaster, Gen. Ahmad Shuja Pasha, to discuss the campaign, according to U.S. officials.

Mrs. Clinton also stressed that she wanted to show Washington's support for Pakistani President Asif Ali Zardari, who last year became the first freely elected Pakistani leader in a decade.

Mrs. Clinton's trip, however, has been marred by the violence in the tribal regions. On Wednesday, a car bomb killed nearly 100 Pakistanis at a market in the city of Peshawar, an attack that appeared timed to Mrs. Clinton's arrival.

American diplomats, meanwhile, have been unable to quiet the public outrage in Pakistan concerning Washington's new $7.5 billion aid package for Islamabad. Mrs. Clinton appeared frustrated in discussing the U.S. assistance, noting that the Obama administration pressed for the money in an effort to underpin Pakistan's economy and civilian institutions.

Pakistani critics argued that the aid came with provisions that interfered in their country's sovereignty, specifically a requirement for the White House to certify Islamabad isn't engaged in supporting militant groups or nuclear proliferation.

"Clearly we didn't do a very good job of communicating ... what the bill is doing," Mrs. Clinton told the university students. "This is an important lesson for us."

Some pro-Western business executives voiced frustration with the Obama administration's attempts to revitalize Pakistan's economy. Businessmen gathered at Lahore's governor's mansion, where they thanked Mrs. Clinton for the new aid package and stressed that they would largely prefer for the U.S. to lower export quotas on textiles and other key Pakistani products.

U.S. legislation designed to promote exports from Pakistan's tribal areas has failed for nearly three years to get through Congress.

"We've been asking for market access for the last three or four years. To fight terrorism, we need jobs," Pakistani textile executive Mian Muhammad Mansha told Mrs. Clinton at the meeting. "This is the most important thing."

Mrs. Clinton was scheduled to meet Pakistani legislators and tribal leaders Friday before traveling to the Middle East to discuss peace efforts with Israeli Prime Minister Benjamin Netanyahu and Palestinian President Mahmoud Abbas.

U.S. President Barack Obama has placed a priority of forging an Arab-Israel peace agreement while in office. But efforts have stalled in recent months, as Israeli and Palestinian officials have bickered over the specific terms for negotiations aimed at creating an independent Palestinian state. U.S. officials said Mrs. Clinton would seek to persuade the two sides to return to direct negotiations in the coming months.

Pakistan says alleged 9/11 agent may be aiding militants

BY ZAHID HUSSAIN

Associated Press

Pakistani soldiers display seized photos, passports, ammunition and weapons during operations Thursday against Taliban militants in South Waziristan.

SHAWANGAI, Pakistan—An alleged member of the Hamburg, Germany, terror cell linked to the Sept. 11 attacks is believed to be among al Qaeda leaders helping the Taliban fight Pakistani forces in South Waziristan, Pakistani authorities said Thursday.

A German passport belonging to Said Bahaji, a close associate of Sept. 11 lead hijacker Mohammed Atta in the 2001 attacks, was among documents recovered this week by Pakistani troops from an abandoned militant compound in Shawangai.

The mountain village in South Waziristan was used as an al Qaeda and Taliban command base until as recently as this week, a military official said. Pakistani forces recovered other documents, including a Spanish passport, that indicated the possible presence of other European nationals in the area.

Pakistani forces captured Shawangai after days of fighting, in which some militants were killed and many others escaped. Army officials said they didn't know whether Mr. Bahaji was killed or fled—or whether he was ever in the South Waziristan region.

Mr. Bahaji, who was born in Germany in 1975 to a Moroccan father and a German mother, was a member of the Hamburg cell, a group of extremist young Muslims founded in the German city in the late 1990s. After the Sept. 11, 2001, attacks, police identified members of the Hamburg cell by tracing cellphone calls made by the hijackers before the attacks to a network of men who allegedly supported the attacks.

In a series of indictments, German prosecutors describe the Hamburg cell as a group of men in their 20s and early 30s who were allegedly eager to fight for Islam. Members joined al Qaeda in the late 1990s and, according to German court records, the group's leader, Mr. Atta, and several of his friends, traveled to Afghanistan in 1999 and 2000 for military training at camps run by al Qaeda.

Prosecutors say three members were recruited for the Sept. 11 attacks and assigned to take flying lessons and steer hijacked aircraft into buildings in the U.S. Mr. Atta and two other members died in the attacks. Prosecutors allege other members, including Mr. Bahaji, helped with preparations for the attacks, including laundering money and renting safe houses.

German police have been searching for Mr. Bahaji since September 2001. German prosecutors consider him to be one of the most important members of the Hamburg cell to survive the Sept. 11 attacks. The German investigation of the Hamburg cell, one of the broadest inquiries in German history, names Mr. Bahaji as the lead suspect.

Several days before the 2001 attacks, Mr. Bahaji flew to Pakistan from Germany, along with two other alleged members of the Hamburg cell. The passport shows that Mr. Bahaji arrived in Karachi from Istanbul on Sept. 4, 2001.There was no indication that he had left Pakistan since.

Over the years German police have monitored several phone calls between Mr. Bahaji in Pakistan and his wife in Berlin, but didn't secure the intelligence needed to apprehend him.

In Pakistan Thursday, officials said they had no new information about Mr. Bahaji beyond the passport, which was discovered after a fierce struggle for Shawangai.

"We had to battle hard to capture the village," said Lt. Colonel Inam Rashid, the commanding officer who led the final assault.

More than 30,000 Pakistani forces backed by F-16 fighter jets this month launched an offensive to clear al Qaeda and Taliban militants from their strongholds in the tribal region after a series of terrorist attacks shook the country in recent months.

Government troops have made significant advances, capturing some key militant areas including Kotkai, the hometown of Hakimullah Mehsud, the new leader of the Pakistan Taliban's largest faction. The military said they destroyed least 25 training camps in the area.

On Thursday, militants were still holding on to Kaniguram, a town about six kilometers from Shawangai.

—David Crawford in Berlin contributed to this article.

CORPORATE NEWS

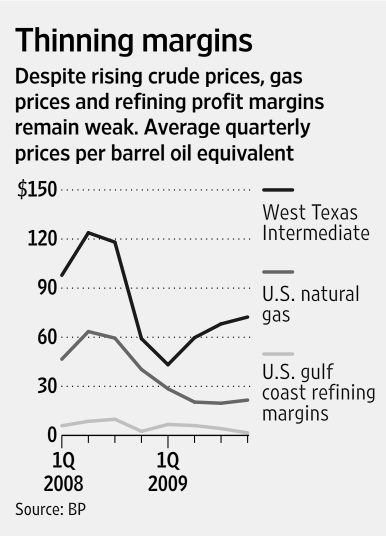
Big oil faces hurdles in return to growth

Companies still struggle with weak natural-gas prices, slender profit margins for refining

By James Herron

LONDON—This year's rebound in crude-oil prices means major oil companies' third-quarter earnings could mark the last in a long sequence of crushing year-to-year profit drops. However, big oil's path back to growth faces stiff headwinds from continued weakness in two key markets.

While average fourth-quarter crude-oil prices are up more than 25% from year-earlier levels, natural-gas prices and refining profit margins remain stubbornly unresponsive to expectations of economic recovery.




A Royal Dutch Shell employee walks across the Ormen Lange project, in Norway

Bloomberg News

Results from Royal Dutch Shell PLC, which reported a 62% year-to-year drop in third-quarter net profit Thursday, illustrate the challenge this poses to oil companies.

Despite a 14% rise in oil prices from the second to the third quarter, weak natural-gas prices meant Shell's total upstream earnings actually fell 26% over the period.

The Anglo-Dutch energy company said net profit for the three months to Sept. 30 was $3.25 billion, down from $8.45 billion a year earlier. Revenue fell to $75.01 billion from $131.57 billion.

"The environment for gas and liquefied natural-gas trading is relatively poor and has deteriorated versus the second quarter this year and its year-ago level," said Chief Financial Officer Simon Henry.

Shell also gave a weak outlook for the other main segment of its business, refining crude oil into products such as gasoline or diesel. "Refining margins are unlikely to recover in the short or medium term," Mr. Henry said.

According to BP PLC data, the amount of money a refiner on the U.S. Gulf Coast can make from refining a barrel of oil has averaged $1.67, just two-thirds of the level recorded in the fourth quarter of 2008.

Refined-product demand was so weak that Shell's total refining throughput was down 4% from the previous quarter and 8% from a year earlier, primarily because of voluntary output cuts, Mr. Henry said.

"This is the first time [throughput] has been below three million barrels a day in our entire period of analysis spanning nearly 20 years," said NCB Stockbrokers analyst Peter Hutton. "Shell has been badly hit by globally weak refining margins."

Other major oil companies face the same problems.

BP, which surprised the market with better-than-expected third-quarter earnings Tuesday, secured an average price for its oil in the third quarter that was 20% higher than in the second quarter. But its average natural-gas price fell slightly.

Italian oil company Eni SpA, which reported a 61% drop in third-quarter adjusted net profit Thursday, suffered from a steep decline in gas consumption within its home market due to weak industrial demand.

U.S. oil major ExxonMobil Corp. saw its third-quarter refining and marketing earnings fall 90% from a year earlier, far outstripping the company's overall earnings decline of 68%.

The prospects for a quick improvement look slim.

"We would need to see a combination of a robust economic recovery, as well as significant refinery closures and sustained run cuts, for margins to recover in earnest," something not likely to happen until 2012, analysts at Bernstein Research said in a report.

Demand for diesel, which is closely tied to economic activity in the U.S. and Europe, is key, the Bernstein analysts said. Yet even if that demand starts to grow, a large supply overhang and overcapacity remain.

"U.S. primary distillate stocks remain 10% above their prior peak in 1999 and OECD distillate inventories as of August were at their highest level in a decade," Bernstein said.

Economic growth in China and India is driving a recovery in Asian demand, "but that doesn't really help us because a very significant amount of refining capacity has come onstream in that area," Mr. Henry said, adding that margins in Asia were negative for part of the third quarter.

The outlook for natural gas is also weak. According to BP data, the average U.S. Henry Hub natural-gas price this quarter has been $3.72 per million British thermal units, a little over half its price just a year ago.

The U.K. gas price is just 44% of its year-ago level at $4.13 per million British thermal units.

In both countries, natural-gas supply remains ample for domestic demand reduced by anemic industrial output.

Stocks of natural gas in the U.S. are 13% above the five-year average and the U.K. continues to be a dumping ground for surplus cargoes of liquefied natural gas that are unwanted elsewhere.

In mainland Europe, demand is so weak that customers of Russia's OAO Gazprom have used less than the minimum amount of gas required under long-term contracts, which leaves an overhang of undelivered gas that is worth $2.5 billion.

There is one bright spot for the companies that are contracted to supply LNG into Europe or Asia, such as Shell, ExxonMobil or BG Group PLC.

LNG supplied into Asia or mainland Europe on long-term contracts is typically priced in relation to oil with a four-to-six-month lag, Mr. Henry said.

Exxon's earnings drop 68%

By Isabel Ordoñez

Exxon Mobil Corp. posted a 68% decline in third-quarter earnings, reduced its capital spending forecast for the year and said output will be unchanged from last year.

The results underscore the challenges major oil companies face to increase production amid declining reserves.

After enjoying a multiyear boom of high oil prices and skyrocketing earnings, big oil companies have seen their profits fall as oil prices collapsed from an all-time high more than $147 a barrel last year to less than $80 today. Illustrating the reversal, Exxon's $13.37 billion in earnings for the first nine months of this year fell shy of the $13.38 billion it recorded for just the third quarter of last year, the highest corporate quarterly profit ever recorded.


Bloomberg News

Exxon projected total production will be flat this year.

Production for the latest quarter rose 2.7% to 3.7 million barrels of oil equivalent a day. But Exxon on Thursday projected total production will be flat this year with last year's 3.9 million barrels a day.

The company said it continues to seek new reserves around the world and is considering the possibility of entering Iraq. "We are certainly interested in Iraq and continuing to dialogue with the Iraqis," David Rosenthal, vice president of investors relations, said in a conference call. He declined to elaborate.

The company also said it has acquired licenses covering about two million acres of coal-bed-methane resources in Germany, a move that underscores the increasing interest of the oil giant in unconventional natural-gas resources in Europe. Exxon recently acquired more than one million shale-gas acres in Poland and said initial exploratory work would start next year.

"There is an attractive gas market in Europe," Mr. Rosenthal said. Demand for gas produced in Europe is expected to grow vigorously as countries intensify their efforts to reduce their dependence on Russia as a supplier.

Exxon forecast capital spending this year will be on par with the $26 billion spent in last year. In March, the Irving, Texas, company forecast spending $29 billion this year.

Exxon, the world's largest publicly traded oil company, reported profit of $4.73 billion, or 98 cents a share, down from $14.83 billion, or $2.85 a share, a year earlier.

Revenue decreased 40% to $82.26 billion

Exxon said it spent $4 billion buying back stock, reducing shares outstanding by 1.2%, and paid out $2 billion in dividends.

Capital and exploration spending fell 5% to $6.5 billion.

Iliad is the sole bidder for France mobile license

By Max Colchester

PARIS—France's telecommunications regulator said domestic Internet provider **Iliad** SA is the sole bidder for the country's fourth mobile license, a move that could lead to a shake-up of the status quo in Europe's third-largest mobile-phone market.

If, as expected, Iliad goes on to win the license, the company has pledged to slash prices, raising the prospect of a price war as telecom operators tussle over the country's €22.7 billion ($33.4 billion) mobile-phone market. A decision is expected by France's telecommunications regulator, Arcep, by year-end.

"If we get the license, we intend to make the market more competitive," said Iliad Chief Financial Officer Thomas Reynaud.

Iliad, which is bidding through its subsidiary Free Mobile, has grown over the past 10 years to be France's second-largest broadband Internet provider. The company achieved this by offering a "triple play" package of Internet, television and telephone at a fixed price of €30 a month. The company's arrival in the market created more competition and resulted in France having some of the cheapest and fastest Internet connections in the world. Iliad's founder, billionaire entrepreneur Xavier Niel, is now hoping to replicate this success in the mobile market.

Analysts say there is room for a fourth mobile operator in France. "France is unusual in that most major European countries have at least four mobile operators," said Stuart Reid, a telecom expert at Fitch Ratings.

The move is a gamble for the Paris-based company. Several other potential bidders—including cable company Numericable, Virgin Mobile France, and Egypt's Orascom Telecom Holdings SAE—have said over recent months that they had decided not to bid because of what they considered future potential problems.

Iliad has grown over the past 10 years to be France's second-largest broadband Internet provider.

That includes the heavy investment needed to build out a network and the eventual struggle to lure customers away from existing operators such as **France Telecom** SA's Orange, **Vivendi** SA's SFR and **Bouygues** SA's Bouygues Telecom.

Volkswagen's profit tumbles 86%

Most brands' sales fell in nine months amid auto slump

BY CHRISTOPH RAUWALD

FRANKFURT—**Volkswagen** AG reported an 86% drop in third-quarter profit, fueled by declining sales across nearly all of its auto brands.

Net income at Europe's largest car maker fell to €172 million ($255 million), or 43 cents a share, in the quarter, from €1.2 billion, or €3.02 a share, a year earlier. Sales slumped 10% to €26 billion from €28.9 billion.

Some of the sharpest declines have been at Volkswagen's Spanish SEAT and Czech Skoda brands. SEAT saw a 17% drop in sales during the year's first nine months, while Skoda's fell 19%. Sales of WV-brand cars fell 15% in the nine-month period, helping trigger an 82% drop in the brand's operating profit to €335 million.

VW's chief executive, Martin Winterkorn, reiterated that he expects the car maker to continue to expand its global market share and outperform rivals. But he cautioned that VW will be unable to escape what remains the industry's severest downturn in decades.

"Volkswagen Group is holding its own extremely well despite the adverse conditions," Mr. Winterkorn said in a statement. "At the same time, the trend in the automotive industry means that there is no reason for premature optimism.."

VW reiterated that revenue and sales this year are expected to come in lower than in 2008 but that it still expects to post a full-year profit.

Associated Press

Workers fit components into a VW car body at a plant in Emden, Germany.

A hard sell

Revenue fell for all of Volkswagen's main brands in the first nine months of the year. In billions of euros, percentage change from a year earlier

	Revenue, in billions of euros	Pct. change from a year earlier
Core VW brand	€47.47	–15%
Audi	21.69	–16
Skoda	5.17	–19
SEAT	3.36	–17
Bentley	0.38	–59

Source: the company

VW has steered through the industry gloom more successfully than most rivals, thanks mainly to its large presence in growing markets like China and Brazil and relatively small exposure to the troubled U.S. market.

In addition, VW was one of the biggest beneficiaries of state-backed scrapping incentives, particularly on its home turf in Germany. But sales in Europe and the U.S. are expected to fall sharply now that scrappage programs in many markets including the U.S. and Germany, have expired.

Net liquidity in Volkswagen's automotive division was €13.4 billion at the end of the third quarter, up €5.4 billion from the end of 2008.

The company's Audi AG premium brand continued to be the biggest contributor to earnings in the first nine months of the year, with operating profit of €1.17 billion, compared with €2.06 billion in the same period in 2008.

Meanwhile, France's **Renault** SA said its third-quarter revenue fell 11% to €8.10 billion from €9.14 billion a year earlier despite a 0.8% rise in its global sales. Renault, France's second-largest car company after PSA Peugeot-Citroen SA , reaffirmed its full-year objectives of achieving positive cash flow and increasing market share in Europe.

MAN's profit sinks in weak truck market

BY CHRISTOPH RAUWALD

FRANKFURT—German truck maker and engineering company **MAN** SE said the steep downturn in the truck market all but wiped out any third-quarter earnings, but added that commercial-vehicle sales are stabilizing at a low level.

"The cost-cutting measures we initiated at an early stage are bearing fruit and, together with the strong order backlogs at diesel engines and turbo machinery, are helping us cope with the lean period," the Munich-based company said.

MAN executives recently indicated the company was targeting a full-year profit, and Chief Executive Hakan Samuelsson on Thursday told reporters that business in the fourth quarter is likely to be level with the three previous quarters. In 2010, sales and earnings are expected to be roughly flat compared with 2009, Mr. Samuelsson said.

MAN forecast industrial production to "recover slowly over a period of several years." It expects the recession to hurt the diesel-engines and turbo-machinery business areas in coming quarters but said "target returns should be achieved due to the high order backlog."

In the third quarter, net profit was €4 million ($6 million), down from €298 million a year earlier, as revenue fell 14% to €3.1 billion from €3.61 billion. Operating profit dropped to €134 million from €422 million a year earlier. While net profit missed analyst expectations, operating profit and revenue came in higher than anticipated.

"The main driver of this positive surprise was the newly acquired MAN Latin America division, which achieved an operating profit of €42 million versus the consensus expectation of €29 million," said Tim Schuldt, an analyst for Equinet.

Because of the market trend in South America, MAN Latin America will continue to be a stable earnings driver, MAN said.

Order intake, an important yardstick for future business, was down 13% from a year earlier at €2.7 billion, but up compared to the first two quarters, thanks to the company's diesel-engines business, where orders rose 5% on the year. However, orders for commercial vehicles were at the previous quarters' low level and MAN expects them to remain at that level.

The company said its order intake after nine months totals €7.2 billion, off 40% from a year earlier.

MAN has navigated the industry gloom better than most of its rivals and avoided large-scale lay-offs thanks to a solid order backlog and a more diversified portfolio, which includes turbo machines and large diesel engines as well as commercial vehicles. Meanwhile, there are signs that the battered truck industry is slowly gaining traction. Last week, AB Volvo reported a fourth straight quarterly loss, but said demand for trucks appears to be firming up. And Monday, Scania AB said the downturn in Western European demand has leveled off.

—Hilde Arends contributed to this article.

Tire maker Continental reports $1.53 billion loss

BY CHRISTOPH RAUWALD

FRANKFURT—**Continental** AG swung to a third-quarter loss, largely on a €876 million impairment charge related to the acquisition of **Siemens** AG's VDO auto-electronics unit.

The company offered an optimistic outlook, however.

"We have tackled weighty risks to our bottom line," Continental Chief Executive Elmar Degenhart said in a prepared statement. He added that the company saw an improvement in the third quarter on an operating level, thanks to cost-cutting measures and "a slight recovery in the markets."

The German auto-parts and tire maker said it would likely book further restructuring charges resulting from its wide-ranging initiative to scale back capacity, but nevertheless expects "a significant year-on-year improvement in sales and [earnings before interest and tax] in the final quarter."

Investors welcomed the upbeat remarks, and Continental shares rose 14% to €39.38 ($57.95) in Frankfurt.

Continental posted a quarterly net loss of a €1.04 billion ($1.53 billion), compared with a year-earlier net profit of €2.4 million.

Earnings before interest and tax also fell into the red, reaching a €912 million loss compared with a year-earlier profit of €163 million. The company's closely watched adjusted Ebit rose to €413 million from €319 million.

Revenue skidded to €5.34 billion from €5.89 billion a year earlier.

Mr. Degenhart said the improved operating results along with the impairment charge to clean up financial risks bodes well for "refinancing our indebtedness and...improving our capital structures, both of which endeavors we intend to conclude by the end of the first quarter of 2010 at the very latest."

Continental's net debt stood at €9.46 billion at the end of the third quarter, €1.02 billion lower than at the end of last year. Because of "increasing capital expenditures in the fourth quarter and the seasonally atypical pattern in working capital requirements of late," the debt level could go up again, the Hannover-based company cautioned. It said it still expects to be able to stick to its covenants in the fourth quarter.

Continental and its dominant shareholder, Schaeffler Group, are burdened by combined debt of about €20 billion after Schaeffler built its stake in Continental, and Continental acquired VDO.

Both companies were hit hard by the sharp contraction in demand for cars and trucks as manufacturers slashed production amid the economic downturn.

Continental plans to carry out a capital increase of as much as €1.5 billion to gain financial leeway, and to complete refinancing talks over a tranche valued at €3.5 billion—which is due in August of next year—by the end of the first quarter.

Continental's liquidity reserves stood at €3.29 billion at the end of the third quarter.

Nissan aims to slash cost of electric cars

BY NORIHIKO SHIROUZU

BEIJING—**Nissan Motor** Co. Chief Executive Carlos Ghosn said the Japanese auto maker aims to overcome the high cost of making advanced batteries and make its all-electric cars price-competitive even without government subsidies.

Mr. Ghosn, speaking to reporters in the Chinese capital, gave a time frame of about three years for the cost-cutting effort, though he said the price of oil would play a large role in determining the effort's success.

"How long do we need government incentives going to the consumer?" Mr. Ghosn said. "We think [such incentives] are necessary for a period of time we estimate to be three years."

The executive said Nissan believes demand for all-electric battery cars is likely to keep increasing, and that the resulting economies of scale in producing batteries will allow Nissan and other companies to significantly slash costs involved in making electric cars. "Scale is absolutely important," he said.

Technological improvements are also expected to help reduce the cost of producing lithium-ion batteries, high-power motors and other new technologies needed to build electric cars.

Nissan plans to make a big global push for its line of battery cars, starting in the second half of next year with the Leaf, a hatchback it plans to make available to corporate fleet customers in the U.S., Europe and Japan. It is staking its future on all-electric battery cars even as its rivals express skepticism over that technology, at least over the short to medium term.

Some competitors have chosen to invest instead in plug-in electric hybrid cars.

In China, Nissan said it plans to test-market the Leaf in 2011 by making it available to government agencies and other fleet customers in the city of Wuhan.

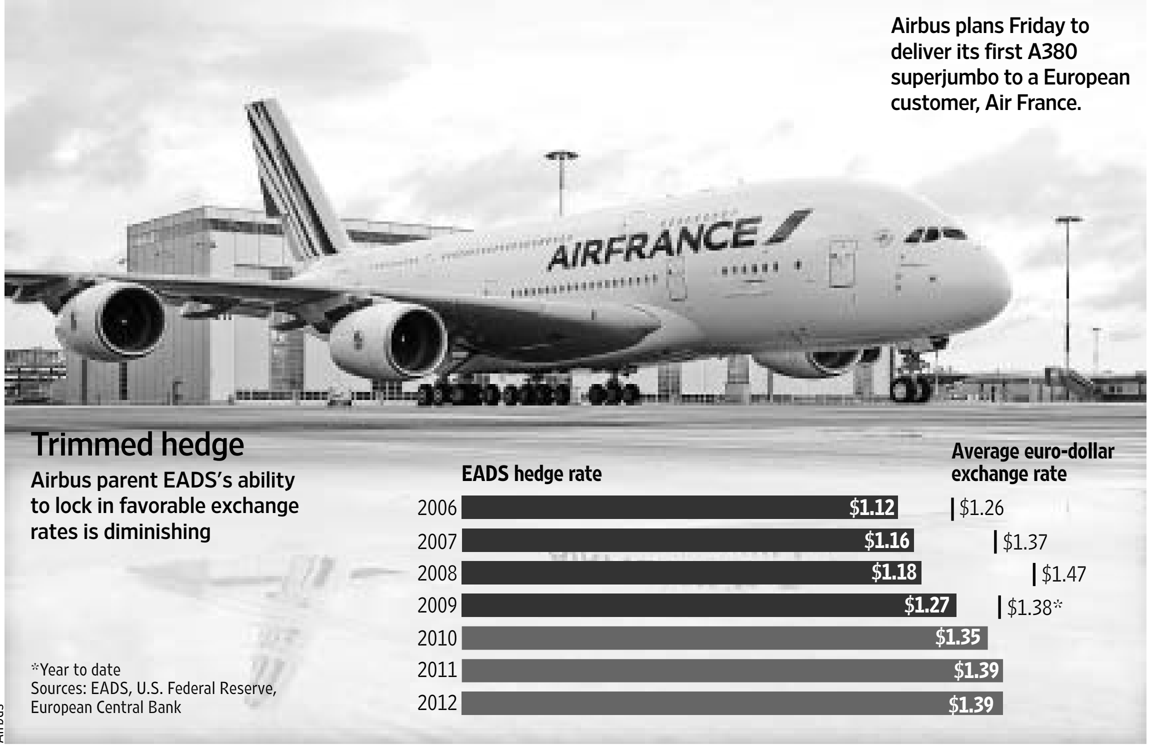
Initially, Nissan plans to make the Leaf price-competitive with comparable gas-fueled compact cars by relying on government incentives for private purchases and separating the car's battery from its purchase price. Nissan executives have said the company plans to lease the battery to Leaf buyers and charge them a monthly payment comparable to the monthly cost of gasoline for a gas-fueled compact car.

One factor manufacturers of all-electric cars can't control, and which is likely to have a profound impact on demand for electric vehicles, is the price of gasoline, Mr. Ghosn said. However, he said he believes gasoline prices will remain high in coming years and keep pushing up demand for cars powered by alternative fuel sources.

"The higher the price of oil, the faster" it will be to overcome the high cost of building electric cars because that would spur demand, Mr. Ghosn said. Mr. Ghosn expects electric vehicles to account for 10% of overall global vehicles sales by 2020.

Mr. Ghosn said Nissan is planning to put in global capacity to produce 500,000 battery packs a year in the medium term. Many of those batteries are going to be used to produce electric cars by Nissan and its alliance partner Renault SA.

CORPORATE NEWS



Euro's strength hurts Airbus

Common currency cuts into revenue and increases costs

By Daniel Michaels

Airbus's first delivery of an A380 super-jumbo jetliner to Air France on Friday, which both companies are likely to tout as a proud moment for European industry, also drives home a more troublesome message: The pain being inflicted on euro-zone producers by Europe's common currency.

Both Airbus, a unit of Franco-German **European Aeronautic Defence & Space** Co., and Franco-Dutch **Air France-KLM** SA operate in euros. Their transaction, however, was priced in U.S. dollars, the de facto currency of the global aerospace industry.

Since 2001, when Air France agreed to buy 10 of the world's biggest passenger jets, the euro has climbed by more than 60% against the dollar. That means Airbus, which translates its finances into euros, is pocketing significantly less revenue per plane than it expected. And since Airbus books most costs in euros, the currency swings go straight to its bottom line.

"This situation is critical for a company like EADS, which has costs in euros and sales in dollars," EADS Chief Executive Louis Gallois recently told a French parliamentary committee. EADS estimates that a 10-cent drop in the dollar against the euro wipes €1 billion ($1.47 billion) off earnings.

Air France's new A380 is particularly significant for Airbus, because it is the first delivered to a euro-zone customer. The previous 19 super-jumbos went to Singapore Airlines, Dubai's Emirates Airline and Australia's Qantas Airways Ltd. and involved multiple currencies.

Airbus's U.S. rival, **Boeing** Co., which sells and operates in dollars, faces almost none of this margin squeeze or currency risk. Air France also suffers less than Airbus because much of its revenue is in euros, while expenses, such as fuel and planes, are priced in dollars.

The euro's strength has prompted Airbus and other European suppliers to move beyond the Continent. Air France's A380 is more than 50% American, based on the value of its components, Airbus says. That includes four U.S.-made engines from a joint venture of General Electric Co. and the Pratt & Whitney unit of United Technologies Corp. The new long-range A350 model Airbus is developing will be its first to source major structural elements in the U.S., from Spirit AeroSystems Inc. of Wichita, Kan.

Airbus isn't the only European company looking abroad. French aerospace group Safran SA has nearly doubled its staff outside the euro zone since 2002, to 14,000 people, as it has expanded operations in the U.S., Mexico and Morocco. Company officials say this can help them tap new labor pools, cut costs and serve customers more quickly.

Even when Airbus buys from European suppliers, it is increasingly copying Boeing by requiring contractors to price components in dollars. That cuts Airbus's currency risk but squeezes smaller aerospace companies.

"The major challenge is more in Europe's supply chain, where companies have to face global competition," said François Gayet, secretary-general of the AeroSpace & Defence Industries Association of Europe. Safran, Airbus and other European aerospace companies have expanded overseas without cutting jobs at home in recent years because the industry has been booming. But Mr. Gayet notes that while this shift helps individual companies, Europe's future competiveness could suffer if it loses its current global edge in highly skilled labor.

The best solution, Mr. Gayet says, is to close the gap between the euro and dollar. Mr. Gallois at EADS has lobbied European Central Bank President Jean-Claude Trichet on the point for more than a year, according to people familiar with the talks. The euro hit an all-time high above $1.60 in July 2008, then plunged to $1.27 in February but recently rebounded to near $1.50. EADS covers some of Airbus's exposure with currency hedges and options, which secure future rates.

—David Pearson contributed to this article.

Luxottica Net Drops 21%

By Jennifer Clark

MILAN—Eyewear maker **Luxottica** SpA on Thursday reported a 21% fall in third-quarter net profit, though it said markets in "several countries have shown encouraging signs of returning to growth."

Luxottica, which makes eyewear for fashion houses such as Prada and Chanel and is the world's top eyewear maker by sales, said net profit fell to €83.1 million ($122.3 million) in the quarter ended Sept. 30 from €104.6 million a year earlier. Sales rose 0.9% to €1.22 billion.

"We believe that the worst is behind us," Chief Executive Officer Andrea Guerra said in a statement.

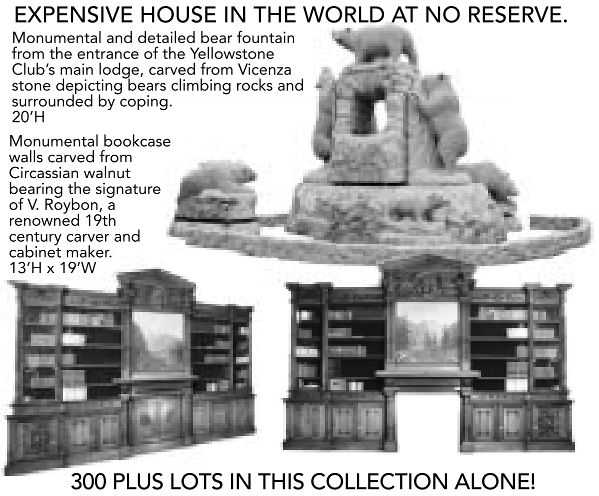
Luxottica, which also owns the LensCrafters retail chain, didn't provide an outlook for the fourth quarter or 2010, though it said it is optimistic about the future, and that it is "working to make sure that 2010 is again a normal year."

Overall, the European market improved for the second quarter in a row, and the third quarter saw "stabilization in International markets."

The company said its free cash flow was €207 million, while its debt declined to €2.41 billion as of Sept. 30 from €2.62 billion as of June 30.

Claudia D'Arpizio, an analyst at Bain, has forecast an 8% drop in the overall luxury-goods market this year, with a return to 1% growth next year. The U.S., which accounts for roughly one-third of luxury-goods sales, remains the worst-hit market. Bain sees U.S. luxury-goods sales dropping 16% this year.

The Mart

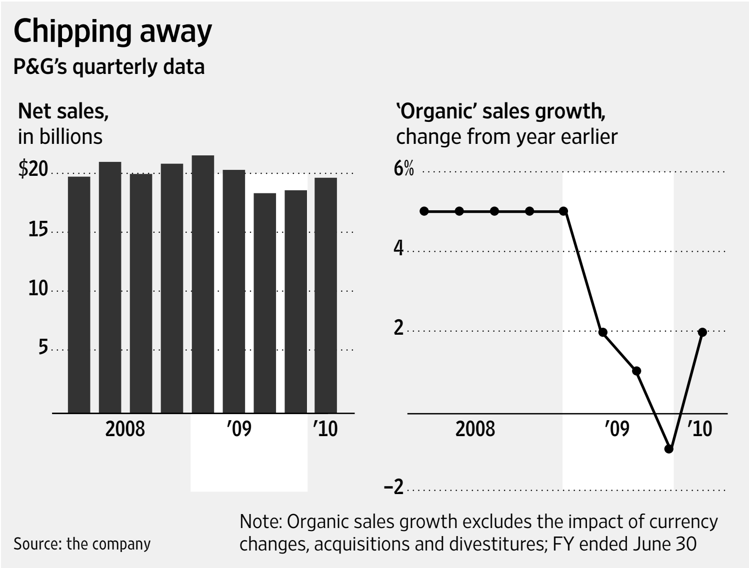


CORPORATE NEWS

P&G CEO may boot some brands

Acquisitions eyed; profit slipped 1.2% in latest quarter

By Jeffrey McCracken
And Ellen Byron



Bloomberg News

Procter & Gamble Co.'s new chief is ready to deal.

Facing mounting pressure to boost sliding sales and recalibrate his company, P&G Chief Executive Robert McDonald is stepping up the hunt for candidates to buy or sell, people close to the company said.

Since becoming CEO in July, Mr. McDonald has been trying to shake up P&G's slow, process-heavy culture. He has increased scrutiny of P&G brands including Braun small appliances, Iams pet food, Duracell batteries and Pringles potato snacks. While those businesses have long been considered extraneous to P&G's focus on beauty, health and nonfood household staples, Mr. McDonald now is presenting an ultimatum: The leaders of those businesses must prove their brands' prospects or face a sale.

The division heads have been "pushed to perform better and make the case for more investment," according to one of the people familiar with the situation, who said the implication was that those divisions could be divested "if they don't improve results soon."

Meanwhile, P&G has looked at the consumer-products portfolio of **Schering-Plough**, which is merging with **Merck** & Co., as well as that of Wyeth, which was just acquired by **Pfizer** Inc. Another possibility: Beauty-products maker **Alberto-Culver** Co. It's unclear, however, whether those companies would choose to sell.

P&G is getting closer to a deal to acquire **Sara Lee** Corp.'s international household-products unit, particularly its Ambi Pur air fresheners, which are popular in Europe, people familiar with the matter said.

Pfizer, Alberto-Culver and Sara Lee declined to comment.

A P&G spokesman said, "We will continue to closely monitor our brand portfolio."

P&G Thursday reported that its earnings fell 1.2% for its fiscal first quarter, but it raised projections for the year, a sign that efforts to boost sales may be starting to pay off. P&G in September said it was cutting prices and increasing promotions across nearly 10% of its household brands in a bid to increase volume sales and its market share.

Procter & Gamble posted earnings of $3.31 billion, or $1.06 a share, for the quarter ended Sept. 30, down from $3.35 billion, or $1.03 a share, a year earlier. The company had projected earning 95 cents to $1 a share. Per-share results rose as the number of shares outstanding fell. Earnings from continuing operations edged up to 97 cents a share from 96 cents.

Revenue declined 6% to $19.81 billion. P&G's closely watched "organic" sales growth, which excludes the effect of divestitures, acquisitions and exchange rates, rose 2%. Gross margins widened to 52.6% from 49.7% on price increases and lower costs.

For fiscal 2010, P&G increased its expectations for organic sales growth by one percentage point to a range of 2% to 4%.

Penny-pinching shoppers increasingly have forgone P&G's premium-priced staples, which can cost more than twice as much as competing brands, especially retailers' private-label goods. Many of P&G's high-end brands, including Tide detergent, Downy fabric softener and Dawn dish soap, have lost market share, pulling down P&G's overall sales and profits.

Acquiring faster-growing businesses, especially for its household-cleaning and beauty divisions, would allow P&G to buy its way back to sales gains, people close to the company say.

Some analysts insist that improving P&G's mega brands is the only way to turn around overall results. The company has 23 brands that each garner more than $1 billion in annual sales. They account for 69% of P&G's total sales and about 75% of profits, according to estimates by Deutsche Bank analyst Bill Schmitz.

Last month, Mr. McDonald assured investors that the company was "in touch with reality," and detailed for investors his plans to reignite growth, including price cuts, overseas expansion and creating more low-cost products.

Instead of spending several months evaluating where to make changes, as would be the norm at P&G, Mr. McDonald aims to "get more aggressive and do deals that will enhance what the company has," said one person familiar with the matter.

A more aggressive deal-making stance from P&G could shake up the entire consumer-products segment. With consumers pulling back on spending, a growing number of these companies are contemplating mergers, say consumer-product bankers.

Duracell—which P&G acquired when it bought Gillette in 2005—has been considered a questionable fit in P&G's cupboard because of its exposure to cheap private-label batteries and fluctuating commodity costs.

P&G has shopped Duracell to potential buyers, but so far no deal has emerged, according to a person close to the matter. Duracell will post about $2.5 billion in sales for the fiscal year ending June 30, according to Sanford Bernstein analyst Ali Dibadj.

Iams, with about $1.8 billion in sales according to Mr. Dibadj, has struggled to improve its margins amid fluctuating commodity costs. As one of the most expensive brands in the pet-food aisle, Iams has been a tougher sell in the recession and its market share has slipped.

Braun, with annual sales estimated at $1.3 billion, is also deemed outside of P&G's core businesses. Like Duracell, the brand came along with the acquisition of Gillette.

P&G executives have been examining Braun's technologies to see if they can be applied to other products, such as facial cleansers or depilatories.

AstraZeneca settles U.S. Seroquel probe

By Jeanne Whalen
And Jason Douglas

LONDON—**AstraZeneca** PLC got a boost from pandemic-flu-vaccine sales in the third quarter, and said it has reached an agreement "in principle" to settle a U.S. investigation into the company's marketing of schizophrenia drug Seroquel for $520 million.

The U.S. Attorney's Office in Philadelphia has been leading an investigation into AstraZeneca's marketing of Seroquel, including allegations that the company promoted the drug for uses for which it isn't approved by the Food and Drug Administration, the company said Thursday.

The investigation has also scrutinized "selected physicians who participated in clinical trials involving Seroquel," the company said, adding that the investigations are the subject of two sealed whistleblower lawsuits filed under the False Claims Act.

A spokeswoman for the U.S. Attorney's Office declined to comment.

AstraZeneca said it reached the "agreement in principle" in September to resolve the investigations for $520 million, "subject to the negotiation and finalization of appropriate implementing agreements, including civil settlement agreements and a corporate integrity agreement."

Because of this, the company said it has increased its legal provisions to $538 million for the first nine months of the year.

In a conference call with reporters, AstraZeneca Chief Financial Officer Simon Lowth declined to comment further on the investigations, or to say whether the company was admitting any wrongdoing as part of the settlement.

A number of drug companies have reached large settlements in recent months with U.S. investigators probing marketing practices.

Pfizer Inc. recently reached a $2.3 billion settlement over its promotion of various drugs, while **Eli Lilly** & Co. earlier reached a $1.4 billion settlement over its marketing of the schizophrenia drug Zyprexa, which is similar to AstraZeneca's Seroquel.

AstraZeneca said net profit rose 22% in the third quarter to $2.12 billion from $1.73 billion a year earlier, while revenue increased 5.4% to $8.2 billion from $7.78 billion.

The company, which started delivering H1N1 vaccine to the U.S. in September, booked $152 million of swine-flu vaccine sales in the quarter, and said it was on track to deliver all 40 million doses the U.S. government has ordered by early next year.

The vaccine is administered through a nasal spray.

Revenue was also boosted by hypertension drug Toprol XL, which has experienced a revival after generic competitors withdrew from the market.

The drug's sales doubled to $414 million.

While other vaccine makers struggle with production problems that have led to delays in H1N1 vaccine delivery, AstraZeneca has experienced few hitches, because it uses a different production process that has proved more successful.

The company on Thursday reiterated that it has the capacity to make more doses, but not as a nasal spray, because it has limited supplies of sprayers.

AstraZeneca said it is still talking to the U.S. Food and Drug Administration about other ways to deliver the vaccine.

Mr. Lowth said the company has the capacity to make as many as 200 million doses—but 40 million is the upper limit as a nasal spray.

He said the company is talking to the U.S. Food and Drug Administration about getting its agreement to deliver the vaccine some other way.

The company earlier said it was exploring the possibility of using a dropper.

—Peter Loftus in Philadelphia contributed to this article.

GLOBAL BUSINESS BRIEFS

Alstom SA

First-half net rises 6.6%; pickup in orders is expected

French power-station-equipment and train maker Alstom SA said Thursday that its fiscal first-half net profit increased 6.6%, helped by cost cuts, and added that it expects orders to pick up in the second half. Chief Executive Patrick Kron said he believes the first half of Alstom's fiscal year, the six months ended Sept. 30, will prove to have been a low point for overall orders. Despite the falling orders, Alstom's net profit rose to €562 million ($827.1 million) from €527 million a year earlier, as it worked through a large backlog of orders and trimmed expenses. Orders received in the fiscal first half fell 54% to €7.13 billion from €15.4 billion a year earlier.

France Télécom SA

France Télécom SA said it doesn't expect revenue to improve in the fourth quarter as economic and regulatory conditions remain difficult, after the company posted an 8% fall in third-quarter operating earnings because of lower revenue. Chief Financial Officer Gervais Pellissier said the company will continue to implement cost-saving plans. Earnings before interest, taxes, depreciation and amortization, the company's preferred measure of profitability, dropped to €4.56 billion ($6.71 billion) in the three months ended Sept. 30, from €4.95 billion a year earlier, as the economic crisis and regulatory pressures weighed on revenue. Third-quarter revenue declined 6.4% to €12.69 billion.

Motorola Inc.

Motorola Inc. swung to a third-quarter profit, as cost cuts offset a 28% decline in revenue, ahead of the debut of two phones aimed at reversing the handset maker's prolonged sales slump. The Schaumburg, Ill., company recently unveiled the Cliq for T-Mobile USA and the Droid for Verizon Wireless. Neither device, however, was available in the third quarter. The company shipped 13.6 million phones in the third quarter, compared with 14.8 million in the second quarter. Its global market share fell to 4.7% in the period. For the quarter, Motorola posted a profit of $12 million, or a penny a share, versus a year-earlier loss of $397 million, or 18 cents a share, based largely on an aggressive series of cost cuts. Revenue declined to $5.45 billion.

National Express Group PLC

National Express Group PLC of Britain said it has abandoned merger talks with rival bus and rail company Stagecoach Group PLC so it can focus on an equity fund raising by year end to help reduce its debt. The decision comes less than two weeks after a consortium led by CVC Capital Partners decided against making a binding £765 million ($1.25 billion) offer for National Express. Shares of National Express fell 12% to 321 pence. National Express said it had "concluded it is unlikely that a combination with Stagecoach could be successfully executed in 2009, even if appropriate terms could be agreed." Stagecoach said it was disappointed by National Express's decision, adding that a deal could have been financed within the appropriate time frame.

ECONOMY & POLITICS

Iran seeks to switch deal on reprocessing uranium

Request to the IAEA appears to represent big setback for talks

Iran asked on Thursday for changes to an International Atomic Energy Agency proposal to ship nuclear fuel out of the country for reprocessing abroad.

*By **Chip Cummins, Jay Solomon** and **David Crawford***

The request represents a significant setback in attempts by the international community to negotiate with Iran over its nuclear ambitions. Just last week, negotiators from the U.S., France and Russia left the table with Iranian counterparts in Vienna optimistic that they had hammered out a deal acceptable to all parties.

Iran's response also raises a fresh challenge for U.S. President Barack Obama, who has made engagement with Tehran a major plank of his foreign policy. U.S. and European officials have said they won't extend negotiations indefinitely, suggesting a year-end deadline to determine good faith on the part of Tehran. Pursuing further compromise on the deal may look like weakness. But Washington may have little leverage to do much else.

The Obama administration has threatened tough new sanctions if talks fail, but United Nations Security Council members China and Russia remain opposed. Washington and its allies are exploring sanctions outside the U.N. framework, but it is unclear how effective such measures would be.

U.S. officials Thursday said they were evaluating Tehran's response. "We need further clarification. And I think it's also fair to say that we need to have a formal response from Iran," said U.S. State Department spokesman Ian Kelly. "At this point, we've been given some details of it, but we're still talking to the Iranians about it."

Privately, senior U.S. officials working on Iran said they fear the move is aimed at drawing out negotiations or further splitting Washington from other members of the U.N. on the issue of sanctions. "We assumed they'd try and drag this out," said a U.S. official. "It's their modus operandi."

Details of Iran's objections to the proposed deal weren't clear late Thursday. In a statement, the IAEA, the Vienna-based U.N. nuclear watchdog, said only that it had received an "initial response" from Tehran to the proposal.

The IAEA said the agency's director general, Mohamed ElBaradei, is "engaged in consultations with the government of Iran as well as all relevant parties, with the hope that agreement on [the] proposal can be reached soon." A spokesman for the IAEA declined to discuss the changes Iran has demanded.

The draft agreement envisioned Iran shipping out the bulk of its low-enriched uranium to Russia, which would enrich it further for use in an Iranian medical-research reactor. The plan was designed to temporarily keep Iran's store of of low-enriched nuclear fuel below the threshold required to build a nuclear weapon.

The deal was seen as an important first step in winning cooperation with Iran over its nuclear ambitions. Iran says it is interested in developing only nuclear energy, while Western and Arab officials worry it intends to build weapons.

Iranian officials in recent days had suggested they would object to any provision that would see them shipping out all of the fuel at once. Instead, they said they would agree to send out fuel in only small shipments, one at a time.

U.S. officials said that any offer from Tehran that doesn't include a single, large shipment of uranium outside Iranian territory undercuts the rationale for the initial deal.

The transaction was viewed as buying time for the White House in forging a broader agreement with Tehran to curtail its nuclear activities. Israel has suggested it might take military action against Iran if U.S.-led diplomatic efforts don't succeed.

—Joshua Mitnick contributed to this article.

Iraq holds officers in bomb probe

By Gina Chon

Associated Press

A man stands before the destroyed Ministry of Justice in Baghdad on Thursday. The building was hit by a bombing Sunday in which 155 people were killed.

BAGHDAD—Iraq authorities said they detained more than 60 army, police and other security officers in an investigation into Sunday's bombing, the latest move by Baghdad to contain fallout from the worst single act of violence here since 2007.

The officials are being investigated for possible negligence or complicity, said Baghdad operations command spokesman Maj. Gen. Qassim Atta. The detainees include 11 senior officials, he said.

Two explosives-laden vehicles driven by suicide bombers detonated outside the Baghdad provincial-council offices and the Ministry of Justice in downtown Baghdad on Sunday, killing 155. The attacks triggered fresh criticism of security at government installations, including accusations of lax vigilance at checkpoints. Authorities said they would detain others in the probe, including police officers at more than a dozen checkpoints in the area.

After an Aug. 19 bombing targeting the ministries of Finance and Foreign Affairs, government officials took similar steps, rounding up dozens of security officials for questioning. After that attack, Baghdad accused al Qaeda-affiliated operatives and former Baathists across the border in Syria.

An al Qaeda-linked group active in Iraq claimed responsibility for both attacks.

Iraq also has demanded a United Nations probe into alleged foreign involvement in the August attack. The U.N. said earlier this week it was sending a senior official to Baghdad for preliminary consultations.

The attacks, and allegations of lax security, have become a political issue before parliamentary elections in January. Prime Minister Nouri al-Maliki has benefited from security gains across the country but some of his popularity has eroded amid high-profile attacks in recent months.

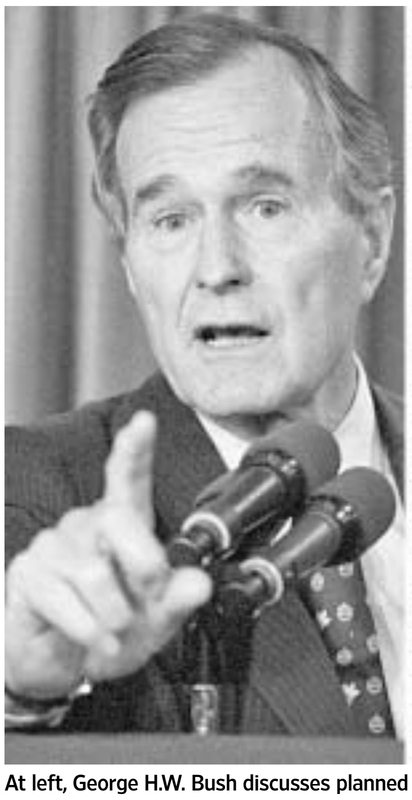
The United Iraqi Alliance, the largest bloc in parliament, on Thursday called on Mr. Maliki to attend a parliament session to discuss security breaches. The prime minister's Islamic Dawa Party split from the alliance before next year's elections.

Separately, Iraqi lawmakers on Thursday traded barbs over a stalled election law. The key sticking point remains who is eligible to vote in the oil-rich area of Kirkuk in northern Iraq, which is claimed by Sunni Arabs, Turkmen and Kurds.

Lawmakers have raised the possibility of delaying the elections because the sides are so far apart. U.S. Ambassador Christopher Hill visited parliament on Thursday to push for a compromise.

American officials are concerned about the possibility of a delay. The U.S. military will make an assessment 30 to 60 days after the vote about the pace of a large troop drawdown scheduled for next year.

—Munaf Mustafa contributed to this article.



Associated Press

Bush and Gorbachev Plan to Meet Dec. 2-3 Aboard U.S., Soviet Ships in Mediterranean

White House Avoids Calling Talks 'Summit' to Damp Expectations for Accords

At left, George H.W. Bush discusses planned talks with Mikhail Gorbachev. At right, a Nov. 1, 1989, Wall Street Journal article.

Meet-up heralded sea change

As we approach the 20th anniversary on Nov. 9, we will chronicle the events that precipitated the fall of the Berlin Wall as they played out in the pages of The Wall Street Journal.

East and West
As the Berlin Wall Fell

At the end of October 1989, U.S. President George H.W. Bush and Soviet leader Mikhail Gorbachev announced that they would hold an informal meeting in early December. "The White House is purposely not calling the meeting a summit so that there won't be any expectation of detailed negotiations or agreements," the Journal wrote.

Mr. Bush told reporters that the purpose of the meeting, which was to take place on U.S. and Soviet naval vessels in the Mediterranean Sea, was simply for the two to get "better acquainted."

The meeting was expected to "pay significant political dividends for both leaders," the Journal wrote. "Mr. Gorbachev badly needs a diversion from the serious economic problems and ethnic unrest he faces at home." American officials said a meeting with the leader of the U.S. could help his stature among Soviet politicians and academics.

"For his part, Mr. Bush has been criticized regularly at home for moving too slowly and cautiously in reacting to Mr. Gorbachev's reforms and the historic moves away from communism in Eastern Europe. A face-to-face meeting with Mr. Gorbachev should damp such criticism, though it will hardly eliminate it," the Journal wrote.

WSJ.com

WSJ.com wants to publish your personal photos and stories on the 20th anniversary of the fall of the Berlin Wall. Please send submissions to **berlinwall@wsj.com**

REVIEW & OUTLOOK

Bad Manners From a Dictator

The United Nations is shocked that its torture inspector has been deported from Zimbabwe. "I think I have never been treated by any government in such a rude manner than by the government of Zimbabwe," Manfred Nowak huffed on Thursday.

The special rapporteur for the U.N. Human Rights Council says he is alarmed that an invitation extended to him by Morgan Tsvangirai, Zimbabwe's nominal prime minister, was disregarded by Robert Mugabe's immigration officials. This is not, he protests, in the spirit of February's shaky power-sharing deal between Zimbabwe's dictator and his democratic challenger.

Forgive us if we can't work up the correct degree of outrage at Mr. Nowak's treatment. Mugabe has been abusing, dispossessing, murdering and most recently starving his domestic "enemies" for the better part of 30 years. For much of that time, he was garlanded in so many Western honors it almost seems surprising he didn't win a Nobel Peace Prize.

Even now, despite ongoing EU sanctions, he is being courted at the highest levels. Last month Brussels sent a high-level delegation to Zimbabwe, led by Development Commissioner Karel De Gucht, for talks that included Mugabe. And earlier this month, Madrid said it would use its turn at the rotating EU presidency next year to push for more talks between Brussels and Harare.

Meanwhile, Mugabe's abuses remain unchecked, including attacks on members of Mr. Tsvangirai's Movement for Democratic Change and invasions of still more white-owned commercial farms. But, of course, this is nothing more than what dictators of Mugabe's ilk always do. The wonder of it is that the West keeps knocking on his door, seeking to reason with a man who treats them with the contempt they probably deserve.

First-Time Fraudsters

It's hard not to laugh when viewing the results of the U.S. federal first-time home-buyer tax credit. The credit, worth up to $8,000 for the purchase of a home, has only been available since April of last year. Yet news of the latest taxpayer-funded mortgage scam has traveled fast. The Treasury's inspector general for tax administration, J. Russell George, recently told Congress that at least 19,000 filers hadn't purchased a home when they claimed the credit. For another 74,000 filers, claiming a total of $500 million in credits, evidence suggests that they weren't first-time buyers.

Among those claiming bogus credits, at least some of them were definitely first-timers. The credit has already been claimed by 500 people under the age of 18, including a four-year-old. This pre-K housing whiz likely bought because mom and dad make too much to qualify for the full credit, which starts to phase out at $150,000 of income for couples, $75,000 for singles.

As a "refundable" tax credit, it guarantees the claimants will get cash back even if they paid no taxes. A lack of documentation requirements also makes this program a slow pitch in the middle of the strike zone for scammers. The Internal Revenue Service and the Justice Department are pursuing more than 100 criminal investigations related to the credit, and the IRS is reportedly trying to audit almost everyone who claims it this year.

Speaking of the IRS, apparently its own staff couldn't help but notice this opportunity to snag an easy $8,000. One day after explaining to Congress how many "home-buyers" were climbing aboard this gravy train, Mr. George appeared on Neil Cavuto's program on the Fox Business Network. Mr. George said his staff has found at least 53 cases of IRS employees filing "illegal or inappropriate" claims for the credit. "In all honesty this is an interim report. I expect that the number would be much larger than that number," he said.

> A tax credit so silly even a four-year-old can exploit it.

The program is set to expire at the end of November, so naturally given its record of abuse, Congress is preparing to extend it. Republican Senator Johnny Isakson of Georgia is so pleased with the results that he wants to expand the program beyond first-time buyers and double the income limits.

This is the point in the story when a taxpayer's sense of humor is bound to give way to a different emotion. The credit's cost is running at about $1 billion a month and $15 billion for the year. Also, even when employed by an honest buyer, it's another distortion that drives capital into housing and away from other more productive uses. For America's tens of millions of tax-paying renters, it's another subsidy they provide for their neighbors to be able to sell their houses at a higher price.

While the credit seems to have boosted home sales, many of those sales would have happened anyway and have merely been stolen from the future. Meanwhile, the credit continues to distort the housing market and postpone the day when home prices can find a floor that is a basis for a stable recovery.

More than two years into the housing bust, trillions of dollars in taxpayer losses or guarantees via Fannie Mae and Freddie Mac, and amid an ongoing plague of redefaults in federal programs to prevent foreclosures, politicians are still trying to manipulate housing prices. And leave it to Congress to design a program that even a four-year-old can scam.

Sins of Emission

U.S. President Barack Obama observed in Florida on Tuesday that his "clean energy economy" will require "mobilization" on the order of fighting World War II, building the interstate highway system and going to the moon. Of course, the only "mobilization" going on at the moment is on behalf of ethanol, whose many political dispensations the biofuels lobby is finding new ways to preserve even as the evidence of its destructiveness piles up.

The latest embarrassment arrives via the peer-reviewed journal Science, not known for its right-wing inclinations. A new paper calls attention to what the authors (led by Princeton's Tim Searchinger) call "a critical accounting error" in the way carbon emissions from biofuels are measured in climate-change programs world-wide.

Though you won't hear it from the biofuels lobby, ethanol actually generates the same amount of greenhouse gas as fossil fuels, or more, per unit of energy. But this was still supposed to be better than coal or oil because ethanol's CO_2 is "recycled." Since plants absorb and store carbon that is already in the atmosphere, burning them as fuel would create no *new* emissions, whereas fossil fuels release CO_2 that has been buried for millions of years.

> The ethanol boondoggle is also an environmental catastrophe.

With everything supposedly balancing out, the cap-and-trade programs run by the United Nations and European Union—and maybe soon the U.S.—treat biofuels as carbon-neutral. The Science study argues that this is a false economy, because it doesn't consider changes in land use. If mature forests are cleared to make room for biofuel-growing farms, then the carbon that would otherwise accumulate in those forests ought to be counted on ethanol's balance sheet as well.

Cap-and-trade programs exacerbate the problem because developed countries (where emissions are putatively capped) get credit for reductions from ethanol—despite the fact that their biofuels are generally grown in developing countries (where emissions aren't capped). So if Malaysians burn down a rain forest to grow palm oil that ends up in German biodiesel, Malaysia doesn't count the land-use emissions and Germany doesn't count the tail-pipe emissions.

Given these incentives, the authors cite a study showing that by 2050, "based solely on economic considerations, bioenergy could displace 59% of the world's natural forest cover. . . . The reason: When bioenergy from any biomass is counted as carbon neutral, economics favor large-scale land conversion for bioenergy regardless of the actual net emissions." In other words, not only is cap and trade self-defeating on its own terms but it also risks creating a genuine ecological disaster.

In Florida, Mr. Obama said the only people who could oppose his climate plan are "those who are afraid of the future." On this one, at least, the U.S. President is right.

A Dubious Import

Gordon Brown this week promised a crackdown on "sharp practices" by credit card issuers. As the U.S. Congress before him, the British Prime Minister is selling this as a consumer-protection measure. But the PM might want to look across the pond at how a similar law, passed in Washington last spring, is actually hurting consumers and restricting access to credit.

There, Senate Banking Chairman Chris Dodd has been hearing from constituents upset because banks have been raising the interest rates on their credit cards. This week Mr. Dodd decided to do something about it. He proposed a bill imposing an immediate freeze on those rates.


Gordon Brown

"At a time when families are struggling to make ends meet, jacked up rates can quickly create crushing debt," Mr. Dodd said in a statement. "People need to be responsible with their money, but they shouldn't be taken to the cleaners by outrageous rates."

But if customers are being taken to the cleaners, it is because U.S. lawmakers like Mr. Dodd sent them there. In May, Congress passed the Credit Card Accountability, Responsibility and Disclosure Act, which bars rate increases without a 45-day notification. To reduce their risk under this law, banks in the U.S. are rushing to raise rates before it takes effect in February. Thus the Senator's latest political grandstand.

In the unlikely event that Mr. Dodd's new legislation passes, banks would limit their risk in other ways, such as canceling cards or refusing to extend credit to marginal customers. The unavailability of credit can also be a burden on struggling families, not to mention having a depressive effect on the economy.

If Mr. Brown wants to avoid this arms race, we suppose he could offer a measure that addresses all of the above, as well as pre-emptively barring banks from tightening credit requirements. But maybe it would be more efficient to enact comprehensive legislation to repeal the Law of Unintended Consequences. Almost any Member of Congress or Parliament could support that—assuming, of course, that Mr. Brown could convince them that it would work according to plan.