Economy & Politics: European dairy farmers get squeezed

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

What's News

Breaking news at europe.WSJ.com

Darling urges curbs on public pay

U.K. Treasury chief's plan, which would affect nearly 750,000, is aimed at record deficit

Bloomberg News

David Cameron, leader of the U.K. Conservative Party, right, with his wife Samantha at the party conference in Manchester, has spoken openly about the country needing spending cuts.

By Alistair MacDonald

MANCHESTER, England—As British politicians battle to claim the mantle of fiscal responsibility, the country's Treasury chief said he wants to freeze the pay of senior civil servants and the opposition Conservative Party prepared to announce its own measures to trim Britain's record debt load.

Treasury chief Alistair Darling wrote to the bodies that review public-sector pay levels in Britain and advised them to freeze the pay of the country's most senior civil servants and curb pay rises of other top government workers, a Treasury spokesman said. The move will see the pay of judges, senior managers at the National Health Service and general practitioner doctors, among others, frozen. Other top government workers, such as hospital and prison doctors, will receive a zero to 1% pay rise. The changes will affect almost 750,000 civil servants, he said.

The opposition Conservative Party will announce at its annual conference plans to accelerate a timetable to raise the retirement age, a move party officials claim would help return public finances to a sustainable path. The policy could save as much as £13 billion ($21 billion) a year for the U.K. taxpayer, senior Conservative Party officials said.

The two announcements set up a clash between Britain's two big parties ahead of a general election that must be called before next June.

Mr. Darling's decision to reveal his request during the Conservatives' conference is unusual in British politics. It drew an immediate reaction from the Conservatives.

"It is surprising that the Labour Chancellor chose to make this announcement—which affects hundreds of thousands of people—in the middle of a Conservative Party conference," a spokesman said.

The pay bodies will consider Mr. Darling's advice among other submissions—such as those from unions—and then submit its recommendations to the relevant government departments, which will go on to make the final decision for pay beginning April 2010.

The recommendations by Mr. Darling won't affect teachers, nurses or police officers, who have an existing multiyear pay deal that runs out at the end of March 2011.

"Britain's public servants are invaluable, but if we want to half the deficit over four years and protect front-line services, we have to make tough but realistic decisions on pay," Liam Byrne, a Treasury minister, said in a statement. "That means leadership from senior groups and realistic increases for other work forces," he said. The U.K. is battling a record debt load and investors and economists have increasingly demanded that the country spell out debt-reduction measures.

The U.K.'s opposition Conservative Party, gathering in Manchester at its annual con-

Please turn to page 35

Telenor, Alfa agree to telecoms merger

By Gregory L. White And Will Bland

MOSCOW—Facing the threat of losing most of its investment in Russia, Norway's **Telenor** ASA agreed to merge its Russian and Ukrainian telecom assets with those of Russia's **Alfa** Group, the partner with whom it has been fighting a five-year boardroom battle.

Both sides said the proposed $23 billion deal will put an end to one of Russia's fiercest corporate wars, including the court case that had led Russian bailiffs to seize most of Telenor's Russian investment.

Telenor blamed that case on Alfa. The Russian group denied any role. Efforts by Telenor and the Norwegian government to win help from the Kremlin yielded little apparent result.

The case has become a test of the climate for foreign investors in Russia, especially since it involved the telecom industry, not the strategic energy sector, where the Kremlin has been reasserting control for several years.

Investors welcomed the Telenor-Alfa deal, which is still subject to regulatory and other approvals. Telenor shares jumped 15%, while those of OAO Vimpel-Communications, the Russian company Telenor and Alfa both own stakes in, rose 10% in afternoon trading on the New York Stock Exchange.

Please turn to page 35

Inside

A lesser Afghan role

Decreased presence of al Qaeda shifts debate in U.S.

News in Depth, pages 18-19

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9599.75	+1.18
Nasdaq	2068.15	+0.98
DJ Stoxx 600	236.09	+0.85
FTSE 100	5024.33	+0.71
DAX	5508.85	+0.75
CAC 40	3675.01	+0.69
Euro	$1.4628	+0.14
Nymex crude	$70.41	+0.66

LEADING THE NEWS

Data show mixed picture for the euro zone

Orders, optimism rise as consumption and jobs decline

BY ILONA BILLINGTON


European Pressphoto Agency/Belga

An electrician in France this September

LONDON—The euro zone's economy probably grew in the third quarter, but economists remained cautious about the expected recovery's sustainability amid slowing consumption and still-rising unemployment.

The euro-zone services sector expanded in September for the first time since April 2008, as the purchasing managers' index rose to 50.9, from 49.9 in August.

The index—above the "boom or bust" line of 50 that indicates whether the sector is expanding or contracting—was boosted by an increase in new orders and business optimism, data from Markit Economics showed.

However, a subindex showed that the employment balance fell in September, indicating companies cut jobs at a faster pace than in August. And the European statistical agency Eurostat showed retail sales fell for a 15th straight month in August from a year earlier, as sales of nonfood items remained low.

The mixed picture highlighted the quandary faced by the European Central Bank, where policy makers will soon need to decide how long they should keep the current expansionary monetary regime.

Currently, the ECB has an interest rate of 1%.

"Given the importance of the services sector, the return to growth in September indicated by the purchasing managers' survey reinforces expectations that the euro-zone economy expanded in the third quarter after five quarters of contraction," said Howard Archer, chief euro-zone and U.K. economist for IHS Global Insight.

He added, though, that "relapses" remain possible, leaving the ECB without enough evidence to tighten policy at this point.

Given the boost from the service sector, the composite euro-zone PMI rose more sharply than expected, to 51.1 in September, Markit reported. That index first rose above the 50-point line in August.

Still, the pace of job losses accelerated in September as work backlogs fell and companies had less ability to charge higher prices.

"Looking ahead, concerns about income and job prospects will probably continue to act as a restraining force on high street spending," said Martin van Vliet, euro-zone economist at ING. In Britain, which is outside the euro zone, the services PMI was broadly in line with the euro-zone survey. Markit and the Chartered Institute of Purchasing and Supply said the U.K. services index rose to a two-year high of 55.3 in September, and business confidence for the sector also rose to a two-year high and above the historic average level.

—Nicholas Winning contributed to this article.

China seeks business and influence in North Korea visit

BY EVAN RAMSTAD

SEOUL—Chinese Premier Wen Jiabao's visit to Pyongyang is focusing new attention on international efforts to get North Korea back to nuclear-disarmament talks. But analysts said his visit likely has another purpose: deepening China's economic connections and influence there.

Little information came out of North Korea on Monday, the second day of Mr. Wen's three-day visit. Messrs. Wen and Kim met late in the day, China's state-run Xinhua news agency reported in a one-sentence dispatch that gave no details.

The two countries had issued a joint statement earlier affirming their friendship, which North Korean dictator Kim Jong Il was quoted as calling "a common treasure." Xinhua said the relationship "benefits protecting regional peace and stability."

Chinese media also reported Mr. Wen toured a cemetery in Pyongyang where Chinese soldiers who fought alongside North Korea in the Korean War of the 1950s are buried. Mr. Wen traveled to North Korea, the first Chinese premier to do so in 18 years, as part of China's commemoration of the 60th anniversary of its founding.

It was clear when Mr. Wen arrived Sunday that he was there to work on more than the nuclear issue. He brought senior leaders from China's foreign affairs, defense and commerce ministries.

After greeting Mr. Kim with a hug, Mr. Wen donned a red scarf and shook hands with a phalanx of leaders of the Korea Workers' Party, which controls a major portion of the North Korean economy and the biggest number of state-run enterprises.

"The symbolism of the Communist Party connection is very, very heavy on this trip," said John Park, senior research associate for the U.S. Institute of Peace, a group funded by the U.S. Congress that studies conflicts, and a specialist in North Korea's economic structure. Though neither country practices textbook-rigid communism anymore, he said, the party connection plays a major role in their economic relationship.

The last time a top Chinese leader visited North Korea—President Hu Jintao in October 2005—details emerged over subsequent weeks and months about new Chinese economic projects and investments in the North. One outcome at that time was the takeover of a major North Korean mine by a Chinese state-run company. Two-way trade between China and North Korea took off that year after being confined to a tight range for many years. Last year, two-way trade reached $2.8 billion, up from $1.5 billion in 2005.

China's economic influence in North Korea has been heightened further by the decisions of other countries to isolate the North because of its weapons activities. Observers say they will watch to see whether China makes multiyear deals, which would indicate confidence in the stability of North Korea.

—Gordon Fairclough and Gao Sen contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Youssef Boutros-Ghali is Egypt's finance minister. A Monday Money & Investing article about the International Monetary Fund incorrectly identified him as Boutros Boutros-Ghali.

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

German winners meet to iron out coalition

Pro-business parties have key differences on taxes, labor, rights

By Marcus Walker

BERLIN—German Chancellor Angela Merkel's conservatives and the pro-business Free Democratic Party began talks Monday aimed at overcoming their differences to form a new coalition government, following the parties' combined victory in Sept. 27 parliamentary elections.

Although the talks are expected to end in a deal, the new government will face a tricky balancing act in keeping business-friendly promises while also reassuring voters that it won't make too many unpopular changes.

The parties are aiming to resolve conflicts on issues including taxation. Ms. Merkel has so far pledged to trim income taxes by around €15 billion ($21.85 billion) a year, but has refused to commit to a timetable, considering the grim outlook for Germany's budget. The FDP wants deeper tax cuts implemented quickly.

Other areas of disagreement include law and order, where conservatives want to uphold new policing powers such as the ability to remotely access people's computers but the FDP wants stronger civil-rights protection and objects to the new powers.

The FDP is also pushing to relax labor rules that German businesses say hinder hiring and firing, but Ms. Merkel has promised labor unions that job-protection laws won't be loosened.

FDP leader Guido Westerwelle said before Monday's talks that although the parties have differences, "this can all be overcome."

Ms. Merkel has positioned herself as a centrist, ruling out radical free-market overhauls. "We want to focus on growth, on jobs and prosperity in our country," she said Monday.

Her Christian Democratic Union is pushing for a speedy agreement on the policies the next government will follow, so that it can take office by late October. Mr. Westerwelle has hinted talks could take longer if the CDU doesn't give ground on taxes and other issues.

The center-right parties' election victory allows Ms. Merkel's CDU to break free of its bipartisan government with the left-leaning Social Democrats, an awkward coalition that has struggled to find common ground on many of the long-term challenges facing Germany's economy.

Fixing public finances could be the next government's first major test, say economists. Germany's budget deficit is expected to expand to around 5% of gross domestic product next year, pushed by rising unemployment.

A recent amendment to the German constitution obliges future governments to run only tiny budget deficits from 2016. That will require tough spending cuts or tax hikes in coming years, many analysts say.

High government spending to tackle the financial and economic crisis in the past year has widened Germany's fiscal deficit, reversing years of effort to balance the budget. Opinion polls show few German voters believe the new government will be able to cut taxes, despite the center-right's election promises.

The center-right parties are expected to water down Germany's current plan to shut down all nuclear power plants by 2021, and instead extend the lives of more-modern nuclear plants until more renewable energy is available.

Ms. Merkel has accepted an invitation to address the U.S. Congress on Nov. 3, ahead of ceremonies in Berlin to mark the 20th anniversary of the fall of the Berlin Wall, a spokesman for the chancellor said Monday.

Reuters

Free Democratic Party leader Guido Westerwelle, right, said his party's differences with Chancellor Angela Merkel, center, her Christian Democratic Union and its sister party, the Christian Social Union, led by Horst Seehofer, right, can be overcome.

U.K. rules on liquidity to lessen banks' profits

By Adam Bradbery

LONDON—The U.K.'s Financial Services Authority published Monday its finalized liquidity rules for banks, building societies and some asset managers, designed to make sure they maintain buffers of assets that they can easily sell to meet future payment obligations.

The new rules, which were proposed in December 2008, are expected to increase the safety of the U.K. banking system but will hit banks' profits by requiring them to hold a pool of high-quality assets, such as government bonds, rather than using the cash to invest in riskier but higher-yielding assets. The FSA has been working on efforts to strengthen its liquidity requirements since 2007, following the collapse of U.K. lender Northern Rock, which ran out of cash as funding sources dried up.

"The FSA is the first major regulator to introduce tighter liquidity requirements for firms," said Paul Sharma, FSA director of prudential policy. "We must learn the lessons of the financial crisis, and we believe that implementing tougher liquidity rules is essential to ensure we are in a better position to face future crises."

The FSA said it would allow the banks some breathing space before the rules take full effect. It plans to phase in the rules regarding the total value of assets firms must hold in several stages over several years, it said. It plans to introduce its qualitative rules, which determine what kinds of assets banks need to hold, in December.

The cost to companies from the new rules will depend on how they lengthen their funding and the way the FSA calculates the requirements but, if banks reduced their use of short-term funding by 20% and the regulator applies a medium-strength stress test, firms would need to boost holdings of government bonds by £110 billion ($175 billion) in the first year of the new rules, the FSA said.

The regulator will also introduce new requirements for U.K. branches of foreign financial institutions, many of which have, in the past, operated with waivers from the FSA's liquidity rules.

It said the structure of its new liquidity rules is flexible enough to allow it to amend them over time to reflect new international standards that may be produced in the future.

The Bank for International Settlements and European Union regulators are working on the foundations for future liquidity rules, although they face the challenge that few countries are likely to agree on definitions of liquidity or which assets are liquid.

The FSA said it will change the amount of liquidity that banks need to hold over time to ensure that the impact of higher liquidity and capital rules is proportionate.

The regulator will also introduce new requirements for U.K. branches of foreign financial institutions, many of which have, in the past, operated with waivers from the FSA's liquidity rules.

LEADING THE NEWS

Agence France-Presse

Louis-Pierre Wenes, above in March, will be replaced by Stephane Richard, who is due to replace France Télécom Chief Executive Didier Lombard when he retires in 2011.

France Télécom executive resigns over suicides

By Max Colchester And Geraldine Amiel

PARIS—The head of **France Télécom**'s domestic business has resigned as the telecommunications firm seeks to quell mounting criticism over a series of widely publicized employee suicides.

Louis-Pierre Wenes will be replaced by Stephane Richard, a former chief of staff at the French Finance Ministry, France Télécom said in statement Monday. Mr. Richard joined the company earlier this year and is due to replace Chief Executive Didier Lombard when he retires in 2011.

Unions say workers are under pressure as the company restructures.

Since mid-2008, 24 France Télécom employees have committed suicide. Though the number of suicides at the 100,000-employee company is in line with the national average, according to the World Health Organization, the violent nature of the deaths—including a worker last week who jumped to his death from a highway overpass in the Alps—has made headlines for months in France and put management on the defensive.

In an email to employees Monday, Mr. Wenes said he was "devastated" by the recent suicides. "My sense of self control often prevented me, perhaps wrongly, from expressing what I felt and better explaining what I was doing," Mr. Wenes wrote in the email, which was released by France Télécom's press office.

France's finance minister summoned Mr. Lombard to discuss the issue last week. Unions claim that since France Télécom's privatization in 1997, workers have faced increased pressure as the company has restructured its business to focus less on its traditional fixed-line operations and more on mobile and Internet businesses.

The restructuring plan has included some 22,000 job reductions over three years. Since 65% of France Télécom employees are on civil sector contracts—dating from the days when the company was entirely state-owned—they can't be laid off. Most of the job cuts have, therefore, been focused on early retirement plans and incentives given by France Télécom to employees who willingly chose to leave the company.

Still Mr. Wenes has been among the managers targeted by unions over the past months—largely because he was in charge of implementing the restructuring plan which resulted in job cuts in France.

"He created a bad atmosphere at the company," said Patrice Diochet, a representative of the CFTC union at France Télécom. "He deserved to pay for that."

A France Télécom spokeswoman said Mr. Wenes wasn't available for comment. She added that the decision to cut jobs over three years was made by Mr. Lombard, not Mr. Wenes, and said France Télécom had spent €300 million ($437 million) a year helping workers create new businesses and settle into new positions.

In response to the suicides, France Télécom has created a crisis call-center and is giving additional psychological and material support to families suffering from losses, a spokeswoman for the company said.

It has also pledged to consult with union representatives before making any internal job transfers, the spokeswoman added. *—Ruth Bender contributed to this article.*

Ex-spy rebuts de Villepin

Testimony reveals no new evidence; court at square one

By David Gauthier-Villars

Associated Press

Former French spy Gen. Philippe Rondot arrives at the Paris courthouse on Monday for the third week of the Clearstream trial.

PARIS—A retired secret agent took the stand in a slander trial pitting plaintiffs including French President Nicolas Sarkozy against former Prime Minister Dominique de Villepin and others—and contradicted Mr. de Villepin's versions of events.

But the hotly awaited testimony by Gen. Philippe Rondot—a former spy best known for his arrest of Ilich Ramirez Sanchez, also known as Carlos the Jackal—revealed no new material evidence in the five-year case. That leaves the court back to square one: wading through reams of documents and contradicting testimonies in one of France's more obscure legal affairs.

Mr. de Villepin faces charges of complicity in an alleged plot to discredit President Sarkozy ahead of the 2007 presidential elections. Before the trial, and again on the stand last week, Mr. de Villepin denied he was involved in a smear campaign against Mr. Sarkozy.

Judges are trying to determine who falsified and disseminated banking records purporting to show that Mr. Sarkozy and several other politicians, lawyers and executives held secret bank accounts in Luxembourg to collect kickbacks.

In 2003 and 2004, following an intricate path, the banking records made their way into the hands of Gen. Rondot, the office of Mr. de Villepin, the mailbox of an investigative magistrate and the front page of a French weekly magazine.

At the time, Messrs. Sarkozy and de Villepin both were ministers in the administration of then-President Jacques Chirac. The magistrate who received copies of the records has said he independently came to the conclusion that they were fake.

In 2006, Mr. Sarkozy and many others whose names appeared on the fake bank documents lodged a legal complaint for slander.

Gen. Rondot said on Monday that he was first tipped off about the existence of the records in October 2003 by Jean-Louis Gergorin, then head of strategy at **European Aeronautic Defence & Space** Co., the parent company of Airbus. Mr. Gergorin is a defendant in the case. While he acknowledges having informed Gen. Rondot about the documents, he denies having orchestrated a smear campaign.

Gen. Rondot said that in January 2004 he was summoned to a meeting with Mr. Gergorin and Mr. de Villepin, then foreign minister.

Gen. Rondot and Mr. de Villepin have contradicting recollections about the encounter. Gen. Rondot said Monday that the name of Mr. Sarkozy was mentioned during the discussion as one of the alleged holders of a bank account in Luxembourg.

During his own testimony last week, Mr. de Villepin said the name of Mr. Sarkozy was aired only as interior minister, his capacity at the time.

Gen. Rondot said that during the meeting, he received instructions from Mr. de Villepin to look into the banking records without informing his superiors at the Defense Ministry. Mr. de Villepin stressed, according to Gen. Rondot, that the order came from Mr. Chirac.

While Mr. de Villepin has acknowledged asking Gen. Rondot to look into the docments, he has repeatedly denied that Mr. Chirac was involved in the case. Mr. Chirac has denied wrongdoing and refused to testify.

Though he didn't provide new material evidence, Gen. Rondot's testimony may still carry extra weight because the retired general had a habit—inherited from his father, he said—of noting down all the details of his work on notepads, copies of which were seized by police during the investigation.

Gen. Rondot said that tracking Islamic operatives was one of the reasons why he first got interested in seeking the truth about the records but added that he quickly found out that this wasn't possible and later discovered that the documents were fake.

"I know that soldiers are not held in high esteem in France, but I don't have the IQ of a clam," he said.

Russia is set to give Serbia a big loan

By Marc Champion

ISTANBUL—Russia is set to lend €1 billion ($1.46 billion) to Serbia, according to officials on both sides, as Moscow seeks to expand its influence in the region and Belgrade looks for partners more free with cash than the European Union to help out during the economic downturn.

Serbia's economy minister, Mladjan Dinkic, interviewed Monday on the margins of the International Monetary Fund's annual meeting in Istanbul, said the loan was expected; he declined to name the sum. Russian Finance Minister Alexei Kudrin said Serbia had asked for a €1 billion loan, including €350 million to cover its budget deficit, according to Russian state news agency RiaNovosti.

"The EU is our strategic partner, but unfortunately they couldn't help us too much in the crisis—they could only provide €100 million, €50 million this year and €50 million next," Mr. Dinkic said. "Obviously that is not enough for our needs."

Mr. Dinkic said the terms will be agreed and the deal announced when Russian President Dmitry Medvedev visits Belgrade on Oct. 20. Russia has stressed that the date chosen for that visit is also the anniversary of the Soviet army's liberation of Belgrade at the end of World War II.

The Russian loan would add to its growing influence in Serbia, which relies on Moscow's diplomatic support in the United Nations Security Council to resist the secession of Serbia's former province Kosovo. Last year Russia's state-controlled gas monopoly OAO **Gazprom** bought Serbia's major oil and gas assets and agreed to route its South Stream gas pipeline through Serbia.

Russia is also considering multibillion-euro loans for Bulgaria. Though also hard hit by the global downturn, Russia still has substantial cash reserves that it built up before oil prices tumbled last year.

The Russian money, with a similar package from China, will help fill out money from the IMF and the EU; the funds from the two powers are part of a strategy to find additional partners and sources of finance in the face of the crisis, Mr. Dinkic said. While EU membership remains Serbia's main goal, Belgrade knows that could take some time, said Mr. Dinkic, a former governor of Serbia's central bank.

China is becoming a major partner, he said, providing a €200 million concessionary loan to build a new bridge and highway section in Belgrade, with further projects amounting to a total package of €1 billion in coming years. The bridge deal will be run 60% by Chinese construction companies and labor, and 40% by Serbian, Mr. Dinkic said.

Serbia has been hit by the global downturn as foreign investment and trade have dried up. Economic growth, as measured by gross domestic product, dipped to minus 4% in the first six months, though it has since stabilized and should pick up a little toward the end of the year, Mr. Dinkic said. The IMF predicts GDP growth of 1.5% for Serbia next year.

Associated Press

Winners of the Nobel Prize in medicine from left Elizabeth Blackburn, Carol Greider and Jack Szostak. They discovered the workings of the telomerase enzyme.

Three Americans share Nobel Prize in medicine

By Gautam Naik

Three American scientists received the Nobel Prize in medicine for discovering an enzyme that plays a key role in cellular health and aging. Their finding sparked a new line of research into possible treatments for age-related maladies, such as cancer, blindness and cardiovascular disease.

The prize, which includes a shared cash award of $1.4 million, was given to Elizabeth Blackburn of the University of California, San Francisco, Carol Greider of Johns Hopkins University School of Medicine and Jack Szostak of Harvard Medical School.

The scientists discovered the workings of telomerase, an enzyme that produces tiny units of DNA that seal off the tips of chromosomes. These DNA units, known as telomeres, act like the plastic caps at the ends of a shoelace, keeping the chromosomes from fraying and the genes inside them from unraveling.

The discovery of telomerase has also led to new insights into cancer.

Telomeres enable accurate cell division and also influence the number of times a cell divides, thereby determining its life span.

"Without telomerase we wouldn't be here—it's vital to life," said Dr. Blackburn in an interview. "The tips of chromosomes wear down and telomerase helps to replenish them," keeping them at a proper length.

As we age, though, these caps lose their ability to protect. One result is that some cells go into a state known as senescence, where they are alive but stop dividing. Researchers believe this may contribute to aging.

The three scientists' work on unraveling the mysteries of the telomerase enzyme, which got started in the late 1970s, provided hope that life could be prolonged. It also sparked an entirely new line of medical research into age-related conditions. For example, scientists are trying to reactivate telomerase to treat blindness, cardiovascular disease and neurodegenerative disease.

In most cases, it is healthy for cells to age and die. In fact, cancer is closely associated with cells that fail to follow the normal script for cell death and instead just keep reproducing.

That is why the discovery of telomerase has also led to new insights into cancer. A cancer cell divides continuously, and up to 90% of human cancers require telomerase to do so. Tumors somehow turn on the telomerase gene. Scientists hope to fight cancer by deactivating the enzyme. **Geron** Corp. of Menlo Park, Calif., has launched clinical trials to see if a telomerase inhibitor can fight lung, breast, pancreatic and other cancers.

But the scenario isn't that simple. "It means there's a trade-off between aging and cancer," said Dr. Szostak in an interview. "You can't turn on telomerase everywhere in the body in the hope of treating aging, because there will be the unintended consequence of causing cancer."

The earliest findings about telomerase were made not with any practical application in mind, but as a result of sheer curiosity. Scientists knew that the tips of chromosomes were somehow protected, but when they looked through a microscope all they saw was a blob.

Dr. Blackburn showed that simple, repeated DNA sequences make up the tips of each chromosome. She and Dr. Szostak then established that the DNA repeats stabilize chromosomes and prevent them from becoming damaged. The pair also speculated that there must be an enzyme that would do the job of adding the sequences to the tips of chromosomes.

In 1985, while a professor at the University of California, Berkeley, Dr. Blackburn and her then-graduate student, Dr. Greider, published a paper announcing the discovery of the enzyme telomerase.

Some of their key experiments were done with a pond-dwelling protozoa called tetrahymena. This single-celled organism was deemed to be the best test system because it contains some 40,000 chromosomes, far more than the 23 pairs of chromosomes contained in a human cell. Researchers later replicated the findings in human cells.

"This was the result of curiosity-driven, basic research," said Dr. Greider in an interview. In an era when research is increasingly focused on getting a specific, short-term payoff, "I consider [this award] to be a victory for fundamental science."

Dr. Blackburn is a native of Australia who has lived in the U.S. since 1975. She became a naturalized U.S. citizen in 2003 while retaining her Australian citizenship. Dr. Szostak was born in London, grew up in Canada and is now a U.S. citizen. Dr. Greider is a native of San Diego.

World Bank seeks funds

Many are wary; U.S. ties any expansion of capital to overhauls

By Bob Davis

Reuters

IMF's Dominique Strauss-Kahn, left, Mexican Finance Minister Agustin Carstens, center, and World Bank chief Robert Zoellick meet in Istanbul on development.

ISTANBUL—The World Bank pressed its campaign for a sizeable increase in capital, warning that it could run short on money to lend troubled developing nations by the middle of next year.

At the World Bank's annual meeting here, a policy-setting committee said it would decide in the spring whether to approve a capital increase for the bank, and how big it would be.

Approval is far from assured. While a number of nations that borrow from the World Bank endorsed the increase, the U.S. and France, among other nations that would pay the largest share of the increase, didn't say yes.

Expanded funding for multilateral institutions is always controversial in the U.S. Congress, and has become more so given the backlash against perceived "bailouts." The Obama administration had a difficult time this spring winning approval for a big increase in funding for the International Monetary Fund. A World Bank research paper estimated that a $5 billion capital increase would cost the U.S. about $850 million over five years.

World Bank President Robert Zoellick didn't ask for a specific amount in Istanbul and said the bank's staff would "drill down on our analyses of the capital needs" of the bank. He said U.S. Treasury Secretary Timothy Geithner told him he had made "a reasonably good case" for the capital increase but that "to be able to build support with legislative bodies we also have to stress a reform agenda."

Such an agenda would include increasing public disclosure of the bank's operations, Mr. Zoellick said.

Mr. Geithner said at the meeting of the policy committee, that the U.S. would be "seeking critical institutional reforms in any consideration of additional resources." Complicating the U.S. decision, he said, was that regional development banks also are running short of cash and would likely turn to donors for capital. Administration officials said the U.S. hadn't decided whether to back the World Bank request.

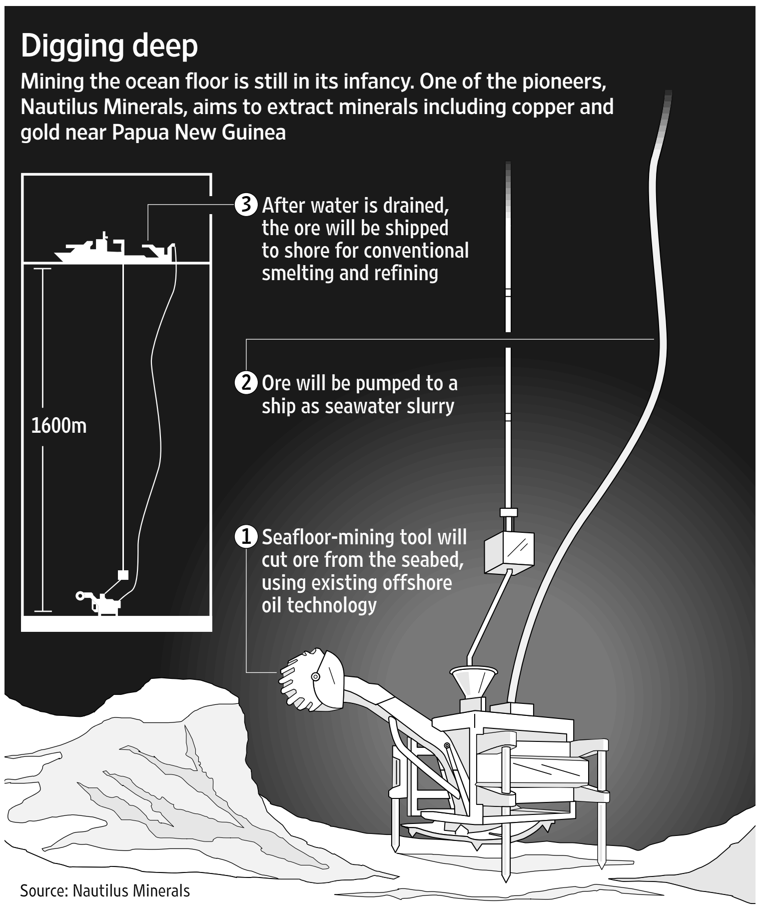
French Finance Minister Christine Lagarde was warier, saying the bank's options "do not justify an increase in capital at the moment," she said, Reuters reported.

CORPORATE NEWS

AngloGold will explore seabed

Gold miner to join De Beers in hunting for minerals at the bottom of the world's oceans

By Robb M. Stewart



Source: Nautilus Minerals

JOHANNESBURG—**AngloGold Ashanti** Ltd. said Monday that it has joined the search for gold and other minerals on the ocean floor, teaming up with diamond producer **De Beers** SA to explore and ultimately mine the seabed.

Unlike the offshore oil and gas industry, mining the seafloor is in its infancy. Two of the leaders in the hunt for precious and base metals, Sydney-based **Neptune Minerals** and Toronto-based **Nautilus Minerals** Inc., have yet to begin mining. Neptune is exploring the seabed off New Zealand and filed its first mining-license application in July 2008, while Nautilus has said it expects to receive a mining lease from Papua New Guinea this year.

Johannesburg-based AngloGold, one of the world's biggest gold producers, said it will have "first-mover advantage" by partnering with De Beers, a world leader in marine mining. The pair will jointly own the operation, with AngloGold providing the initial funding.

De Beers has an established track record mining gems from the ocean. Its De Beers Marine Namibia unit produced almost 1.06 million carats last year from waters ranging in depth from 90 meters to 140 meters. The company overall produced 48.1 million carats.

"By combining one of the world's most successful gold exploration teams with the foremost authority in ocean mining and exploration, we're creating a powerful base to tackle this new frontier," said AngloGold Chief Executive Mark Cutifani.

Undersea mining remains nascent, largely because of the difficulty involved in extracting metals. Gold companies are likely to be spurred to look to the ocean as they strive for new reserves and while the metal price remains strong.

Nautilus Minerals, which is 11%-owned by Anglo American, plans to mine from the Pacific seabed near Papua New Guinea using underwater robotic vehicles and adapting offshore oil technologies to pump ore to a ship that will take it ashore for conventional smelting.

The company has estimated its key Solwara 1 project, which lies under 1,600 meters of water, has an indicated mineral resource of 870,000 metric tons of copper, gold, silver and zinc. Nautilus was granted an environmental permit in principle last month by Papua New Guinea and continues to work toward a mining lease, it has said.

AngloGold's joint venture with De Beers, a unit of mining giant **Anglo American** PLC, will explore for deposits of metals and minerals between the high water mark—indicating the highest level reached by a body of water—and the edge of the continental shelf—the undersea extension of a continent—worldwide, AngloGold said. It won't cover diamonds unless they are found together with other minerals.

The joint venture will use De Beers' marine unit's two exploration vessels, the Douglas Bay and the Coral Sea, which already search the ocean floor for diamonds. De Beers—which is 45%-owned by Anglo American, 40% by the Oppenheimer family and 15% by the government of Botswana—said its expertise can be adapted to explore for other minerals. However, it said it wasn't currently possible to speculate on what approach to operations might be taken or what deposits could exist on the continental shelf.

Alan Fine, a spokesman for AngloGold, said the venture has already identified a number of exploration projects. He declined to say where these are while the companies negotiate with governments and regulatory authorities.

Tom Tweedy, communications manager for De Beers, said the venture will decide if the mining of minerals could use adaptations of the company's existing technology, which either uses hoses to crawl along the seabed, drawing up diamonds, or drills vertically into the ocean floor from a boat.

Mazda looks for $1 billion with share issue

By Yoshio Takahashi

TOKYO—**Mazda Motor** Corp. said Monday that it plans to raise about $1 billion, partly to develop technologies that will improve the fuel-efficiency of its cars, as **Ford Motor** Co. further reduces its stake in the company.

Encouraged by a less-downbeat outlook for its financial results for the current fiscal year, the car maker said it plans to issue 315.2 million new shares, and is setting aside an additional 48 million shares under an overallotment arrangement in case of exceptionally strong demand.

Mazda is benefiting from a relatively high percentage of European sales.

The share issue would cut Ford's voting stake in Mazda to 11.03% from a current 14.91%. Last year, Ford got rid of part of its stake in Mazda as part of its restructuring plans.

In its effort to raise 96 billion yen ($1.07 billion), Mazda also plans to sell 96.8 million shares it has held as treasury stock. The offering will be made through Nomura Securities, Daiwa Securities SMBC and Goldman Sachs.

The latest fund-raising is part of the Japanese auto maker's plans to spend 292 billion yen on research-and-development operations and 150 billion yen on capital investments over the three years ending in March 2012, a Mazda spokesman said. Of the total, Mazda aims to use 60 billion yen to develop technologies to improve fuel efficiency, with the rest to be spent to upgrade facilities, the spokesman added.

The Japanese auto maker, whose products include the Mazda3 subcompact and the MX-5 Miata, said it now expects a net loss for the current fiscal year of 26 billion yen, an improvement from its earlier forecast of a 50 billion yen net loss. Mazda posted a net loss of 71.49 billion yen for the fiscal year ended in March 2009.

Mazda raised its global vehicle-sales projection for the fiscal year to 1.16 million vehicles from a previously estimated 1.1 million vehicles, thanks partly to the U.S. "cash for clunkers" program and tax breaks and subsidies provided in Japan.

The company now expects revenue of 2.13 trillion yen for the current year, up from its previous forecast of 2.03 trillion yen and an operating loss of 13 billon yen, better than its earlier forecast of a 50 billion yen operating loss.

Mazda's improved outlook makes it a standout among Japanese auto makers. The industry's hopes for improved results have receded recently as the dollar has weakened against the yen. A stronger yen reduces profits earned overseas when repatriated into yen. However, Mazda, which has a relatively high percentage of European sales, is benefiting from a more favorable exchange rate with the euro than it previously expected and stronger-than-expected global sales.

Agence France-Presse/Getty Images

Mazda is looking to make capital investments, with some of the money going to improving fuel efficiency. Above, a Mazda car at a fair in Frankfurt last month.

Top executives at Chrysler leave in major revamp

By Jeff Bennett

DETROIT—In a stunning reorganization, **Chrysler Group** LLC appointed new chief executives for its Chrysler and Dodge brands as the heads of each resigned just months after being named to their posts.

Peter Fong, chief of the Chrysler brand, and Michael Accavitti, head of Dodge, left for personal reasons, the Auburn Hills, Mich., auto maker said Monday.

Mr. Fong will be succeeded by **Fiat** SpA veteran Olivier François as head of Chrysler.

The change means the introduction of another Fiat executive into Chrysler's ranks. Mr. François serves as head of the Lancia brand for Fiat Group Automobiles, a position he will retain. He also will be the lead executive for Chrysler's marketing organization, with responsibility to coordinate worldwide marketing.

The Dodge brand will be broken into two positions, with Fred Diaz Jr. serving as CEO for Dodge Ram trucks and Ralph Gilles becoming CEO for Dodge cars. Michael Manley will continue as CEO of Jeep.

The move represents the first time Chrysler has created a position to oversee pickup trucks, which have remained one of the cornerstones of the auto maker's U.S. product portfolio.

Separating different areas within a brand follows the strategy Sergio Marchionne has implemented as CEO of Fiat, Chrysler spokesman Gualberto Ranieri said in an interview Monday. Mr. Marchionne became Chrysler Group's chief when the Italian auto maker took charge of Chrysler through its bankruptcy-court reorganization orchestrated by the U.S. government.

Chrysler needs to quickly fix its U.S. operations and product portfolio. The company's September U.S. sales dropped 42% compared with a year earlier.

The departures of Messrs. Fong and Accavitti were surprising since the men were named to the newly created brand CEO positions in June. They represented Chrysler at the Frankfurt Auto Show last month, where they spoke with the media about the auto maker's plans.

Mr. Marchionne typically keeps a tight rein on executives. He is set to release details of Chrysler's five-year revamping plan in November.

"This is part of the continuous process of strengthening the management team of the company," Mr. Ranieri, the spokesman, said Monday. He declined to address specifically the departures of Messrs. Fong and Accavitti. "This confirms the focus on the brands," Mr. Ranieri said.

In another move, Joseph Veltri was named head of product planning on the company's management team. He started with Chrysler in 1988 and has worked in finance, marketing, product planning and business strategy. He served most recently as head of product planning and head of planning for trucks and sport-utility vehicles.

Mr. Marchionne in June named Pietro Gorlier CEO of Chrysler's Mopar parts group and Richard Palmer as chief financial officer. Both men had been with Fiat.

Bloomberg News

The Crown consortium, led by former Ford director Michael Dingman and former Ford and Chrysler executive Shamel Rushwin, is interested in Ford's Volvo unit.

Group linked to Ford weighs a bid for Volvo

Former executives of parent have held talks for two years

By Matthew Dolan

A consortium led by two executives linked to **Ford Motor** Co. is in talks to buy the car maker's Swedish brand, Volvo, according to people familiar with the matter.

The Crown consortium is led by former Ford director Michael Dingman and former Ford and Chrysler executive Shamel Rushwin. Since the private-equity-backed group began discussions with Ford about Volvo two years ago, it was unclear where the bid stood in comparison to the reported leader in the process, Chinese auto maker **Geely Holding Group** Co.

Ford spokesman Mark Truby said the company won't comment on potential bidders for Volvo. People familiar with the matter declined to say exactly how much Crown is offering for Volvo.

The Wall Street Journal reported late last month that Ford was in the midst of analyzing a bid by Geely to acquire 100% of Volvo for about $2.5 billion. On Monday, Geely spokesman Wang Ziliang declined to comment.

The Geely offer is higher than Ford or outsiders had expected for a brand that has lost more than $1 billion in recent years. In the quarter ended June 30, Volvo lost $231 million. The offer nonetheless may be worth far less to Ford, given Geely's proposal to leave behind Volvo pension obligations, unwanted inventory and other substantial restructuring liabilities with Ford, people familiar with the offer have said.

Geely and another Chinese company, **Shanghai Automotive Industry** Corp., also known as SAIC Motor, want Volvo for its strong brand and technology. Its dealer network also represents a chance to penetrate the U.S. and European markets with non-Volvo products.

Another sticking point for Geely and SAIC Motor has been their preference to acquire only a portion of Volvo, while Ford has been adamant it wants to part with 100% of the unit. Originally, Geely hoped that Ford would retain at least a 25% stake in Volvo, but Ford has declined to budge, according to a person briefed on the matter.

The U.S.-led consortium's leader, Mr. Dingman, has been president of Shipston Group Ltd., an international holding company based in Nassau, Bahamas, since 1994, according to a Web site for his Center for Entrepreneurship at the University of Maryland. He previously was a chief executive or president of several major U.S.-based industrial corporations, including Wheelabrator-Frye Inc. and AlliedSignal Inc. He served on Ford's board of directors for 21 years, according to the site.

Leaders of the Crown consortium are looking to bring in former Volvo executives as stakeholders for about one-third of the deal, according to the person briefed on the talks. Among them is Roger Holtback, who was chief executive of Volvo in the late 1980s.

Members of the consortium have been talking to Ford about a Volvo sale for about two years, according to this person.

The Crown discussions predate the official disclosure in December by Ford that it was considering selling Volvo. Ford has been shedding noncore brands, including Jaguar and Land Rover, in recent years to put more emphasis on its Ford, Lincoln and Mercury products.

—*Norihiko Shirouzu contributed to this article.*

Home builders curtail freebies

By Dawn Wotapka

Home builders are scaling back on the incentives offered to attract buyers, putting an end to such freebies as sports cars and tropical vacations.

With new-home inventory falling as home sales in many markets pick up, builders say they no longer need to offer eye-popping inducements to move homes.

"I don't know of any examples, at least in our system, where we're offering the kind of huge incentives that were being offered two or three years ago," said Brent Anderson, vice president of investor relations for **Meritage Homes** Corp., based in Scottsdale, Ariz.

In 2007, Meritage offered shoppers at its Valley Vista community in northern Phoenix $60,000 of incentives, including a free pool, gourmet kitchen or a reduction of the $349,000 ticket price, for a three-bedroom home with two-and-a-half baths. But the company is now building smaller, simpler houses that sell for about $245,000. Today's buyers are more likely to get Meritage to pay their closing costs, worth about 6% of the closing price, or about $15,000 at Valley Vista.

Builders acknowledge that incentives are a part of doing business and they will never disappear completely. And the moves to cut back could be reversed if home sales stall again, which some housing analysts and economists are forecasting. These pessimists warn that new-home sales could slow when the $8,000 federal tax credit for qualified first-time buyers expires later this year or when a possible wave of foreclosed homes hits the market, which will compete with new homes for buyers.

For the time being, the pullback in construction and the reduction in inventory means more builders can sell homes without cutting as deeply into their profit margins. According to Jeffrey Laverty, an analyst with independent research firm Oscar Gruss & Son, single-family home supply whittled from 570,000 at the 2005 peak to 261,000 as of August. Supply, meanwhile, has fallen from 12.4 months in January to 7.3 in August, nearing the six-month mark considered a healthy balance between buyers and sellers.

During the housing boom, incentives weren't really needed. Loose lending standards fed what seemed to be insatiable demand. With buyers willing to pay more, builders added square footage and tacked on profitable incentives, helping boost the gross margin to an average of 26.2% in 2005—nearly double current rate, according to J.P. Morgan Chase analyst Susan Berliner.

During the housing bust, builders were stuck with a bloated supply of oversized and overpriced houses. They initially resisted price cuts, fearful of angering current owners who paid boom-time prices. Instead, builders moved to incentives that helped to mask pricing discounts.

The sector then resorted to slashing prices to move completed-but-unsold homes and get cash in the door. About two years ago, **Hovnanian Enterprises** Inc. offered the 72-hour "Deal of the Century," shaving six figures off some home prices. In California, some neighborhoods from San Diego to Bakersfield—one of the markets hardest-hit by the downturn—carried incentives valued at as much as $100,000, plus other upgrades.

As the market deteriorated further at the end of 2008 and into early 2009, builders offered anywhere from 15% to 25% of the sales price in incentives, said Mollie Carmichael, senior vice president of John Burns Real Estate Consulting. Currently, the average ranges between 5% and 10% of the sales price depending on the area. And more often, incentives include offers of closing costs and reduced interest rates.

For example, luxury builder **Toll Brothers** Inc. earlier this year offered buyers a fixed rate of 3.99% on 30-year fixed-rate mortgage. **Lennar** Corp., one of the nation's largest builders, went further with 3.625%. It is currently touting 3.99% on its Web site, a slightly higher rate, but one below the current average of 5.13% for a 30-year fixed loan below $417,000, according to mortgage-market analyst HSH Associates.

To offer lower mortgage rates, builders make upfront cash payments to mortgage companies, a process known as a "buy down." On a $200,000 loan, it typically costs about $8,000 to buy down the mortgage rate by a full percentage point on a 30-year mortgage. Homeowners often make similar payments, known as points, to obtain a lower interest rate. For the builder, the buydown is treated as a cost of sale.

Australia clears Sino Gold deal

By Alex Wilson

MELBOURNE, Australia—The federal government approved a 1.76 billion Australian dollar (US$1.52 billion) takeover of **Sino Gold Mining** Ltd. by Canada's **Eldorado Gold** Corp.

Eldorado, which bought a 20% stake in Sino Gold from South Africa's **Gold Fields** Ltd. last month, is offering 0.55 share for every Sino share in a deal that values Sino Gold at A$2.2 billion.

Sino Gold, which operates two mines in China, said Monday that Australia's Foreign Investment Review Board gave unconditional approval for the deal to proceed.

Sino Gold operates a major Chinese gold mine, Jinfeng in Guizhou province in the south, and is ramping up output from its new White Mountain mine in Jilin province in the northwest.

Eldorado also has operations in China, which has become the world's largest gold-producing country by volume.

CORPORATE NEWS

Eric Foss to lead new PepsiCo unit

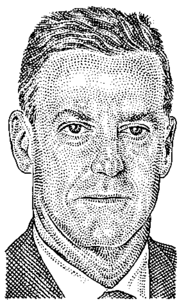
Pepsi Bottling chief takes U.S. bottler job despite past battles

BY VALERIE BAUERLEIN

PepsiCo Inc. chose Eric J. Foss, head of its biggest independent bottler, to lead the combined North American bottling unit when it's integrated into the company early next year.

Mr. Foss will report directly to PepsiCo's Chairman and Chief Executive, Indra Nooyi, whom he battled for more than three months over the price and terms of PepsiCo's acquisition of its two biggest bottlers. The Purchase, N.Y.-based food-and-beverage giant agreed in August to pay $7.8 billion for the shares it didn't already own of Pepsi Bottling Group Inc., led by Mr. Foss, and PepsiAmericas Inc., led by Robert Pohlad.

By taking its big U.S. bottlers in house, PepsiCo has said it will be able to cut costs and deal more directly with stores, helping to strengthen its dominance over **Coca-Cola** Co. in noncarbonated drinks.



Eric Foss

Ms. Nooyi said that the rancorous deal negotiations "were in the past" and that Mr. Foss brings continuity and stability to the new unit, as well as a necessary attention to detail. "Eric Foss is the best of the best," she said. "He's the operator's operator."

PepsiCo's appointment of an experienced operator puts some additional pressure on Coke, which would benefit from any disruption in the deal integration. The Atlanta beverage giant relies on large, independent, publicly traded bottlers to distribute the bulk of its drinks in the U.S. Coke Chief Executive Muhtar Kent has said he's committed to the franchise model.

Mr. Foss has a reputation for managing details, from getting displays in stores to wringing out pennies per case in savings.

"The bottom line is that with PepsiCo pouring $8 billion into this deal, it's essential they do it right," said John Sicher, editor and publisher of Beverage Digest, an industry publication. "Eric's appointment goes a long way to insuring that."

Mr. Foss, 51 years old, is a 27-year veteran of the Pepsi "blue system." He worked for PepsiCo before it spun off Pepsi Bottling in a 1999 public offering. He was named that company's CEO and a board member in July 2006, and its chairman in 2008.

Mr. Foss's initial task will be to guide the integration of the bottling unit. In the long run, his unit will be expected to improve delivery to big customers like Wal-Mart Stores Inc., to better incubate and deliver relatively small juice and tea lines and to help boost the sales of once-hot Gatorade.

The international operations of Pepsi Bottling and PepsiAmericas will be managed by PepsiCo's European business after the merger is completed.

JAL puts talks with Delta, AMR on hold

BY DOUG CAMERON AND MIKE ESTERL

Japan Airlines Corp. likely won't conclude alliance talks with rivals **Delta Air Lines** Inc. and **AMR** Corp.'s American Airlines until a Japanese government task force finishes a review of its ailing financial structure, according to people familiar with the matter.

The airline's executives had hoped to choose between proposals floated by Delta Air Lines and partner American Airlines this month.

But Japan's government last month set up a five-member panel to advise on the company's overhaul. As a result, a previously set deadline for finalizing JAL's restructuring plan was put off by two months until the end of November.

The U.S. carriers have maintained contact with their Japanese counterparts, but any resolution of a process that could see JAL switch its allegiance within global industry alliances has been put on hold pending the restructuring, said the people familiar with the matter.

JAL's troubles pose a quandary for the new prime minister and his party.

"No one is packing their bags," said another person familiar with the matter.

The delay underscores the political complications behind returning JAL to financial health. The Japanese carrier posted its largest-ever quarterly net loss, 99 billion yen ($1.1 billion) in the three months to June, primarily because of a decline in travel amid the economic slowdown. For the fiscal year ending in March, JAL forecasts a net loss of 63 billion yen.

Last month the former national flagship carrier asked the Japanese government for a bailout, in what would be its second this year and its fourth since 2001, to help the unprofitable carrier weather a sharp drop in global travel and tougher competition. In June, JAL accepted about 100 billion yen in loans from state-backed Development Bank of Japan and other banks.

The airline's troubles pose a quandary for the new administration of Prime Minister Yukio Hatoyama and his Democratic Party of Japan. Japan's transport minister last week said the government was willing to step in to help JAL, in an effort to restore public confidence.

Talks with Delta and American include the potential for minority stakes, people familiar with the matter have said, though their size would be limited by Japanese foreign-ownership restrictions. Despite its financial woes, JAL remains an attractive partner because of its lucrative trans-Pacific routes and its access to fast growing Asian markets.

JAL is already a partner with American through the Oneworld alliance. Delta is a member of the rival SkyTeam alliance, which lacks a Japanese partner.

CORPORATE NEWS

Microsoft predicts slow rebound

International chief sees stronger showing for new Vista software

By Kathy Sandler

LONDON—The economic slump has bottomed out and optimism is returning, but it will take some time for business to return to more normal levels, **Microsoft** Corp. International President Jean-Philippe Courtois said Monday.

Mr. Courtois's comments echo those of Microsoft Chief Executive Steve Ballmer, who told delegates at a Confederation of British Industry conference Monday that he expects the economy to stay weak and recover only slowly.

Still, Mr. Courtois was more optimistic on the outlook for emerging markets, which he said are doing well. Microsoft doesn't separate out business performance geographically.

Mr. Courtois said he expects Windows 7, the company's highly anticipated new operating platform, to reach a higher penetration than Microsoft's previous products, such as Windows Vista—the company's last major operating-system upgrade, which captured just 19% of the market. Vista's showing was at least partly to blame for a two-year pause in information-technology spending.

Reuters

Microsoft International President Jean-Philippe Courtois, shown in March, says it will take some time for business to return to normal levels.

But recently there has been a shift in allocated budgets for new IT products, with chief information officers looking to refresh their PCs in the next 12 to 18 months following the recent hiatus, Mr. Courtois said.

"CIOs have had their budgets cut in the last year, typically between 10% to 15%. But you'll begin to see more projects happening now in the next 12 months," he said, adding that Windows 7 is expected to be a key demand driver.

The new platform officially launches Oct. 22, although it was trialed earlier this year and the completed product is already in use in some offices. So far Windows 7 has taken a 1.5% share of the overall operating-system market, according to Web market-data company NetApplications.com.

"It's been a combination of some not adopting Vista broadly, as well as the economy—they had no money to spend" on upgrades, Mr. Courtois said.

One of the key reasons for the expected improvement in penetration is that Windows 7 can be installed on older PCs without other extensive software or hardware upgrades, Mr. Courtois said.

Although the company hasn't issued projections for its Windows 7 rollout, data from a Microsoft-commissioned IDC study in July forecast that Windows 7 shipments would reach 177 million units by the end of 2010.

Commenting on Microsoft's recent foray into Web search and its Bing platform, Mr. Ballmer told the CBI conference that he doesn't plan to change his focus on organic growth, suggesting that acquisitions to counter **Google** Inc.'s dominance are unlikely.

Gourmet falls in Condé Nast magazine cull

By Russell Adams

Condé Nast Publications Inc. will close Gourmet and three other publications as the magazine giant seeks to position the company for a slow advertising recovery.

In addition to Gourmet, the publisher will shut Cookie, Modern Bride and Elegant Bride and lay off about 180 people, Condé Nast Chief Executive Chuck Townsend said in an interview Monday.

The cuts follow a nearly three-month review by McKinsey & Co. that will result in expense reductions of as much as 20%-25% at many of the magazines, which include Vogue and Vanity Fair.

The company, a unit of Advance Publications and based in New York, also publishes GQ, The New Yorker and Wired.

Like most magazine publishers, Condé Nast has struggled to stem the steady decline of advertising exacerbated by the economic crisis. Until recently, however, Condé Nast has shielded its employees from the economic troubles.

Condé Nast was aided by luxury advertisers, which didn't cut spending until after many mass-market advertisers pulled back. As a result, magazines like Vogue were able to weather the downturn into the second half of last year.

But then the number of ad pages in three of Condé Nast's most profitable magazines, Vogue, Glamour and Vanity Fair, fell nearly 18% in the fourth quarter of 2008 from the same period a year earlier.

Squeezed, the publisher began taking more drastic measures, closing Domino and Portfolio magazines earlier this year.

The outlook worsened. In the second quarter of this year, ad pages at 14 of Condé Nast's 23 print publications fell by more than the industry average of 29.5%, according to the Publishers Information Bureau.

In July, Mr. Townsend wrote in a memo to employees that the company had hired McKinsey to help "realign Conde Nast to be a successful business in an emerging economy that is now predicted to be painfully slow in recovering."

As McKinsey looked for cost savings, Condé Nast executives began looking at whether some of the worst-performing magazines could be salvaged through dramatic restructurings. Ultimately, Mr. Townsend said, it was clear they were beyond restructuring.

"We've been working with those titles in addition to others titles to maximize their financial health in this economy," Mr. Townsend said Monday. "And unfortunately, these titles just fall below the line. We can't sustain them."

Delhaize picks up U.S. supermarket BI-LO

By Peppi Kiviniemi

BRUSSELS—Belgium-based supermarket operator **Delhaize Group** said Monday that it agreed to buy \$425 million of assets from U.S. retailer BI-LO, which is under bankruptcy protection.

The deal will enhance Delhaize's ability to compete on prices in the southeastern U.S., where Wal-Mart Stores Inc. has a heavy presence.

Delhaize already generates most of its profit and sales in the U.S., where it operates the Food Lion, Hannaford and Sweet Bay chains. In 2008, Delhaize's revenue from its U.S. stores was \$19.2 billion.

The assets include most of BI-LO's 214 stores, with an estimated \$2 billion in sales in 2008, Delhaize said. The company will also take on most of BI-LO's inventory and the right to continue using the BI-LO brand, without assuming any of the supermarket chain's debt, a spokesman for the Belgium-based company said.

BI-LO was forced into Chapter 11 bankruptcy protection in March due to a heavy debt load that the company could no longer service.

The provisional deal was brokered by the two companies. Neither BI-LO's primary shareholder, Dallas-based private-equity fund Lone Star Funds, nor BI-LO's creditors have so far been involved in the negotiations, the Delhaize spokesman said.

On completion of the deal, Delhaize will integrate the BI-LO assets into its Food Lion chain, which is based mainly in the southeastern U.S., where it has some 1,300 stores and around 74,000 employees, operating under the names of Food Lion, Bloom, Bottom Dollar, Harveys and Reid's.

BI-LO has grocery stores in North Carolina, South Carolina, Tennessee and Georgia, and the supermarket chain employs about 15,500 people.

The acquisition of the BI-LO stores will make Delhaize's Food Lion stores more competitive, especially against Wal-Mart, said Bank Degroof analyst Ivan Lathouders.

The competition for consumers' dollars is fierce in the U.S., where supermarkets mostly compete on low prices. Having more stores in a concentrated area will allow Delhaize to boost efficiency without losing too much of its profit margin, Mr. Lathouders added.

Before closing the deal, Delhaize and BI-LO need to obtain a final sale order from the bankruptcy court of South Carolina.

Declines moderate in air-travel but prices don't

By Ann Keeton

September air-passenger traffic fell slightly from a year earlier, an improvement over previous months that indicates carriers have been successful in downsizing to match this year's weak travel demand.

But the industry continues to be challenged by weak business travel, as low average ticket prices depress revenue for many airlines on both sides of the Atlantic.

British Airways PLC said Monday that business traffic didn't pick up in September as it usually does. Overall traffic last month fell less than 1%, but premium traffic, a key revenue driver, fell 7.9%, the airline said. September is usually a strong month for premium traffic as business passengers return from summer vacations. BA added that for the rest of the year, it expects to face easier monthly comparisons for business travel, which last year was hit by the global financial meltdown.

Continental Airlines Inc. said last week that average fares in September suffered their biggest monthly drop so far this year, expected to push monthly revenue down by about 19% compared with last year.

Capacity cuts have resulted in fuller planes. **AMR** Corp. said Monday that the amount of seats filled on its American Airlines flights rose to 79.4% last month from 76.6% a year earlier. Capacity fell 6.9%, more than offsetting a 3.5% drop in passenger traffic.

Low-cost Ireland-based carrier **Ryanair Holdings** PLC said traffic rose 17% in September, with load factor, a measure of how full its planes are, up one percentage point to 85%, as leisure travelers sought the lowest-priced flights.

But another low-cost airline, **US Airways Group** Inc., said passenger revenue per available seat mile, a key industry performance measurement, slumped 15% last month, as fare sales continue to cut into revenue.

In recent months, airlines have been selling stock and bonds to bolster their balance sheets for the lean winter months. On Monday, United Airlines' parent, **UAL** Corp., said it planned to refinance existing debt to take advantage of improving market conditions. That will strengthen the company's finances, and reduce debt payment obligations in the next couple of years, United said.

U.K. energy-plant workers reject offer, may start strikes

By Angela Henshall

LONDON—Thousands of engineering and construction workers at U.K. energy plants have voted to reject their employers' offer to improve pay and conditions and may begin industrial action, a leading union said Monday.

Up to 30,000 engineering and construction workers rejected the offer following individual ballots held over the past two weeks, the GMB union said.

The GMB union said workers at several sites around the U.K. had voted in favor of another round of industrial action. The sites include **Ineos** PLC's 210,000-barrels-a-day Grangemouth refinery in Scotland, **Royal Dutch Shell** PLC's 240,000-barrels-a-day Stanlow refinery, **RWE** AG's Aberthaw and Staythorpe power stations, **Chevron** Corp.'s Pembroke Refinery in Wales and the Sellafield nuclear site in England.

In June, hundreds of laid-off workers at **Total** SA's 200,000-barrels-a-day Lindsey oil refinery got their jobs back after staging protests. The move prompted copycat strikes at dozens of other sites across the country, resulting in more than 8% of the engineering-and-construction industry's work force downing tools.

The speed and scale of the wildcat strikes caught energy companies by surprise. The protests were organized by assembling large groups of people at specific sites using mass text messages and social networking Web sites.

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INVESTING IN INDIA

A hospitable climate draws foreign investors

High rates of domestic savings and investment, along with government spending programs, a liberal FDI regime and robust consumption are helping drive growth

In a world struggling to recover from the worst recession in decades, India stands as a beacon to the international investor. With gross domestic product growing at 6.7% in the fiscal year ending March 2009, India is the world's fastest-expanding economy after China. What makes the country even more attractive is that its growth is underpinned by high rates of domestic savings and investment.

Despite the global downturn and dwindling international credit and capital flows, India attracted $27 billion (€18.57 billion) in foreign direct investment last year. Between April and July of this year, $10.53 billion of FDI was received. That more than anything suggests that the government is doing something right.

"India has one of the world's most liberal FDI regimes," says Shailesh Haribhakti, chairman of international audit firm BDO Haribhakti in Mumbai. "India is more hospitable to foreign investors through their life cycle than even countries like France and Germany," he says. And, he adds, India is the most hospitable of the BRIC [Brazil, Russia, India and China] countries when it comes to caps on investment, enforceability of contracts and discrimination between local and foreign-owned businesses.

Despite the sharp decline in exports last year — down 30% — the economy continued to grow thanks to robust domestic consumption: 57% of GDP according to the McKinsey Global Institute. Here it was the government's stimulus package — which injected over $100 billion into the economy — that has contributed the most, along with supportive fiscal and monetary policies. The government cut excise rates four percentage points to stoke demand and the Reserve Bank of India (RBI) kept interest rates low at under 7%.

Over the past six years, India's savings rate has been steadily increasing. In 2006-07, it hit a record 35% of GDP, which it has maintained. For India's $1.2 trillion economy, it represents $420 billion of domestically available capital — or more than 14 times the amount of FDI.

"A 7% to 8% growth rate is sustainable on the back of domestic drivers alone. For 9% growth, however, we need a full-blown global recovery that helps exports," says Abheek Barua, chief economist at HDFC Bank in Gurgaon, a satellite city of New Delhi.

> *"A 7% to 8% growth rate is sustainable on the back of domestic drivers alone. For 9% growth, however, we need a full-blown global recovery that helps exports."*

Moreover, these fund flows will be supplemented by overseas borrowings and portfolio investments. "The market for emerging-market loans, bonds and equities has improved considerably both in terms of volumes and the prices," says Mr. Barua. "A $15 billion to $20 billion external commercial borrowing flow should be easy to achieve by 2010."

Economic policy

Capital investments of this scale will give a tremendous boost to the economy. As the economist John Ross, a professor at Jiao Tong University in Shanghai, recently observed, Prime Minister Manmohan Singh "has constantly stressed the need to raise India's savings and investment rates and has made this a foundation of his economic policy." When India's gross fixed investment increased to 33.9% of GDP in 2007, he says, the annual GDP growth rate accelerated to 8.8% from 6% in 2000.

Last year's across-the-board increase in the wages of government employees — costing $4 billion — had a huge impact on consumer spending, best reflected in the spurt in demand for consumer durables. But it's the government's social welfare measures, notably the national rural employment guarantee plan, that have put money in the pockets of rural consumers.

Large investments in rural infrastructure, including housing, roads, water and sanitation, power and telecommunications, have also had an impact. Along with the increased spending on the national highway program, these projects are likely to create huge demand for cement, steel, construction materials and equipment and generate employment.

Borrowing and spending on such a scale, however, comes at a price. "The government's draft on funds will be high," says HDFC Bank's Mr. Barua. "By the end of 2010, we might actually see some 'crowding out' [of other borrowers] that leads to [interest rate] increases of over 100 basis points. The RBI is likely to tighten monetary policy to fend off inflation."

There is considerable scope for the government to fund its welfare commitments and infrastructure-building programs, but not at the expense of private investment. The first is by increasing its tax revenues by rationalizing the tax structure. The most important initiative in this regard is the proposal to introduce a national Goods and Service Tax (GST) by next April. It is expected to be set within the range of 8% and 12%.

'Economic unification'

Recently approved by a conclave of state finance ministers, the GST has been described by observers as the "economic unification" of India 62 years after the founding of the republic. Replacing a welter of local duties and interstate levies with a uniform tax will ease the movement of goods, simplify procedures, reduce corruption and enhance revenues.

According to New Delhi-based Vijay Kelkar, chairman of the government's 13th Finance Commission and champion of tax reform, India could gain as much as $15 billion annually from GST.

The second area for huge savings is the government's multiple welfare plans and bringing greater transparency into their functioning, says Mr. Haribhakti of BDO Haribhakti. A third, he maintains, is to set a clear timetable for government disinvestment in public-sector enterprises, the sale of radio spectrum and third-generation mobile-phone system licenses, and the encouragement of private-public partnerships in infrastructure projects such as road, port and airport construction and operation.

Financing investment

The government is also working to make the most of India's high savings rate by encouraging a more productive use of savings. Upfront fees for investments in mutual funds and pension plans have already been scrapped and now a government-appointed committee has recommended scrapping payment of upfront commissions to insurance agents as well. The object is to allow people to get value for their savings, to rebalance rewards and in the process channel household savings, which constitute 70% of all savings, to finance investment.

Finally, to put public finances on a more disciplined and sustainable footing, Mr. Haribhakti recommends a quick return to the strictures of the Fiscal Responsibility and Budget Management Act of 2003 that sought to cap the government's fiscal deficits at 3% of GDP. It currently stands at 6.8% of GDP.

In the longer term, India's demographic profile could prove its greatest advantage. With over half of its 1.1 billion population below the age of 25, the growing work force will become a source of savings and an engine of future growth.

Illustrations by Christopher Serra