Leading the News: Global trade shows promising growth signs

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Breaking news at europe.WSJ.com

Reuters

Britain's opposition Conservative Party leader David Cameron delivers his keynote address, on the final day of the Conservative Party conference in Manchester, northern England, on Thursday.

Cameron puts vision, values before details

By Alistair MacDonald And Laurence Norman

MANCHESTER, England—U.K. Conservative Party leader David Cameron pitched himself as a fiscally responsible leader with many traditional Tory values at his party's annual conference here, betting that a sober prescription for Britain's problems will resonate with voters as he seeks to unseat Prime Minister Gordon Brown.

In a speech that was long on personal vision and light on policy details, Mr. Cameron vowed to tackle Britain's mountain of debt, put an end to "big government" and champion an increase in personal responsibility.

The Conservatives have a double-digit lead over Labour ahead of an election expected in the spring. But this conference, party leaders and activists have tried to avoid triumphalism and instead exude a quiet confidence that takes into account the economy's troubles and the years of belt tightening that will be needed to right them. On Thursday, the usually animated Mr. Cameron followed suit with a subdued speech that continually talked of the hard work ahead.

"We will be tested, I will be tested," he said. "I am ready for that. ... Yes, there is a steep climb ahead. The view from the summit will be worth it."

Mr. Cameron's speech struck a different tone than Mr. Brown in the latter's address to last week's conference of the ruling Labour Party, which has been in power since 1997. Mr. Brown unveiled a long list of policy and social initiatives, without much explanation, critics say, of how they would be paid for at a time when the U.K. already faces record debt levels. But in a sign of the emerging battle over how to cut the budget, the Labour government unveiled one of its own spending cuts—a freeze on senior civil servants' pay—just ahead of a similar announcement from the Tories.

So as the party conference season winds down and an unofficial election campaign begins, the two parties have pitched themselves into a full-throttle debate over public spending and how much pain will be necessary to tackle a moribund economy and its mammoth debts.

Julia Clark, head of political research at pollster Ipsos Mori, said Mr. Cameron's speech and the whole four-day conference represent a "calculated risk" that the public will be impressed by honesty over planned spending cuts. That could backfire, with polls showing voters are "still not totally on board with that message," many believ-

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Shoe-tariff extension divides EU countries

By John W. Miller

BRUSSELS — European Union governments are divided over a plan to extend antidumping tariffs on Chinese and Vietnamese shoe imports, in a standoff that gives insight into how companies' global supply chains have restrained protectionism in the global economic downturn.

The 27-nation bloc agreed to impose tariffs on shoes from the two countries in 2006 under pressure from a coalition of shoe manufacturers and governments, led by Italy. Now, with a decision looming on whether to extend them, opposition from governments and shoe manufacturers in other European countries has grown and a showdown is in prospect.

One reason support for the tariffs has weakened is that they haven't been that effective. The antidumping duties—16.5% on some categories of shoes from China and 10% on some categories of shoes from Vietnam—have caused imports from those two countries to level off, while imports from other countries, such as Indonesia and Thailand, have risen rapidly.

More EU-based shoemakers have also joined the coalition against the tariffs since they were imposed, which could swing the decision.

Ecco Sko AS, a Danish shoe company with more than $1 billion in annual sales and 15,000 employees, had just completed a plant in Xiamen, China, when the duties went into effect. It won't say how much it has paid in duties since 2006, but EU firms have paid about €800 million ($1.2 billion) in shoe tariffs since 2006.

Ecco also has plants in China, Indonesia, Thailand, Slovakia and the Netherlands. It makes 20% of its shoes in Europe, mostly the more expensive models.

Its business model calls for making different shoes in different parts of the world and shipping them everywhere, including to growing markets in Asia, says Gerd Rahbek-Clemmensen, a vice president. "Tariff obstacles in Europe increase the chances that China will close its markets."

Even Italy can no longer deliver a solid front for the tariffs. Diesel, a trendy Italian jeans designer that makes shoes in Vietnam, Cambodia, Taiwan and Italy, has joined the battle against duties. "Frankly, we've been disappointed by the quality of the work we've seen from Italian manufacturers," says production director Rudy Pagiotto. "The bottom line is Asia is now a more reliable place to make shoes."

The next step in the bureaucratic renewal process is Friday, when the European Commission, the EU's executive body, sends governments and industry groups a proposal to extend the tariffs by 15 months, say EU diplomats. The commission had leaned toward recommending that the duties be eliminated, but it recently was forced to rebuff a plea from Italy that all shoes carry a "Made in" label specifying where they were produced, amid strong opposition to such labeling from other countries. But the commission didn't send the shoemakers away empty-handed.

EU countries will vote on the tariffs at a meeting in mid-November, and make a deci-

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	CLOSE	PCT CHG
DJIA	9786.87	+0.63
Nasdaq	2123.93	+0.64
DJ Stoxx 600	243.44	+1.31
FTSE 100	5154.64	+0.90
DAX	5716.54	+1.34
CAC 40	3806.81	+1.34
Euro	$1.4764	+0.56
Nymex crude	$71.69	+3.05

LEADING THE NEWS

ECB, Bank of England hold rates steady

Trichet sees euro-zone economy stabilizing but warns of uncertain outlook; banks give no hints of imminent moves

By Paul Hannon

Agence France-Presse/Getty Images

European Central Bank President Jean-Claude Trichet speaks at a news conference in Venice after Thursday's meeting.

LONDON—The European Central Bank and the Bank of England didn't change interest rates or other measures designed to boost growth Thursday, and gave no indication that major moves are imminent.

The ECB left its key interest rate unchanged at 1%, while the U.K. central bank left its key rate at 0.5% for the eighth consecutive month and stuck to its program of buying £175 billion ($278.33 billion) in government bonds.

There are signs that the economy is starting to grow again but questions persist over how strong and sustained the apparent recovery will be. Neither the ECB nor the BOE seems likely to raise key interest rates for many months.

At a news conference in Venice, ECB President Jean-Claude Trichet said the euro-zone economy is stabilizing and is expected to recover at a good pace. He warned against a premature declaration of victory, and said the outlook is highly uncertain.

"We have ahead of us a bumpy road, even if we are out of this period of free fall," Mr. Trichet said.

That led many economists to conclude that the central bank won't raise its key interest rate until well into 2010.

"The ECB's cautious tone in the press conference following its decision to leave interest rates on hold for the sixth consecutive month supports our view that any future tightening of policy conditions in the region remains a long way off," said Jonathan Loynes, chief European economist at Capital Economics.

Like his counterparts at the BOE, Mr. Trichet continues to fret over the state of the banking system, noting that lending growth is "subdued," while urging banks to rebuild their capital.

Many observers expect the euro-zone economy to have broken a sequence of five successive quarters of contraction in the third quarter.

There were further indications that was the case Thursday, when figures released by Germany's Economics Ministry showed industrial production in the euro zone's largest member grew 1.7% in August from July.

The ECB's rough estimates are for the economy to shrink 4.1% this year and grow 0.2% next year. It expects inflation to be around 0.4% this year and 1.2% in 2010, well below its medium-term goal of "close to, but under 2.0%."

The euro's recent sharp rise against the U.S. dollar, sterling and other major currencies is another emerging threat to the euro zone's recovery.

A strong currency helps to hold down inflation by reducing prices paid for imported goods, notably commodities such as oil that are priced in dollars. But it also makes exports more expensive, potentially weakening one of the euro zone's traditional drivers of growth.

Mr. Trichet said rapid changes in the euro's exchange rate versus the dollar are against the interests of the euro zone and the U.S., and said there would be no unilateral moves to respond.

"We are saying on both sides of the Atlantic—we will cooperate as appropriate," Mr. Trichet said. "We consider that excess volatility has had adverse implications for economic and financial stability on both sides of the Atlantic."

While the ECB appears to have ruled out further stimulus, at least for now, that isn't true of the BOE, which continues to keep that option open.

"The scale of the program will be kept under review," the BOE's Monetary Policy Committee said after announcing that it was leaving its bond-buying program at £175 billion.

Before this month's MPC meeting, economists said they thought any expansion in the quantitative easing program would come in November, when the BOE publishes new economic forecasts.

"The MPC will have to decide whether recent signs of recovery are the first rays of light in a sustained recovery, allowing a suspension of QE, or a false dawn, necessitating further stimulus," said Stephen Boyle, head of economics at RBS Group.

—Geoffrey T. Smith and Nina Koeppen contributed to this article.

Typhoon hits Japan, killing at least 2

By Daisuke Wakabayashi

TOKYO—A strong typhoon brought heavy rain and winds to Japan on Thursday, killing two people and shuttering factories, closing schools and stranding commuters and travelers at airports and train stations.

An additional 64 people were injured, according to local media.

Still, initial damage reports suggested Typhoon Melor, while powerful, didn't cause the type of widespread devastation initially feared. Meteorologists had been warning the storm could be the most powerful to hit Japan in more than a decade. Melor was the first typhoon to reach landfall in Japan in two years.

The typhoon brought wind speeds of about 160 kilometers an hour while dumping 30 centimeters of rain in some regions, according to the meteorological agency.

A 54-year-old man was killed while delivering newspapers when his bike hit a fallen tree, while a 69-year-old man died after a tree fell on him, according to local police.

Many factories in the manufacturing-rich prefectures in central Japan were shut because of the storm.

Toyota Motor Corp. said it closed 12 car and car-part factories in Aichi prefecture in central Japan. **Honda Motor** Co. said it also halted production for the day at a central Japan facility.

Sony Corp. delayed the opening of four plants in Aichi, Gifu and Shizuoka prefectures. All are in central Japan. Among the products made at the facilities are liquid crystal display televisions, digital cameras and camcorders. Sony said there was no damage to any of its factories in the area.

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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

Agence France-Presse/Getty Images

Czech President Vaclav Klaus, the last EU leader holding out on signing the Lisbon Treaty, has set a new condition before he considers ratifying the text.

Czech leader demands Lisbon Treaty footnote

Mysterious request adds to uncertainty about future of EU

By Charles Forelle And Joel Sherwood

BRUSSELS—Czech President Vaclav Klaus, whose signature is the last obstacle to the adoption of a treaty to make the European Union's leadership more powerful, said he wanted a "footnote" added to the document before he would consider approving it.

The fresh demand muddied speculation about when, if ever, the so-called Lisbon Treaty will take effect.

In a phone call Thursday, Mr. Klaus told Swedish Prime Minister Fredrik Reinfeldt, whose country holds the EU's rotating presidency, that he wanted to add a footnote to the EU's Charter of Fundamental Rights, Mr. Reinfeldt's spokeswoman said. The charter is effectively incorporated into the treaty.

The request "sends the wrong signal at the wrong time," the spokeswoman said.

It wasn't clear whether the footnote request suggested that the euroskeptic Mr. Klaus was ready to sign if he got his concession, or that he intended to delay further. It was also unclear what kind of footnote he had in mind. Mr. Klaus's spokesman declined to comment.

The conversation does at least suggest that Mr. Klaus is open to talking about the treaty; for several days Mr. Reinfeldt had complained that the Czech president wouldn't return his calls.

A group of Czech senators allied with Mr. Klaus has filed a complaint in Czech court that will likely delay ratification for several weeks. Mr. Klaus's opponents say he can't refuse to sign; the Czech president's office has few executive responsibilities.

The Lisbon Treaty will give the EU a full-time president and foreign minister, and streamline decision-making in the 27-nation bloc. It requires approval by all of the union's members. After rejecting the treaty in 2008, Irish voters—the only ones to hold a referendum—passed the treaty last week. It needs approval by Poland and the Czech Republic. Poland's president will sign it Saturday.

EU leaders are fretting about a delay to the treaty because it is holding up the selection of the new president, if there is to be one, as well as the members of the bloc's powerful executive arm, the European Commission.

A faint but serious worry is that Mr. Klaus could delay the treaty into next spring, when euroskeptic Conservatives are likely to win elections in the U.K. The Tories have promised a referendum—which would face an uphill battle in Britain—should they come to power with the treaty still not ratified.

The Charter of Fundamental Rights has long rankled many Lisbon Treaty critics. It is a broad document that ranges from a prohibition on organ sales to respect for academic freedom. Opponents worry that it could trump national laws—for instance, Ireland's restrictions on abortion.

Mr. Klaus has called the charter a "useless document" and worried that it would displace the Czech Republic's national guarantees of rights. The Lisbon Treaty would make the charter legally binding, though Poland and Britain have opted out of it, and Ireland has received assurances its abortion legislation won't be affected by the treaty.

—Leos Rousek contributed to this article.

Deutsche Bank spy probe opens

By David Crawford

BERLIN—German prosecutors have opened a formal criminal investigation into the **Deutsche Bank** AG spying affair but say their probe doesn't target the bank's chairman, chief executive or other management-board and supervisory-board officials.

Frankfurt prosecutors said they had found evidence that those carrying out the activity, including former and current bank employees, may have broken Germany's privacy laws, a spokeswoman for the prosecutor's office said.

The "unauthorized processing of personal information, collected and transferred in return for payment," may have breached Germany's data-protection laws, the prosecutor said in a statement, adding that the office had opened a formal investigation into those believed to be responsible for the activity.

The investigation is focused on the alleged illegal collection and sale of information on a critical Deutsche Bank shareholder and the alleged stealing of business secrets from a Munich law firm, the spokeswoman said.

The office said it could provide no further details on the suspects' identities because the investigation was ongoing. In Germany, the opening of a formal investigation by prosecutors is often a prelude to indictment.

A Deutsche Bank spokesman said the "prosecution statement confirms our position that there is no evidence that members of the executive board or the supervisory board were involved. We await with confidence the reports by the financial oversight agency BaFin and the privacy office in Darmstadt."

Although the prosecutor's announcement will come as a relief to Deutsche Bank's senior ranks, the opening of a formal probe into others affiliated with the bank also means that the spying affair will continue to occupy the bank for some time. Details of the spying already have left Deutsche Bank struggling to explain how and why its own executives launched an elaborate espionage operation against one of the bank's investors as well as others.

Deutsche Bank said in May that it spied on a number of people in recent years, including a shareholder, bank executives, a journalist and others.

The most serious incidents involved Michael Bohndorf, a dissident shareholder, and Bub, Gauweiler & Partner, the law firm representing Leo Kirch, a German former media mogul who is suing Deutsche Bank over the collapse of his empire.

A prosecution spokeswoman said the criminal charges under investigation include violation of privacy laws and violation of Germany's unfair competition law, which outlaws the stealing of business secrets. In their statement, prosecutors said they are investigating whether a woman who was offered a job by Bub, Gauweiler & Partner in 2006 was in fact a detective attempting to infiltrate the Munich law firm. The prosecution spokeswoman said an attempt to steal trial-strategy information from an adversarial law firm would violate a law prohibiting unfair competition.

Deutsche Bank has acknowledged that the spying action against Mr. Bohndorf and Bub, Gauweiler was set in motion by Deutsche Bank Chairman Clemens Börsig. A private investigation commissioned by Deutsche Bank found Mr. Börsig had been briefed on the spying activity against Mr. Bohndorf, but the bank has said that Mr. Börsig wasn't directly involved in the operation.

The prosecutor named seven current and former Deutsche Bank officials that aren't subjects of its investigation: Chief Executive Josef Ackermann, Mr. Börsig, former Chief Financial Officer Anthony Di Iorio, global head of security Victor Meyer, former personnel chief Tessen von Heydebreck, former CEO and Chairman Rolf Breuer and former security chief Claus-Werner Bertram.

The decision not to investigate senior Deutsche Bank management was based on a review of the report the bank commissioned and affidavits filed by Mr. Bohndorf and Bub, Gauweiler, the spokeswoman said. The investigation could be expanded should new evidence be uncovered, she said.

LEADING THE NEWS

Trade shows promising signs of growth

South Korea, Taiwan and Brazil improve, but flows are still far below last year's and holiday demand is a worry

By Alex Frangos

HONG KONG—Fresh data from some major exporting economies offer a glimmer of hope that international trade is on the rebound, potentially providing the missing link in the nascent global economic recovery.

South Korea, Taiwan and Brazil have already reported September trade data and all showed growth from the month before, though still well below year-earlier levels. While the latest numbers don't indicate a full-fledged turnaround, they do confirm continuing improvement in trade over recent months.

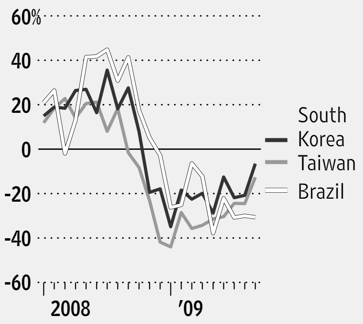
"It looks like there is a recovery in trade that is happening, but it's too early to tell if it's the stimulus or a real recovery," says Mark Matthews, Asia Pacific strategist with Fox-Pitt Kelton in Hong Kong.

For one, markets world-wide are waiting to see whether late holiday demand from retailers in the West will begin to increase orders for their goods.

Taiwan reported this week that the value of its exports fell 12.7% in September from the year earlier, a much smaller drop than in August, when exports fell 24.6%. Last week, South Korea reported similar improvement. The value of exports fell 6.6% from the year earlier, its slowest decline in 11 months, and rose 11.1% from the month before on a seasonally adjusted basis. Brazil's exports were just a tad higher in September over August, but still 31% below 2008 levels, thanks in part to lower commodity prices this year. Much of Brazil's exports are energy and agricultural commodities.

Slow turnaround

Total exports, change from previous year



Sources: Korea International Trade Association; Directorate-General of Budget, Accounting and Statistics, Taiwan; Thomson Reuters Datastream

Getty Images

Containers are seen at Pusan Newport in Pusan, South Korea

It isn't all improving news on the trade front. Malaysia reported Thursday that its exports declined 19.8% in August from a year earlier. That was more than economists expected and a 2% decline from July.

The recent fall of the dollar remains hanging over several nations who are hoping a rebound in trade will drive economic growth. Japan in particular is suffering from a strong currency, which makes its exports more expensive for foreign buyers. Japan reported Thursday that its exports ticked up again last month 3.2% on a seasonally adjusted basis. But exports are still 37.1% below their year-earlier level.

Until recently, Korea and Taiwan have benefited from their currencies being relatively weak since the financial crisis. But that trend is starting to change as the U.S. dollar weakens against more currencies than just the yen. Korea, Taiwan and Brazil have intervened in foreign-exchange markets in recent days to slow the appreciation of their currencies against the dollar. If their currencies get too strong, it could hurt export sectors that compete with China, which has kept the yuan-dollar exchange rate unchanged.

A broader picture of the trade situation will arrive in coming days. The U.S. reports its international trade numbers for August on Friday. China reports its September trade figures on Monday. The International Monetary Fund estimates the volume of world trade will shrink 11.9% this year, before growing around 2.5% next year.

A big question in world markets is whether demand by consumers in the U.S. and Europe will spur a late holiday rush for goods over the next month or so. Ordering for holiday shopping traditionally begins over the summer. But this year, retailers in the West have delayed their decision-making to the last possible minute or are placing smaller orders more often. They don't want a repeat of last year where inventories ballooned as consumer demand waned with the financial crisis.

"It's been quite slow," says Andy Lau, head of Calan Worldwide Ltd., a small Hong Kong-based exporter of toys and sundries to Europe and the U.S. He says orders are trickling in but are still well below the levels of a couple of years ago. Holiday orders aren't coming in yet and he hopes the buyers finally show up at trade shows in October.

Some are predicting that retailers in the West have underestimated the demand and that there will be a last-minute rush of trade for the holidays.

Russell Napier, a global strategist at CLSA Asia-Pacific Markets, speculates that dour predictions about the economy will be upended in the short term because companies simply were too pessimistic about building up their stock of products. "There is a real possibility of a global toy shortage this Christmas." he says. "Corporates cut inventory too much."

If that's the case, the next couple of months could see a last-minute surge for air-cargo services. So far, however, that doesn't seem to be happening. Air-cargo shipments from Hong Kong to North America, for example, have inched up in each of the months from March through August, the latest figures available. But they are still well below year-ago levels. There were 30,000 tons of cargo loaded onto airplanes to North America in August, compared with 35,000 tons last year and 40,500 in 2007.

U.S. job-market recovery expected to take time

By Phil Izzo

The worst recession since the Great Depression has left a scorched landscape that will weigh on the U.S. labor market and broader economy for years to come, according to economists in the latest Wall Street Journal forecasting survey.

The 48 surveyed economists, not all of whom answer every question, expect the U.S. economy to bounce back from four quarters of contraction with 3.1% growth in gross domestic product at a seasonally adjusted annual rate in the just-ended third quarter.

Expansion is seen continuing through the first half of 2010, though at a slower rate. But the massive downturn has left an open wound in the labor market that will take years to heal. On average, the economists don't expect unemployment to fall below 6% until 2013; U.S. unemployment hit 9.8% in September.

"Never before has business shed so many workers so fast, so many people failed to find work who are looking for work, and so many dropped out of the labor force as in the current circumstance," said Allen Sinai at Decision Economics.

The tough road for the labor market was underscored by Thursday's report on weekly applications for unemployment insurance. The U.S. Labor Department reported that initial claims fell 33,000 to 521,000 in the week ended Oct. 3. The number of people collecting unemployment insurance also fell, but remained above six million. This figure doesn't include the 3.8 million people collecting extended unemployment benefits.

The decrease in continuing claims likely reflects people's exhausting their unemployment benefits after several months of looking for work in vain. "We expect the improvement to remain a very slow one, and therefore for the household sector to be contending with a weak labor market for quite some time," wrote Joshua Shapiro, chief U.S. economist with research firm MFR Inc., in a note to clients.

On average the economists expect the unemployment rate to peak at 10.2% next February. But even once the employment situation stops getting worse, economists expect recovery to come slowly. It took just 14 months for the unemployment rate to jump from 5.8% to its current level. On average, the economists say it will take nearly four years for the rate to drop below 6% again.

In the meantime, the unemployed will be loath to spend or borrow. They are less likely to move and are more likely to default on mortgages and loans.

"The recovery in employment will be slow," said Diane Swonk at Mesirow Financial. "It could take until 2014-15 before we see a 5% handle on unemployment again, which is forever in politics."

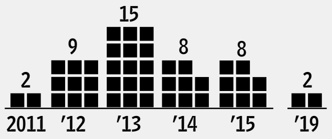
The economists don't expect the U.S. Federal Reserve to raise rates at all until sometime around August 2010 amid continued high unemployment. Most economists say the Fed can wait, as too little inflation remains a bigger risk than too much, at least over the next year or two.

—Conor Dougherty contributed to this article.

Long slog for jobs

When will the U.S. unemployment rate drop below 6.0%?

Amount of respondents



Source: The Wall Street Journal survey of economists

Israeli foreign minister pours cold water on Palestinian peace prospects

By Joshua Mitnick

TEL AVIV—Israeli Foreign Minister Avigdor Lieberman said not to expect a comprehensive peace pact with the Palestinians anytime soon, comments that coincided with a visit by U.S. Mideast envoy George Mitchell, who is pushing for just such a deal.

Mr. Mitchell started a new round of shuttle diplomacy in the region Thursday, aimed at restarting Israeli-Palestinian negotiations toward a permanent peace treaty, a goal that has remained elusive despite months of active U.S. mediation.

Mr. Lieberman is the leader of the ultranationalist Yisrael Beitenu party, the largest partner in the government coalition of Prime Minister Benjamin Netanyahu. That secured for him the foreign ministry post, but he isn't directly involved in talks with the U.S. to renew peace efforts with the Palestinians.

"Why have [previous Israeli administrations] never achieved a comprehensive agreement? Because apparently it is impossible to achieve," the foreign minister said in an interview with Israel Radio.

A representative for Mr. Netanyahu declined to comment on Mr. Lieberman's remarks.

A Palestinian representative said the foreign minister's comments mean that prospects for peace are "very limited."

"What he said is more consistent with what Israel does, rather than what other [officials] are saying," said Ghassan Khatib, the head of the Palestinian Government Media Center. Mr. Netanyahu has said he is ready to enter negotiations without preconditions.

The comments also coincided with reports of a leaked foreign ministry position paper, commissioned by Mr. Lieberman, that recommends refocusing Israeli efforts away from the Palestinian conflict and reducing the Jewish state's dependence on the U.S.

Yigal Palmor, a ministry spokesman, said Mr. Lieberman commissioned the position paper ahead of a ministrywide re-examination of "the conventional wisdom of Israel's foreign policy."

The position paper, however, "doesn't represent anything except a basis for internal debate," he said. Mr. Palmor declined to discuss the substance of the position paper.

Mr. Lieberman, who has a reputation for blunt diplomacy, argued during the interview that like the ethnically divided island of Cyprus, Israelis and Arabs could learn to live alongside one another without a comprehensive solution to their conflict.

That runs counter to U.S. policy. During a three-way summit with Israeli and Palestinian leaders on the sidelines of the United Nations General Assembly last month, U.S. President Barack Obama called on the two sides to act with urgency and said a resolution to the decades-long conflict is "absolutely critical" for U.S. interests, as well as the peoples of the region.

Speaking to reporters at a meeting with Israeli President Shimon Peres Thursday, Mr. Mitchell said the Obama administration remains "firmly committed" to achieving a regional peace between Israel, the Palestinians and its Arab neighbors that includes a full normalization of ties.

GM board to help update strategy

CEO will consult with new directors to shape business plan; cutting incentives a goal

By John D. Stoll

FORT LAUDERDALE, Fla.–**General Motors** Co. Chief Executive Frederick "Fritz" Henderson said the company's management team will work with the new board of directors over the next two months to revise GM's business plan for 2010.

Mr. Henderson said he expects the board—led by Chairman Edward E. Whitacre Jr., the former AT&T Corp. chief—"to be very active" in updating the company's plans. He said the effort will focus on key business assumptions, such as market share and costs, and that it represents the first time the board will actively influence management's operating plans.

"The last plan done was the viability plan going into bankruptcy," said Mr. Henderson, interviewed Thursday after hosting a meeting here with car dealers, business executives and students, "We haven't refreshed that."

Mr. Henderson said he expects the U.S. car market will see sales of 11.5 million vehicles in 2010, about 10% higher than it needs to be for GM to break even.

GM projects its structural costs to be $24 billion in 2010, or 60% of what they were in 2005, when GM's U.S. market share was much higher than the mid-19% range at which it currently stands.

Mr. Whitacre, the chairman, has said he expects GM to remain No.1 in the U.S. market and make money at the same time.

Privately, Mr. Whitacre has expressed frustration over the company's reliance on profit-sapping sales incentives to generate momentum in its home market, according to people familiar with the matter.

Bloomberg News

GM Chief Executive Frederick 'Fritz' Henderson says the car maker aims to make more profit on sales to rental companies.

GM's new board was assembled by the Obama administration following GM's June 1 bankruptcy, which was largely funded by U.S. taxpayers.

As he prepares GM for an initial public stock offering expected next year, Mr. Henderson plans to focus on accomplishing several things the company has failed to do in the past: make solid profit margins on rental-car sales; differentiate the GMC truck brand so it doesn't so closely mirror Chevrolet; and raise the average transaction price for Chevy's small cars.

Mr. Henderson said the most important product launch in 2010 will be the Chevy Cruze, a small car developed overseas to better compete with the Honda Civic and Toyota Corolla. The Cruze replaces the Cobalt, which gave GM a boost when gasoline prices were extraordinarily high but which has underperformed compared with Japanese competitors.

The Cruze is set to launch in April and Mr. Henderson has challenged his team to raise its transaction price by several thousand dollars so that it mirrors the roughly $17,000 to $18,000 going price of a Civic or Corolla, rather than the current price, which is closer to $13,000.

During Thursday's meeting, which was jointly conducted with **AutoNation** Inc. Chief Executive Mike Jackson, who runs the largest dealership chain in the U.S., Mr. Henderson vowed to remake the image of Chevrolet, GM's highest-volume brand, so that it is no longer viewed as "being a brand that is known for having the most demented incentive programs."

Shell plans to build floating gas plant

By Guy Chazan

Royal Dutch Shell PLC on Thursday announced plans to deploy the world's first floating liquefied-natural-gas facility, off the coast of northwestern Australia, in a move that could have major repercussions for the global natural-gas industry.

The landmark project—which Shell said will be the world's largest vessel, much bigger than an aircraft carrier—will be closely watched by the other super-majors, who have long been considering the potential for a floating facility.

The technology, which has never been tested commercially, allows offshore gas reserves to be processed in situ, rather than being piped to the coast and liquefied in onshore plants. It has the potential to unlock dozens of "stranded" gas fields that are too remote to be developed by conventional means.

Shell said the plant will be deployed to Prelude and Concerto, two recent gas discoveries it has made in the Browse Basin off the northwest coast of Western Australia.

But the Anglo-Dutch major hopes floating LNG can be used in dozens of other places around the world. "It's a game-changer," said Jon Chadwick, Shell's vice president for Australia. "It enables us to monetize gas resources that would otherwise stay in the ground."

Floating LNG was, he said, ideal for gas accumulations that were small and far offshore, "where the economics wouldn't justify the construction of a pipeline to the coast." He also said it could be used close to environmentally sensitive coastal areas where oil companies are unable to build onshore LNG plants.

Shell

An artist's rendering of Shell's floating LNG plant, compared with a football field.

That could be a boon for Australia. The country's energy minister, Martin Ferguson, on Thursday said Australia had 140 trillion cubic feet of stranded gas reserves, worth about $1 trillion Australian dollars (US$890 billion). Another advantage is that once a floating LNG plant has exhausted a gas field, it can be redeployed elsewhere.

LNG is gas that is cooled to about 160 degrees Celsius and then shipped to market on tankers. Demand for the clean-burning fuel has soared, especially from fast-growing Asian economies like China and India.

Oil-and-gas consultancy Wood Mackenzie says LNG demand will more than double to about 370 million metric tons a year by 2020.

The super-majors first looked at floating LNG in the mid-1990s but were deterred by the high cost, technical challenges and the immature state of the natural-gas market.

But in recent months, a number of companies have prepared to take the plunge. Japan's Inpex Holdings Inc. is working on a floating LNG project in the Timor Sea, in eastern Indonesia, and Australian oil-and-gas group Santos Ltd is planning to use the technology at some of its Australian gas fields in a joint venture with French energy firm GDF Suez SA.

Shell's venture is one of the more ambitious. "For Shell, it could become a calling card that allows it to demonstrate its engineering and commercial capabilities," said Frank Harris, a gas analyst at Wood Mackenzie. "It's a real opportunity to gain first-mover advantage."

He said positioning itself as a world leader in the technology would increase its changes in Brazil, now considered one of the world's hottest exploration plays.

Shell's first big step toward the new technology came in July, when it signed a contract with a consortium made up of Samsung Heavy Industries Co. ,of Korea, and France's Technip SA to build floating LNG plants.

At the time, Samsung said Shell could order as many as 10 of the plants, priced at $5 billion each, over the next 15 years.

Shell officials stress the project is still at the engineering and design phase and a final investment decision is still far off.

BHP accident could limit copper supply

By Alex Wilson
And Elisabeth Behrmann

MELBOURNE—**BHP Billiton** Ltd. said it will take two weeks to assess the impact of a mechanical failure at its Olympic Dam mine on copper, gold and uranium production from the Australian operation.

People familiar with the situation and analysts said the damage is likely to be significant and the resulting reduction in supply could affect copper and uranium markets.

BHP has so far given little detail about the failure Tuesday night of the Clark shaft—the main system for hauling ore from underground for processing—leaving questions about the length of time of the outage and how much ore BHP can extract in the interim.

A person familiar with the situation said one of the large industrial bins used to haul ore had plunged around 700 meters down the shaft, causing significant damage.

Morgan Stanley analyst Craig Campbell said a plunging bin down the shaft could result in damage to the automatic ore-loading system and associated machinery, and could take two to six months to repair.

BHP said underground mining is continuing at Olympic Dam, with ore being hauled to the surface using the secondary Whenan shaft, but the company declined to comment on the capacity of this shaft.

Macquarie Group analysts said the Clark shaft accounts for about 80% of lifting capacity at the mine, with the Whenan shaft accounting for the remaining 20%.

With less ore making it to the surface, Macquarie analysts are assuming the Olympic Dam's processing facilities will become starved of feed and operate at about 38% capacity in the fourth quarter of 2009 and 48% in the first quarter of 2010.

Olympic Dam, located in the state of South Australia, produced 194,100 metric tons of copper in the financial year ended June 30 and 4,007 tons of uranium.

Goldman Sachs JBWere analysts say Olympic Dam contributes only about 3% of BHP's earnings before interest and tax, so the impact of the lower production on profits isn't expected to be particularly material.

BHP shares ended 0.9% higher at 38.16 Australian dollars (US$33.95).

The more serious impact of the incident may be felt on commodity markets, with Olympic Dam accounting for 1.1% of global copper output and more than 7% of mined uranium production.

Analysts say copper is the base metal with the tightest outlook. Prices have more than doubled from below $3,000 a ton since the start of the year to around a two-week high of $6,240 struck Thursday.

This is largely attributed to China's vast appetite for it and also because of copper's very constrained supply side due to old mines, falling grades, worker strikes and accidents.

The consensus forecasts among analysts points to a surplus of only 100,000 tons of copper for next year.

The Olympic Dam incident comes in the wake of a pitfall failure that is set to cut 2009 copper output from **Newmont** Corp.'s Batu Hijau mine in Indonesia by 10% and as other copper mines face the threat of industrial action.

CORPORATE NEWS

Vivendi ready to sell NBC Universal stake

The right price would seal deal, clearing path for GE's proposed entertainment venture with Comcast

BY MAX COLCHESTER AND SAM SCHECHNER

PARIS--French telecoms and media company **Vivendi** SA would like to sell its 20% stake in NBC Universal this year, according to people familiar with the matter. But a final decision won't be made until at least mid-November and will depend on whether Vivendi can get a good price, the people say, leaving the fate of the movie and television company in limbo.

Vivendi is weighing its options as NBC Universal majority owner General Electric Co. and U.S. cable operator Comcast Corp. are discussing a deal to merge NBC Universal with Comcast's TV networks, according to people familiar with the talks. But the deal could go through only if Vivendi decides to sell.

Under the deal being considered, Comcast would contribute cash and cable networks to NBC Universal for a 51% stake in the enlarged company. NBC Universal would borrow cash and hand it over to GE, which would in turn pay Vivendi for the 20% stake. GE would initially retain the remaining 49%, the people familiar with the talks said.

A major obstacle remains the valuation for NBC Universal, say people familiar with the talks. Any transaction would need to give it a high enough value to satisfy Vivendi. At the same time, Comcast would like to minimize how much cash it has to contribute to win control of NBC Universal, the people say.

Vivendi's board is likely to discuss the potential sale of the NBC Universal stake at a meeting next week to weigh a separate offer it is making for a Brazilian telecoms firm. Vivendi has a window of around three weeks — between Nov. 15 and the first Friday of December — to announce it is selling the stake, in accordance with rules struck with GE in 2006.

Associated Press

NBC Universal owns theme parks as well as TV and film studios, producing shows such as "The Office," above.

"It is probable that the moment for the sale has come," said one person familiar with the thinking at Vivendi. "But there is still the problem of how much the stake is worth."

Anne Eisele, a GE spokeswoman, said, "Vivendi has informed us that it is evaluating whether to exercise the option," but declined further comment.

on any specific transaction involving NBC Universal.

Analysts' valuations of NBC Universal vary widely. In a report, Exane BNP Paribas said the company is valued around $24 billion. J.P. Morgan wrote in an analyst note last month that NBC Universal could be worth as much as $35 billion.

The ideal scenario for Vivendi would be to find a buyer who would pay a premium price to acquire a controlling share in NBC Universal, according to Claudio Aspesian analyst at Sanford C. Bernstein in London. "Unless they can guarantee that a private buyer will appear later next year, it makes sense to sell now," Mr. Aspesi said.

Vivendi can exercise its right to sell its stake until 2016. Recently, however, the momentum seems to have shifted in favor of Vivendi offloading its stake this year. Vivendi is looking to buy telecom companies in emerging markets--and could use the cash to fund its further expansion.

The potential Comcast deal was hatched in part because of Vivendi's rights. In 2004, following a messy acquisition binge that brought Vivendi close to bankruptcy, Vivendi sought to unravel debts by merging its television, film and theme park businesses with GE's NBC and cable networks. As part of the deal Vivendi was given a 20% stake in the resulting company, NBC Universal. Until now Vivendi has held off selling the stake, which in 2008 paid a dividend of €255 million ($374 million).

GE, which owns the remaining 80% of NBC Universal, has the first right of purchase for the stake, according to Vivendi's financial statement. If GE decides not to buy the stake, Vivendi can pursue an initial public offering. Vivendi Chief Executive Jean-Bernard Levy earlier this year said that the NBC Universal stake was not a "core" asset.

The potential transaction being discussed would be structured something like a leveraged buyout. In addition to taking on debt to buy out Vivendi and a chunk of GE's 80% stake, the deal would also likely include provisions to use NBC Universal's cash flow to buy out GE's remaining 49% in stages over time, according to people familiar with the talks.

Analysts say that cash from an eventual sale of the NBC Universal stake could help Vivendi pursue its recent acquisition strategy. Earlier this year, Vivendi said it was offering $2.9 billion for Brazilian telecoms operator GVT. But earlier this week, Spain's Telefonica made a counter bid, offering $3.7 billion.

"Their main problem is they own mature businesses in mature countries and they want to present themselves as a fast-growing company," said Francois Godard an analyst at Enders Analysis.

U.K. regulator objects to Ticketmaster merger plan

BY STEVE MCGRATH

LONDON–In a move to protect U.K. concertgoers, Britain's antitrust regulator ruled Thursday that a proposed merger of Ticketmaster Entertainment Inc. and a major promoter and venue operator—both U.S. companies—would inhibit the possible entry of a major new player in the ticketing market.

The Competition Commission said that the proposed merger of Ticketmaster, the U.K.'s major ticket provider for concerts and events, and Live Nation Inc. "will limit the development of competition in the market for live music ticket retailing."

Prior to the merger announcement, Live Nation, a concert promoter and venue operator whose acts include Bob Dylan, Coldplay and U2, had signed a deal with German company CTS Eventim AG under which Live Nation would provide ticketing services for CTS's live music events and venues in the U.K.

The regulator, describing CTS as a possible major new competitor in the U.K. ticket market, said it believes a merger with Ticketmaster would give Live Nation incentive to impede CTS's entry into the U.K., in particular by minimizing the supply of tickets to CTS. It said that could lead to higher ticket prices, worse customer service and less innovation in the market.

Associated Press

Live Nation's acts include Coldplay and its lead singer, Chris Martin, above.

The Competition Commission is suggesting a range of possible remedies, including blocking the merger, requiring the sale of some or all of Ticketmaster's or Live Nation's U.K. operations, or forcing Live Nation to use CTS or another third party to act as a retailer for all or some of the U.K. live music events that Live Nation directly controls.

The commission said it will work with U.S. authorities, which are also examining the proposed merger, when coming to a final decision. The U.K. agency expects to publish its final report Nov. 24.

"As the second-largest ticket agent in the world after Ticketmaster, with considerable experience and expertise in other countries, CTS's entry would have increased competition in ticket retailing to the benefit of customers—whether fans, promoters or venue owners," said the Competition Commission's deputy chairman and the chairman of the inquiry group, Christopher Clarke.

The merger has raised fears that the two companies would have far too much control of global music ticketing.

The U.K. regulator said it would work with U.S. competition authorities, which are also investigating the proposed merger, when coming to a final decision.

It expects to publish its final report Nov. 24.

It's unclear whether the U.K. could block the merger if U.S. authorities decide to back it. However, London could require strict concessions on Ticketmaster's U.K. units, such as the sale of the U.K. businesses of either Ticketmaster or Live Nation, in addition to measures to ensure that CTS or another third-party ticket agent could sell Live Nation's tickets.

The European Union isn't looking at the merger because Ticketmaster does the bulk of its European business in the U.K.

Ticketmaster doesn't break out its U.K. revenue, but in 2008 its international operations, including the U.K., generated $117 million out of $338 million in total revenue.

Ticketmaster and Live Nation said they would continue to cooperate fully with the U.K. regulator, and remained optimistic that a merger would ultimately be approved.

"Both our companies are committed to this merger and look forward to addressing any and all issues that the commission deems necessary," they said in a joint statement.

Regulators said the merger could impede the entry of Germany's CTS.

Defending the rationale of the merger, the companies said the music industry was coming to a clear crossroads, with the recording industry in decline and live music the future of the business. They said that they had listened to fans, artists and other stakeholders during the merger process.

"We believe this merger will build a more efficient and effective company moving forward, and that working together we will be able to help achieve needed change that will strengthen a flagging music industry," the statement said.

CORPORATE NEWS

Pepsi prepares recipe for the 'age of thrift'

Snack and beverage maker to focus on lower-priced products as consumers continue to pare spending

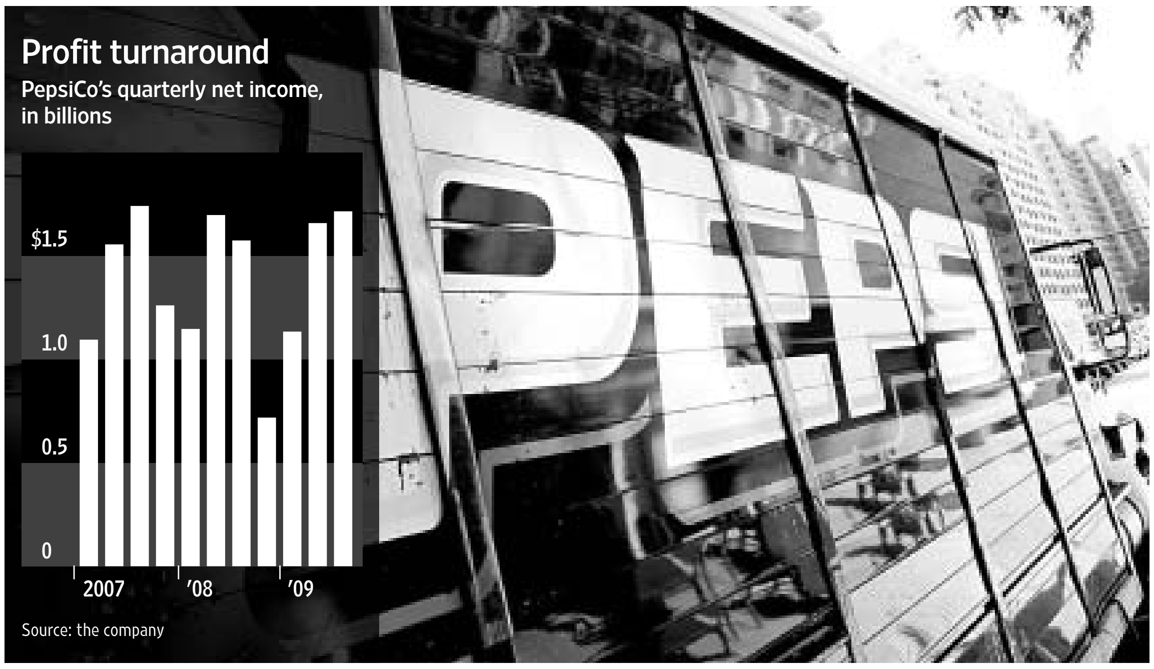
By Valerie Bauerlein
And Anjali Cordeiro

Strong sales of potato chips and other snacks and growth in emerging markets helped **PepsiCo** Inc. deliver an 8.9% increase in profit for its fiscal third quarter. But weak North American beverage sales remained a drag on earnings for the maker of Pepsi-Cola and Gatorade.

Assuming the "age of thrift" that has crimped spending world-wide is likely to continue, Pepsi plans to tailor more of its products and marketing to cost-conscious consumers who have turned to tap water and sought deals on snacks in the economic downturn, Chairman and Chief Executive Indra Nooyi said on a conference call. As company researchers work on developing new offerings "one part of the effort has to be on launching lower-priced options," she said.

The company also said it has taken such measures as offering promotions on chips at the end of the month to boost sales when consumers budgets are getting strained. A move to add 20% volume in snack bags didn't win as many customers as expected, a reflection of the sensitivity to price, Chief Financial Officer Richard Goodman said on another conference call.

The Purchase, N.Y., food-and-beverage giant posted an 8.9% rise in



quarterly profit to $1.72 billion, or $1.09 a share, from $1.58 billion, or 99 cents a share, a year earlier. The Purchase, N.Y., company cited a favorable tax rate and cost-cutting measures, such as making plants work more efficiently.

But revenue for the quarter, which ended Sept. 5, slipped 1.5% to $11.08 billion, in part reflecting consumers' preference for cheaper products.

Ms. Nooyi said she was pleased with the results as they showed the importance of Pepsi's diverse portfolio, from its Frito-Lay and Quaker foods to its namesake soft drinks and Tropicana juice.

U.S. beverage sales have been under pressure for almost two years at Pepsi and rival **Coca-Cola** Co., among other competitors, as consumers have reined in spending. The overall domestic beverage industry posted its first-ever annual decline in volume last year, and Pepsi's Americas beverages unit posted a 6% decline in volume this quarter. The unit's revenue fell 7%.

Gatorade volume continued to decline in the latest quarter, although there was modest improvement for the sports drink versus the first half of the year, the company said. It didn't provide details. Gatorade carries a premium price and has undergone a brand makeover this year that has received mixed reviews. Analysts estimated that Gatorade sales volume fell 18% in the first half.

Emerging markets, particularly India, were a bright spot for Pepsi, as snack volume rose 8% and beverage volume climbed 9% in the Asia/Middle East/Africa unit. Sales were boosted by the introduction of new juices and sodas, as well as multigrain snacks.

For fiscal 2010, the company is targeting an 11% to 13% increase in per-share earnings, excluding items and on a constant currency basis. Such growth would be consistent with years just prior to the current economic slowdown, the company said.

Pepsi also said its preparations to integrate its biggest independent bottlers are on track, and the $7.8 billion deal should close by early next year.

Mr. Goodman said the company continues to evaluate smaller "tuck-in" deals to help growth in parts of its business. "There are properties out there that are attractive to us," he said, citing such examples as Pepsi's August agreement to buy Amacoco, Brazil's largest coconut-water company.

Pepsi shares were down 1.9% to $59.99 in afternoon trading on the New York Stock Exchange.

Beijing Auto maps expansion, starting with Saab

By Norihiko Shirouzu

BEIJING—**Beijing Automotive Industry Holding** Co. is looking to its president, Wang Dazong, to steer its quest to grow bigger quickly as China seeks to boil down its sprawling auto industry into a smaller number of more-potent car makers.

"If you're an auto maker and want any chance in surviving, you really have to go global and become bigger," Mr. Wang said in an interview.

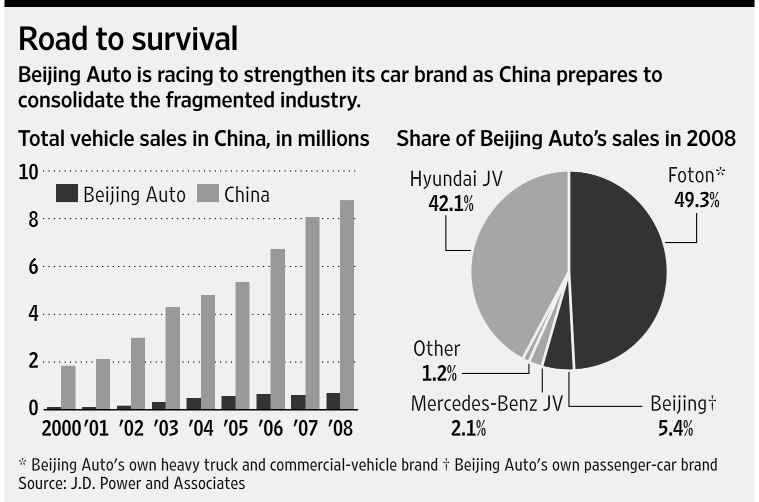
Beijing Auto became China's first auto maker to team up with a foreign counterpart—25 years ago with then-American Motor Corp. to produce and sell Jeeps in China. But despite that early break, it has failed to thrive, while rivals such as **Shanghai Automotive Industry** Corp. have roared ahead.

Mr. Wang may be Beijing Auto's best chance for a comeback. Tapped as president to revitalize the company, the U.S.-educated 55-year-old executive worked for General Motors Co. for 21 years before joining GM's Chinese partner, Shanghai Auto, in 2006 and then leaving for Beijing Auto early last year.

Even among a throng of Chinese-born executives now returning from Detroit and other troubled motor towns, Mr. Wang is a rarity in that he held a management position in GM's product-development division for more than a decade. Along with Wang Chuanfu of **BYD** Co. and Li Shufu of **Geely Holding Group**, Mr. Wang is a Chinese car executive to watch as China overtakes the U.S. as the world's biggest car market this year and as its car makers expand overseas.

"This is a challenging job for him," says Zhang Junyi, a Shanghai-based senior consultant with Roland

Beijing Auto's concept car 800



Berger Strategy Consultants. Beijing Auto, owned by the municipal government of Beijing, is often a "politically charged" place, he says. Still, Mr. Wang "knows how to maneuver within China and on the global stage," he says.

A key challenge for Mr. Wang is strengthening Beijing Auto's brand, the Beijing, currently a minor player in China's domestic market that has only a small lineup of aging sport-utility vehicles. Beijing Auto's main businesses are joint ventures with **Hyundai Motor** Co. and Daimler AG's Mercedes-Benz unit, in addition to a heavy-truck producer called Foton.

To Mr. Wang, it is clear that the road to a strong brand is via foreign technology and know-how, best achieved by buying into a troubled overseas auto maker—similar to how Shanghai Auto developed its Roewe brand using technology from MG Rover.

"If you're an auto maker and want any chance in surviving, you really have to go global and become bigger," Mr. Wang said.

In July, Beijing Auto was set back in its global push when it was forced to drop a bid for control of GM's Adam Opel GmbH unit. GM, which sees China as a key priority and which plans to tap Opel's technology even after it gives up control, balked at creating a rival with similar technology, according to a person close to GM.

But Mr. Wang had a backup plan. The idea, which Mr. Wang says he and Beijing Auto's management team formulated with the help of investment bank Morgan Stanley, was to take a minority stake in Swedish sports-car maker **Koenigsegg Automotive** AB and help fund its bid for GM's Saab unit—an agreement Beijing Auto reached last month, although it isn't yet finalized.

"It was quite a coup," says Michael Dunne, managing director of China operations for J.D. Power and Associates.

Through its indirect link to Saab, Mr. Wang wants to gain access to Saab's vehicle technology, much of which comes from Opel and GM. In return, Beijing Auto will try to help revive Saab by boosting its vehicle sales in China.

This time, GM is supportive of Beijing Auto's move. That's because unlike Opel, Saab is to be sold off entirely and thus won't get technical updates from either Opel or GM after a certain period of time, the person close to GM says.

With access to Saab technology, Beijing Auto holds a decent chance of revamping the Beijing brand, says Mr. Dunne.

Mr. Wang wants to build the company's Beijing brand to sell well more than 300,000 vehicles a year, a level now achieved by only one Chinese auto maker, **Chery Automobile** Co. In total, counting Foton vehicles and others, Mr. Wang wants Beijing Auto to produce and sell two million vehicles by 2011, up from an expected 1.13 million this year.

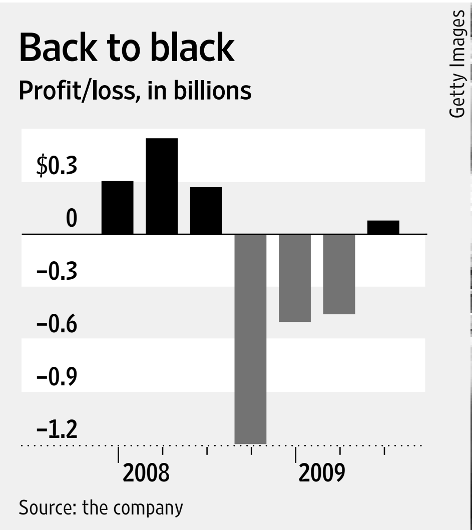
Mr. Wang is driven by a determination for Beijing Auto to not only survive the central government's move to consolidate China's fragmented auto industry, now teeming with more than 80 auto makers of all sizes, but also to come out of the consolidation as one of China's top-tier auto makers.

CORPORATE NEWS

Cost cuts push Alcoa into profit

After series of losses, aluminum maker posts surprisingly strong quarterly results

By Robert Guy Matthews



Source: the company


Getty Images

Alcoa Inc., buoyed by cost-cutting efforts and glimmers of increasing demand for aluminum, reported a third-quarter profit, reversing a string of losses and providing a surprisingly upbeat start to the U.S.'s quarterly earnings season.

The world's largest integrated aluminum producer posted a profit of $77 million, or eight cents a share, for the quarter. A lthough that's a 71% decline from a year earlier, Alcoa's results still hinted that the worst of the recession may have passed, and that raw-materials markets are on the upswing after more than nine months of steep declines.

Analysts, on average, had expected the Pittsburgh-based company–the first U.S. blue chip to report results for the quarter–to post a loss of about nine cents a share. Its latest profit followed three straight quarters of losses.

Revenue fell 33% to $4.6 billion from $7 billion a year earlier.

Alcoa said it sold more aluminum in the past three months than a year earlier because of rising shipments and declining inventories. It said most of its important markets, including automotive and other industrial users, had begun to stabilize during the quarter after showing declines for most of the year. The stagnant aerospace market was an exception, the company said.

Cost cutting contributed to Alcoa's unexpectedly strong performance. "The financial and operational measures we took in the first half of the year are having a strong positive impact on our cash position and profitability," said Chief Executive Klaus Kleinfeld, in a statement.

Alcoa's third-quarter results benefited from restructuring and special items totaling $34 million, or three cents a share. The company also received $520 million from the sale of Shining Prospect, a venture with the Chinese in taking a stake in mining company **Rio Tinto**.

Alcoa isn't out of the woods. It's not clear whether the initial signs of recovery will continue. Aluminum prices have slowly increased in the past few months as nascent demand for the metal has started to gain traction, but are still relatively low.

In the past three months, average aluminum prices have climbed about 20% to hover around 89 cents a pound.

That bodes well for all aluminum makers because for most of the year, prices were below the cost of production. But it remains unclear if prices are rising because of stronger demand or due to customers replenishing their inventories.

In a conference call to discuss earnings, Mr. Kleinfeld said there are signs demand will get stronger in China, especially in the auto sector, but is likely to remain sluggish in the rest of the world.

He said aluminum demand is likely to grow about 4% in China this year, driven by the government's stimulus plan. "They have been very good at bringing consumption levels up," he said.

Conoco will sell $10 billion in assets

By Ben Casselman
And Isabel Ordoñez


Zuma Press
Conoco's LNG facility in Alaska sits in the shadow of Mount Redoubt..

ConocoPhillips will slash spending and sell assets as the debt-laden energy company scales back its operations in the face of weak demand for oil and natural gas.

Conoco, the third-largest U.S. oil company by revenue and market capitalization, on Wednesday said it will sell approximately $10 billion worth of assets over the next two years. It also will cut its capital spending to $11 billion in 2010, a 12% reduction from 2009 and a 23% drop from 2008. The company also raised its quarterly dividend by 6.4% to 50 cents.

The moves are a reversal for Conoco, which went on a buying spree during the energy boom earlier this decade. Its deals included the purchase of a 20% stake in Russian oil company Lukoil in 2004, a $35 billion acquisition of U.S. natural-gas producer Burlington Resources in 2006, and an $8 billion joint venture in Australia last September to export natural gas.

Conoco's growth-by-acquisition strategy stood in contrast to the tactics of other major oil companies, such as Chevron Corp. and Exxon Mobil Corp., which focused more on exploration. For a time, Conoco's approach seemed to work, making it one of the fastest-growing large oil companies from 2004 to 2008.

But Conoco's heavy spending left it more exposed than competitors when oil and natural-gas prices collapsed last year. Unlike Exxon and Chevron, which have multibillion-dollar cash reserves, Conoco has less than $1 billion in cash and $30.4 billion in debt.

In a statement Wednesday, Conoco Chairman and Chief Executive Jim Mulva said the company isn't abandoning its growth strategy but will focus on developing existing projects. "We will replace reserves and grow production from a reduced, but more strategic, asset base," Mr. Mulva said.

Conoco didn't disclose details about which assets it plans to sell. Analysts said the company faces a difficult choice: sell weaker operations and risk struggling to find buyers or sell valuable holdings and jeopardize growth.

The shift in direction is likely to renew questions about who will lead Conoco after Mr. Mulva, 63, who has run the company since it was formed in the merger of Conoco and Phillips Petroleum in 2002.

Mr. Mulva has said he plans to retire at 65, but Conocohas lost a series of senior executives, leading analysts to question the company's succession plans.

"They're clearly trying to turn over a new leaf, but actions speak louder than words," said Mark Gilman, an analyst with Benchmark Co. in New York. "What we've got right now is words."

Singapore's highest court rules against magazine

Singapore's highest court on Wednesday upheld a ruling that the Far Eastern Economic Review, a **News Corp.** magazine slated for closure, defamed two of the country's top officials.

The appeals-court panel on Wednesday agreed with a ruling last year that a Far Eastern Economic Review story in 2006 improperly tied Prime Minister Lee Hsien Loong and his father, the former prime minister, to corruption. The court also found the Review improperly suggested the Lees used libel lawsuits to cover up misdeeds.

The Lees sued over the article about Chee Soon Juan, an opposition party leader and a frequent critic of the Lees. The lawsuits were brought against the Review's publisher and against its editor, Hugo Restall. Potential damages will be decided later.

The Review is published by News Corp.'s Dow Jones & Co., which also publishes The Wall Street Journal. News Corp. acquired Dow Jones in late 2007.

A Dow Jones spokesman declined to comment on the ruling. Mr. Restall, through the spokesman, also declined to comment.

Dow Jones announced last month that it planned to close the Hong Kong-based Review in December. The publication has been unprofitable for years, and Dow Jones said losses of advertising revenue and readers were no longer sustainable.

Singapore's leaders have brought defamation claims against several foreign news organizations.

GLOBAL BUSINESS BRIEFS

Carphone Warehouse

U.K. mobile retailer expects to close demerger by March

Carphone Warehouse PLC said Thursday said it is increasingly confident of completing the demerger of its two businesses by March and it added more customers than expected in its fiscal second quarter.

In the past two years the U.K. mobile retailer and broadband provider has reshaped its business, spinning off its mobile-phone-retail offering into a joint venture with **Best Buy** Co. and building a fixed-line-broadband business, TalkTalk, into the largest residential broadband provider in the U.K. following its recent acquisition of Tiscali U.K.

TalkTalk added 77,000 new broadband customers in the three months ended Sept. 30

Novartis AG

ZURICH—Swiss pharmaceutical company **Novartis** AG said Thursday it has gained exclusive worldwide rights to market a drug candidate that is currently in late-stage trials to treat infections caused by drug-resistant bacteria.

The drug candidate, dubbed PTK 0796, is in trials to treat patients with skin and skin-structure infections. The drug could become the first once-a-day broad-spectrum antibiotic that can be given as a tablet or intravenously, Novartis said.

Broad-spectrum antibiotics fight bacteria such as methicillin-resistant Staphylococcus aureus, or MRSA, which cause complicated, sometimes fatal, skin infections and are resistant to drugs already on the market. Novartis will share the responsibility for developing the drug with U.S.-based, closely held Paratek Pharmaceuticals.

Chrysler Group LLC

Auto makers **Chrysler Group** LLC and **Fiat** SpA are working together on developing an electric car, a Chrysler board member confirmed Thursday. Alfredo Altavilla said the development process is "going very well" with Chrysler contributing its electric propulsion technology to the alliance. Mr. Altavilla made the comments at the opening of a gearbox plant in Verrone, Italy. This is the first time a Chrysler or Fiat executive has publicly confirmed Chrysler's electrification plans since Fiat Chief Executive Sergio Marchionne took control of Chrysler's assets in June after the U.S.-based company filed for bankruptcy-court protection. Mr. Marchionne is scheduled to present the various details of his five-year survival plan for Chrysler on Nov. 4.

Boasteel Group Corp.

MELBOURNE—Australia's Foreign Investment Review Board asked China's **Baosteel Group** Corp. to resubmit its application to take a 15% stake in coal and iron-ore group **Aquila Resources** Ltd., a person familiar with the situation said. Baosteel, China's biggest steelmaker, plans to invest up to 285.6 million Australian dollars (US$254.1 million) in Aquila to earn a stake of up to 15% and to provide the Australian miner with sources of low-cost financing from Chinese institutions for its projects. FIRB has 30 days to make a ruling on foreign investments and can then extend that period for 90 days if it decides it needs more time.

ECONOMY & POLITICS

Add rich, seniors to Democrats' worries

Concerns about tax increases erode support among wealthy, while older voters grow nervous about health proposals

By Gerald F. Seib

For Democrats, there is a long list of things to worry about right now: health care, Afghanistan, the deficit, rich people and senior citizens.

Those last two items don't get much attention, but wealthier and older Americans represent areas of political weaknesses right now for the party in power. They could have a real impact if the landscape doesn't change before next year's midterm elections.

These two groups matter for different reasons. Upper-income Americans are a problem for Democrats because they proved to be a surprising bloc of strength for the party in 2008, yet now seem to be slipping away a bit.

CAPITAL JOURNAL

Senior citizens are a problem because they aren't generally an area of strength and have been made nervous by the health-care debate. Yet they also are the group most likely to vote next fall. "Seniors tend to show up most in midterms," says Tom Davis, a former Republican congressman from Virginia who once led the GOP's House campaign committee.

Among both groups, the ultimate view of President Barack Obama and his Democratic Party depends on two giant unknowns: the shape of the economic recovery and the outcome of health legislation. On both fronts, perceptions that develop between now and next November will be almost as important as reality.

One of the great, though little-discussed, surprises of the 2008 election was how well Mr. Obama did among the top-income voters who are, in popular stereotype, supposed to be quintessential Republicans.

In fact, exit polling showed that Mr. Obama did better among those with household incomes of more than $200,000 than he did among those in the middle-income brackets. He won these wealthiest of voters by 52% to 46%. For Republicans, that result represented a remarkable 17-point drop in support compared with just four years earlier.

Moreover, Mr. Obama essentially broke even with Republican Sen. John McCain when the group is broadened out to include all those from families making $100,000 or more. There, again, Republican support fell markedly; the 50% vote Mr. McCain received among the over-$100,000 group represented an eight-point drop for Republicans from 2004.

Now, though, a bit of buyer's remorse may be creeping in among the upper-bracket set. A new Allstate-National Journal Heartland Monitor poll being released Friday shows that Mr. Obama's job approval among those with family incomes above $100,000 stands at 44%, compared with 52% among Americans overall. The gap is even wider among those with the strongest feelings; 39% of those with incomes of more than $100,000 strongly disapprove of the president's performance, compared with 29% among Americans overall.

The explanation probably lies, as it so often does, in taxes. The more intent Mr. Obama is on trying to keep his pledge not to raise taxes on middle-income Americans, the more upper-income Americans see themselves picking up the tab for a ballooning federal budget deficit.

That matters when votes are cast, of course, but it matters even before then. Richer voters also are campaign donors, and they helped push Democrats to a considerable fund-raising advantage during the last few years. A key question in coming months is how much that trend changes.

Older voters, by contrast, weren't an area of particular strength for Mr. Obama and his party last year. The question here is whether Democrats are growing weaker among the retired set because of anxieties sown by the health-care debate.

A year ago, retirees were Mr. McCain's strong suit in the presidential race. Those 65 and older went for him over Mr. Obama by 53% to 45%. The elderly were, in fact, the only age group that Mr. McCain carried, and the only one where he polled better than former President George W. Bush did in 2004.

So retirees started out as a weak spot for the Obama administration and the Democrats controlling Congress, and they have remained that way. In the latest Wall Street Journal/NBC News poll, the president's job approval among those 65 and over was 46%—the lowest of any age group—compared with 51% for Americans overall. Just 15% of retirees said they approved of the job Congress is doing, compared with 22% overall.

That explains why Republicans are so intent on telling these senior citizens that the Democrats' plans for overhauling health care—including, as they do, cutbacks in the growth of Medicare spending—put their health benefits at risk.

Democrats, of course, hotly dispute that, saying the reductions in spending won't affect benefits but instead involve reductions in Medicare payments to health-care providers and, above all, in government subsidies to Medicare Advantage, a privately administered Medicare program. The poll numbers also explain why Mr. Obama has devoted so much of his recent health-care rhetoric to reassuring senior citizens, and why other Democrats so often remind voters of their party's traditional fealty to Medicare.

And that seems to be working. In the Journal/NBC News poll, the share of those 65 and over who said the president's health-care plan was a "good idea" jumped to 39% in September from 28% in July.

So now the question for Democrats is simple: Will seniors' nervousness continue to subside, or will it increase, as health legislation nears the finish line in Congress?

Getty Images

Residents attend an August health-care forum at the Greenspring retirement community in Springfield, Va.

When East Germany's Protestant church broke cover

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.

As the world focused on the tens of thousands of East Germans fleeing to the West, a development just as dramatic was shaking the hard-line Communist state: a mass protest movement for reform.

East and West
As the Berlin Wall Fell

The new movement, which was officially outlawed, attested "to the spirit of change now sweeping the Soviet Union and Eastern Europe," the Journal wrote. "They are united by a belief that the system of authoritarian socialism established by Joseph Stalin in Eastern Europe four decades ago is bankrupt and on the verge of collapse."

In Berlin, protesters marched for more than six hours during the state's 40th anniversary celebrations, chanting, "Freedom, freedom" in the town center. Police used truncheons and water cannons to break it up and arrested several hundred people.

Tens of thousands of East Germans flocked to public meetings of fledgling opposition groups, presenting a major challenge to Erich Honecker, the nation's ailing leader. East Germany's Protestant Church played a leading role in this new mood of defiance, going public with calls for political changes. "Socialism must change or die," said Rainer Eppelman, a Berlin pastor in charge of a newly formed political group, Democratic Awakening.

East German officials rejected the activists' demands as "anti-socialist," and dozens were arrested during demonstrations in Berlin, Leipzig, Dresden and elsewhere. "But the activists themselves say that whatever the short-term measures taken against them, reform of some sort is inevitable," the Journal wrote.

To Mr. Honecker's chagrin, Soviet leader Mikhail Gorbachev dropped hints that he favored liberalization. In comments to Western reporters he said: "The danger is for those who don't react to life. Those who take impulses from life and society and base their policies on them don't need to be afraid."

Associated Press

Mass Movement Demanding Reform in East Germany Shakes Hard-Line State

By Peter Gumbel
Staff Reporter of The Wall Street Journal

EAST BERLIN—Angela Kunze, a 25-year-old East German with piercing gray-blue eyes, is celebrating her country's 40th birthday in a special way. Last Wednesday, she started a 10-day protest fast.

Sitting on a blue mattress on the floor of East Berlin's Gethsemane church, wrapped in a blanket, she explains why.

"Changes are taking place in many socialist countries, but in East Germany everything has stayed the same," she says with disgust. "We need changes here, too, and fast."

In recent weeks, world attention has focused on the tens of thousands of disgruntled East Germans who have fled to the West. At the same time, a development that is just as dramatic, albeit less visible, has been shaking this hard-line Communist state: the extraordinary rise of a mass protest movement for reform.

Ms. Kunze and the half-dozen people who have joined her hunger strike at Gethsemane, a Protestant church, are but one manifestation of the new mood of defiance. Last month, the nation's Protestant Church, shaking off its lingering inhibitions, went public with a call for sweeping political changes. About 1,000 East Ger-

At left, East German policemen clash with demonstrators on Oct. 7, 1989. At right, a Wall Street Journal article from Oct. 9, 1989.

Reuters

A policeman jumps over debris as he investigates at the site of a blast outside the Indian Embassy in Kabul on Thursday.

India's embassy in Kabul is targeted by the Taliban

Car bomber kills 17; building was rebuilt after attack last year

The Taliban targeted India's embassy in Afghanistan for the second time in two years with a car bomb that killed at least 17 people on a heavily guarded street in downtown Kabul.

*By **Anand Gopal** in Kabul and **Matthew Rosenberg** in Islamabad*

The explosion came a day after the anniversary of the 2001 U.S.-led invasion that toppled the Taliban regime. Taliban spokesman Zabiullah Mujahid claimed responsibility for the attack on the group's Web site. The attacker, Mr. Mujahid said, was an Afghan in a sport-utility vehicle laden with explosives, and his intended target was the Indian Embassy, which was rebuilt this year after being hit by a car bomb in July 2008.

Last year's attack on India's embassy killed 54 people, including India's defense attaché. Indian and U.S. officials have since said it was carried out by a Taliban-allied insurgent group known as the Haqqani network, with assistance from Pakistan's Inter-Services Intelligence spy agency. Pakistan denies that allegation.

Neither India nor the U.S. cast blame in the hours following Thursday's bombing. But the attack will likely revive questions about Pakistan's alleged support for elements of the Afghan insurgency.

Pakistan, for its part, was quick to condemn Thursday's bombing. Foreign Ministry spokesman Abdul Basit told reporters in Islamabad that, "Whenever terrorist activity occurs it should strengthen our resolve to eradicate and eliminate this menace."

Afghan President Hamid Karzai, the U.S. and U.N. also condemned the attack.

Witnesses and officials reported a powerful blast that reverberated through the surrounding area.

"The building was shaking a lot, there was a lot of dust," said Esmatullah Qadri, 28 years old, whose family owns a guest house on a side lane off the street where the explosion went off. Body parts and "some of the pieces of cars flew into the guest house," he said.

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The explosion took place around 8:30 a.m., just as people were arriving for work. It left the street littered with dead and wounded people and debris and sent a plume of smoke rising from the center of the city. A nearby shopping plaza was destroyed and a number of houses and buildings in the area damaged.

An Interior Ministry spokesman said at least 17 people were killed, including one police officer, and 76 were wounded.

Since the first embassy attack, traffic on the block, which is also home to Afghanistan's Interior Ministry, has been severely restricted and cement blast walls have gone up all along the street, likely helping contain Thursday's explosion. But it wasn't clear how a suicide car bomber managed to get past the police guarding either end of the street.

The bombing was the latest in a series of attacks on Kabul that began in mid-August, just before the country's second presidential election since the fall of the Taliban in 2001.

The election remains undecided with authorities trying to sort out allegations of vote-rigging. Western officials say they fear the Taliban and its allies are trying to take advantage of the political instability by pressing their insurgency into Kabul.

The possibility that the attack will worsen relations between India and Pakistan adds another wrinkle. Ties between the nuclear-armed neighbors have begun to warm in recent months.

—Habib Zohori in Kabul and Vibhuti Agarwal in New Delhi contributed to this article.