Corporate News: Abbott Laboratories nears a deal for Solvay's pharmaceutical unit

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Merkel set for election victory

Chancellor's CDU and pro-business FDP on track to form ruling alliance, early results show

By Marcus Walker

Associated Press

German Chancellor Angela Merkel, right, with Frank-Walter Steinmeier, left, and Guido Westerwelle.

BERLIN—A center-right alliance led by German Chancellor Angela Merkel was set for victory in Germany's national elections Sunday, potentially putting it in a position to relaunch the country's stalled economic overhaul at a time of growing demands for Europe's biggest economy to do more for global growth.

Ms. Merkel's conservative Christian Democratic Union and its pro-business ally, the Free Democratic Party, were set to win a majority in Germany's lower house of parliament, the Bundestag, according to projections based on exit polls and early vote counts.

The CDU, its Bavarian conservative sister-party, the Christian Social Union, and the FDP won 48.3% of the national vote on Sunday, according to projections by state broadcaster ARD.

The parties are expected to form a new national government quickly, replacing the fractious bipartisan coalition between Ms. Merkel's CDU and the left-leaning Social Democrats that has ruled Germany since 2005.

Still, the Chancellor's CDU and the CSU won only 33.7% of the national vote, according to early projections. That would be their lowest total since 1949. The result is likely to add to criticism of Ms. Merkel within her party for running an insipid election campaign that shied away from concrete policy pledges.

Ms. Merkel, a 55-year-old physicist who is Germany's first female chancellor and its first leader to grow up in the former East Germany, on Sunday told her cheering supporters in Berlin she wants to be "a chancellor for all Germans"—an attempt to reassure voters that she would temper market-oriented changes with concern for social harmony.

"We want to be the big people's party of the center," Ms. Merkel said Sunday night, adding that she would govern for "the workers as well as for the entrepreneurs."

The center-right wants to cut income taxes and red tape holding back firms' investment and hiring, raising hopes among business leaders and economists that Germany can improve its volatile economic growth.

But the perilous state of Germany's public finances, and public skepticism about free-market change, could limit a new government's room for maneuver.

German business groups cautiously welcomed the election results, though they acknowledged that Germany's gaping budget deficit could make tax cuts hard to achieve.

"The room for maneuver will be tight, but that doesn't mean we should delay structural changes until after this term," said Hans-Peter Keitel, head of the Federation of German Industries, the most powerful business lobby in Europe's biggest economy.

Ms. Merkel's overhaul agenda is far more cautious than it was four years ago, when she failed to win a majority for the same center-right alliance and was forced to share power with the Social Democrats, or SPD, in a so-called "grand coalition."

Since then, Ms. Merkel has shifted her CDU to the left, seeking to balance pro-business policies with concern for workers' rights and social protections for the less well-off.

The CDU and CSU lost many votes to the FDP, which was on course to win 14.6% of the vote, its best-ever result, according to early projections.

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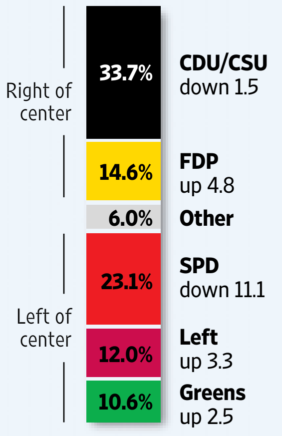

Source: ARD/Infratest dimap

What's News

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■ **Portuguese voters** returned the center-left Socialist Party to power, an exit poll indicated, despite the nation reaching its highest jobless rate in years.

■ **The pope said** all of Europe must acknowledge its Christian heritage as it copes with rising immigration, during a visit to the Czech Republic.

■ **Died: William Safire**, 79, Pulitzer Prize-winning conservative columnist and former White House speechwriter, of cancer, in Maryland. WSJ.com

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Breaking news at europe.WSJ.com

Mandelson labors for Brown's future

By Alistair MacDonald

Twice in the past 12 years, Peter Mandelson has rebounded from political exile to claim a powerful place among the elite of Britain's ruling Labour Party. Now, Lord Mandelson is taking on what may be an even more daunting turnaround mission: saving the political life of his one-time rival, Prime Minister Gordon Brown.

Lord Mandelson, the head of the U.K.'s business department, has emerged in recent months as Mr. Brown's top political operative—a role that will thrust him into the spotlight this week, when the Labour Party holds its annual conference in Brighton, England, the last such party gathering before a general election that must be called by next June.

It's a daunting challenge: The opposition Conservative Party is ahead in opinion polls by as much as 17 percentage points; the economy is in recession; the country is mired in record debt; and Mr. Brown's party is troubled by internal strife.

Yet despite the economic problems that have befallen the U.K., and the world, Lord Mandelson plans to place the economy at the heart of the

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U.K. campaign

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Goal oriented

Ice hockey is making a big comeback in Croatia
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Markets

	CLOSE	PCT CHG
DJIA	9665.19	-0.44
Nasdaq	2090.92	-0.79
DJ Stoxx 600	238.95	-0.43
FTSE 100	5082.20	+0.06
DAX	5581.41	-0.42
CAC 40	3739.14	-0.51
Euro	$1.4692	-0.10
Nymex crude	$66.02	+0.20

LEADING THE NEWS

International report on Georgia war nears

Tbilisi and Russia are expected to share responsibility

BY MARC CHAMPION

An international report to be released Wednesday on last year's war between Russia and Georgia will place responsibility for the conflict on both countries, according to a person close to the Geneva-based fact-finding mission.

While the Cold War-level tensions between Russia and the West that blew up after Moscow's first post-Soviet invasion of a neighboring state have calmed since the August 2008 conflict, the stakes in the detailed findings of the 900-page report remain high for all sides, diplomats and analysts say.

The report, the result of more than nine months of investigation, is expected to address key questions of the war. These include: whether Georgia President Mikheil Saakashvili started the war on the night of Aug. 7, or in response to a Russian invasion as he has claimed; whether Russia broke international law by intervening militarily, or by the widespread invasion of another country that followed; whether Russia's recognition of the independence claims of Georgia's two separatist territories—Abkhazia and South Ossetia—was legal; and whether genocide or other atrocities were committed.

According to the person close to the mission, both Russia and Georgia cooperated fully with the mission and the 20 experts—ex-military officers, law professors and historians among others—who it tasked with providing analyses of specific aspects of the conflict, from military dispositions to issues of international law. The mission, formed by the European Union in December, is headed by Heidi Tagliavini, a Swiss diplomat with extensive experience in the Caucasus region.

A senior Georgian official said Tbilisi sent fresh documents to Ms. Tagliavini as recently as Friday. The documents, reviewed by The Wall Street Journal, consist of court records from a trial in Russia of a soldier caught stealing. The records suggest the soldier was sent to South Ossetia on Aug. 4, three days before the outbreak of hostilities. Georgia believes the records support its case that Russian forces were already assembling in South Ossetia before the war, in preparation for attack.

The report's publication was delayed from July and both sides have been active up to the wire. On Sept. 17, Russia finally produced Marat Kulakhmetov, the commander of the Russian peacekeepers in South Ossetia when the war took place, for Ms. Tagliavini to question in Geneva. She had long been asking to talk to Gen. Kulakhmetov, who disappeared from public view after the war.

Ms. Tagliavini is the sole arbiter of the report's conclusions, with a €1.6 million ($2.3 million) budget. The person close to the mission declined to discuss details of what the report will say. A spokesman for the mission also declined to discuss the report's contents before its release Wednesday.

A finding that both sides were responsible for elements of the war is unlikely to change the conventional wisdom that has emerged in Western capitals since the Aug. 7-12 conflict—namely that both sides prepared for war, Mr. Saakashvili triggered it, and Moscow then reacted disproportionately.

Still, the person close to the mission said it is highly concerned

that the report's findings and collected statements and documents will be cherry-picked to stir up tensions, rather than be used to calm them as intended.

In Georgia, Mr. Saakashvili has outlasted attempts by the country's fractured opposition to oust him. But opposition leaders have made it clear they will use any findings in the report that fault Mr. Saakashvili to revive their efforts.

A negative report would also undermine Mr. Saakashvili's efforts to rally the West behind Georgia's efforts to reclaim Abkhazia and South Ossetia and carve out a path to Western institutions such as the North Atlantic Treaty Organization and the EU.

At the United Nations General Assembly in New York last week, Mr. Saakashvili made an impassioned appeal for the West to prevent Russia from dropping a new "iron curtain" over neighbors such as Georgia and Ukraine.

Russia, for its part, has been struggling to persuade other nations to follow it in recognizing Abkhazia and South Ossetia. So far, only the leaders of Nicaragua and Venezuela have done so. Moscow has also been trying to ensure the new U.S. administration's "reset" of relations is conducted on its terms. A negative report on Russia's role and actions could harm both efforts.

IMF says it acted effectively to combat global recession

BY BOB DAVIS

WASHINGTON—The International Monetary Fund, in a broad self-evaluation, said it acted effectively in combating the global recession, especially in Eastern Europe, a finding that is bound to deepen the debate on the IMF's crisis-fighting abilities.

"Fund-supported programs are helping countries weather the worst of the crisis," the IMF report concluded, saying it was "remarkable" that countries with IMF loans have so far avoided banking crises.

The review covers 15 IMF loan programs approved since September 2008. In that time frame, the IMF said, it has made available $163 billion in financing.

The IMF has long been criticized for driving too hard a bargain for emergency loans, requiring countries to privatize industries, liberalize markets and sharply tighten budget deficits—and sometimes making the economic situation worse. The scars are especially deep in Asia, where few countries have turned to the IMF since the Asian crisis a decade ago. Instead, many countries have built up huge financial reserves to weather downturns.

The IMF said it has learned from its critics and now requires far fewer changes in policy, and less fiscal and monetary tightening. That's made it easier for countries to adjust to the downturn, the IMF report argued.

Nevertheless, the IMF hasn't written blank checks. While it urged the U.S., Western European countries and China to run deficits to stimulate their economies, countries in Eastern Europe were required to pull back on spending, sometimes sharply. The IMF argues that the East European nations were already heavily indebted and couldn't afford to deepen their deficits as much as better-financed countries.

But the report's self-congratulatory tone is bound to rankle in crisis-racked countries. A report released before the IMF study by the Center for Economic and Policy Research, a left-leaning think tank in Washington, said the IMF didn't permit countries looking for loans to expand their deficits sufficiently.

"The IMF, especially with its vastly expanded resources, is capable of providing the necessary foreign exchange to allow for counter-cyclical policies"—that is, fiscal stimulus—said the Center's report.

The current crisis challenged the IMF's traditional policy advice of boosting interest rates, slashing deficits and reducing trade barriers in an effort to devalue currencies and boost exports from developing nations to wealthier ones. This time, the economic problems originated in the U.S. and Europe and spread to Eastern Europe, which suffered from a contraction in trade and foreign investment. So helping developing countries make their export sector more competitive wasn't sufficient.

This time, in large measure, the IMF has tried to help developing nations weather the global economic storm. So it has been less tough than in the past on fiscal and monetary matters.

The IMF said Latvia, Iceland and Ukraine "face the greatest difficulties going forward" of countries in Europe for different reasons. Latvia keeps its currency tightly linked to the euro, thus ruling out devaluation as a policy choice. Iceland has a huge external debt burden, and Ukraine remains torn by political infighting.

CORRECTIONS & AMPLIFICATIONS

Wilmington Trust Co. has made a claim of $48 billion to the administrators representing **Lehman Brothers Holdings** Inc. as a trustee representing several bondholders. An article in the Friday-Sunday edition incorrectly omitted that Wilmington was acting on behalf of others.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Medvedev leaves wiggle room on sanctions

Russia's firmer talk may not translate into action on Iran

By Gregory L. White

MOSCOW—Russian President Dmitry Medvedev may have joined the U.S. and other Western powers last week in threatening Iran with tough new sanctions, but he left plenty of room for the Kremlin to break ranks when it comes to making them stick.

U.S. officials rejoiced at the strong Russian rhetoric during Mr. Medvedev's visit to the U.S. last week. The Russian president seemed to drop Moscow's usual opposition to sanctions, saying they might have to be used if Iran doesn't come clean about its nuclear program.

But analysts and Western diplomats noted the Kremlin has shifted its rhetorical tone in the past, as well, only to slip back to its traditional opposition to any moves that seriously increase pressure on Iran.

Dmitry Medvedev

"Russia's position fluctuates within a band, going in cycles," said Fyodor Lukyanov, editor of Russia in Global Affairs, a government-sponsored journal. "Now the pendulum has shifted toward more pressure. ... If it gets to discussion of actual sanctions, there will be all kinds of differences" with the U.S. and other Western powers.

Observers note that while Mr. Medvedev repeated his stance on sanctions several times last week, Prime Minister Vladimir Putin, widely viewed as the more powerful partner in Russia's ruling tandem and the more skeptical of U.S. intentions, hasn't said a word on the issue. That, according to diplomats, is unusual on a major foreign-policy issue.

And in his comments last week, Mr. Medvedev still used gentler language than his Western counterparts, underlining that Tehran must be given yet another chance to show its peaceful intentions.

"We must create comfortable conditions, a system of stimuli, for Iran to start cooperating," Mr. Medvedev said in Pittsburgh on Friday. "If these stimuli don't work, if cooperation doesn't develop, then other mechanisms take effect," he said, apparently referring to sanctions.

In the past, Moscow has proved more willing to give Tehran the benefit of the doubt over its nuclear program, questioning Western claims that Tehran is seeking a nuclear weapon. Iran's latest offer to limit enrichment at its new plant and to subject it to international inspections could be enough to lead Moscow to call for giving Tehran more time, analysts said.

"I don't think we can say that Russia has finally come to see things differently in its view of Iran's nuclear program," said Mr. Lukyanov.

Analysts and Western diplomats said last week's rhetorical shift came in part because the Kremlin felt it had to respond to the Obama administration's decision to shelve plans for missile defenses in Eastern Europe that the Kremlin had strongly opposed.

Russia's relationship with Iran is complex, with tensions running below the surface of regular presidential summits and strong economic ties. "They really don't like us," a senior Russian official said of his Iranian counterparts.

Tehran has repeatedly expressed frustration that Moscow has so far refused to deliver on two major contracts: fuel for Iran's first nuclear-power plant in Bushehr and advanced S-300 air-defense missiles.

Publicly, Moscow rejects Western calls to suspend the shipments as a measure to put pressure on Tehran over its nuclear program. But Western diplomats say Russia is doing just that, though it can't admit to it for fear of jeopardizing its reputation as a supplier that can serve countries that are out of favor with the U.S.

Thus, the nuclear-fuel shipments have been held up for years on grounds ranging from concerns about the environmental impact to allegations that Iran has failed to pay up fully. Russian officials haven't said why the missiles haven't been shipped.

Moscow is loath to openly break with Tehran in part, officials say, for fear that Iran could retaliate by supporting Islamist insurgents in Russia's North Caucasus, where the Kremlin already is struggling to maintain control.

Going fourth?

The United Nations has already adopted three rounds of sanctions against Iran, with Russian and Chinese support:

■ December 2006

Iran refused to answer questions about its nuclear program, so in December 2006 the first sanctions were adopted, blocking import and export of "sensitive nuclear material and equipment" and freezing financial assets of Iranian officials involved in the nuclear program.

■ March 2007

The Security Council, with China and Russia agreeing, slapped round two of sanctions on Iran: banning all Iranian arms exports and travel by officials involved with the program, while expanding asset freezes to others.

■ March 2008

Again with Chinese and Russian approval, the U.N., called on nations to avoid business with Iranian banks believed to be financing the weapons program. It also called on nations to inspect cargo planes and ships on the way into and out of Iran if they had reason to suspect contraband was on board.

Tense times

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LEADING THE NEWS: THE GERMAN ELECTIONS

SPD's decline illustrates center-left crisis

Working-class votes migrate to the Left; shifting alliances?

BY MARCUS WALKER

Foreign Minister Frank-Walter Steinmeier talks to SPD supporters in Berlin after the German general elections on Sunday.

Associated Press

BERLIN — The Social Democratic Party of Germany scored its lowest result in a national election since the fall of the Weimar Republic in 1933, highlighting the decline of one of Europe's oldest parties and a longtime pillar of German democracy.

The center-left SPD was set to win only 23% of the national vote on Sunday, according to exit polls and early vote counts, down sharply from an already-disappointing 34% four years ago and its worst result of the postwar era.

The SPD's decline exemplifies the crisis of Europe's once-mighty center-left parties, which are in disarray in the U.K., France, Italy, Poland and other countries amid divisions over how to balance social protections and business freedoms in an era of rising global competition.

"There's no getting around it. This is a bitter day for Germany's Social Democrats," said Frank-Walter Steinmeier, the SPD's heavily defeated candidate for chancellor.

Germany's oldest party has been squeezed between conservative Chancellor Angela Merkel's centrist course and the upstart Left party, which has eaten into the SPD's working-class base thanks to its pro-welfare, antimarket and pacifist rhetoric.

The SPD is paying a heavy price for its own boldness in trimming Germany's welfare state and partially deregulating the labor market under former Chancellor Gerhard Schröder. Those pragmatic moves lost the SPD many of its traditional working-class voters, and have left the party deeply split between centrists and left-wing traditionalists.

Social Democrats' roots go back to 1875. After World War II the SPD became one of the two dominant parties in the German Federal Republic, along with the conservative Christian Democratic Union. The SPD accepted capitalism and West Germany's alliance with the U.S., but also rebuilt German relations with Moscow and Eastern Europe.

Under Chancellor Schröder, an SPD-Green government tried to modernize Germany's stagnating economy with major overhauls including slashing long-term jobless benefits. The changes helped to bring down German unemployment to around 3.5 million today from five million in 2005, but they also undermined the SPD's popularity.

The German election raises questions over whether the SPD can lead a national government again, unless it seeks a rapprochement with the populist Left. Together the two parties would be contenders to win Germany's next elections together with the left-leaning Greens.

Many Social Democrats are loath to cooperate with the Left's firebrand figurehead Oskar Lafontaine, a former SPD leader who defected in protest of his former party's embrace of market-oriented change.

The Left's success at grabbing a record 12% of the vote meant the SPD had little hope of winning Sunday's election. The SPD's current leadership, including its candidate for chancellor, Mr. Steinmeier, has ruled out alliance with the Left at the national level, even though the two parties share power in some of Germany's 16 states. After Sunday's debacle, however, many observers expect a new generation of SPD politicians to push for so-called red-red cooperation, a reference to an alliance between the SPD and the Left party.

The next man to watch in German politics, some analysts say, could be Klaus Wowereit, the charismatic mayor of Berlin. Mr. Wowereit, 55 years old, who was the first openly gay mayor of a big German city, already runs Germany's capital as head of an SPD-Left regional government.

"Wowereit has the populist talent to lead a left turn by the SPD, and he has experience with a red-red stategovernment in Berlin," says Tilman Meyer, a political scientist at Bonn University.

For Germany, the likely building of bridges between the SPD and the Left could return the country to a more polarized left-right politics, after four years of a dominant centrist consensus under Chancellor Merkel.

Allying with the Left would require the SPD to accept that it no longer monopolizes the working-class cause. It also would throw up difficult policy choices, from how to finance Germany's welfare state to how to disengage from the war in Afghanistan.

The Left has won votes by calling for Germany to bring home its 4,200 troops in Afghanistan. The SPD is committed to the U.S.-led mission in Afghanistan, but has begun to debate a timetable for exit. That has put pressure on Chancellor Merkel and makes German support for a possible intensification of the U.S.-led effort less likely.

Merkel, center-right alliance poised for victory in Germany

Continued from first page

tions. The FDP has attracted many voters who favor smaller government and are disaffected with Ms. Merkel's growing pragmatism about state intervention in the economy.

Some conservative voters who support Ms. Merkel voted tactically for the FDP to make sure there wouldn't be a repeat of the grand coalition, analysts said.

Sunday night, hundreds of FDP party supporters crowded the historic Römischer Hof building on Berlin's showpiece boulevard, Unter den Linden, cheering their victory over beer and sausages.

The SPD was on course to win only 23.1% of the national vote, down massively from its 34.2% support in 2004, and the venerable party's worst result in a national election since the dying days of the Weimar Republic. "There is no getting around it, this is a bitter defeat," said Frank-Walter Steinmeier, the SPD's candidate for chancellor.

The SPD, once Europe's most influential center-left party, has struggled to find a new path between Ms. Merkel's pragmatic centrist course and the populist upstarts of the Left party, an alliance between the heirs of East Germany's former ruling Communists and radical leftists from Germany's West.

The Left was projected to win 12%, its best result since 1990 when the party's East German predecessor, the PDS, first competed in an all-German election. Germany's fifth major party, the Greens, won 10.6% according to early exit polls, the Greens' best ever result.

The election thus confirmed the trend of declining support for Germany's two traditionally dominant parties, the CDU and the SPD, and the rise of smaller parties.

That had raised concerns about possible political instability. But the new conservative-FDP government is set to win around 330 seats out of 614 in Germany's lower house of parliament, the Bundestag, giving it a comfortable majority for the next four years.

The center-right also appeared on course to win a key regional election Sunday in the state of Schleswig-Holstein. That could give Ms. Merkel's camp a majority also in Germany's upper house of parliament, where the country's 16 states are represented.

Many center-right supporters hope a new government will cut Germany's heavy income taxes and social-security levies. "When I look at how much income I have left after taxes at the end of the month, it's just not OK," says Robert Rigo, a 37-year-old engineer, after casting his vote for Ms. Merkel's alliance in the affluent Berlin suburb of Schöneberg.

The center-right's victory comes as a relief to German business, which has complained about the lack of initiatives to overhaul Germany's indebted public sector and boost economic growth under the grand coalition since 2005.

However, business leaders aren't expecting a revolution. The center-right might make limited, business-friendly tweaks to taxation, health-care funding and pensions, said Stefan Kirschsieper, head of Germany's association of young entrepreneurs. "But the scope for acting is very small because of the mountain of public debt," he said.

The FDP's main policy is tax cuts, but the CDU, which also wants lower taxes, has warned that achieving the goal won't be easy because of Germany's big budget deficits. Ms. Merkel has refused to say when she would lower income taxes, despite pressure from some in her conservative camp.

Both center-right groups have toned down their former proposals for deregulating the labor market and curtailing unions' power, instead heeding most Germans' preference for cooperation between business and labor.

The center-right won't "govern now now like it wanted to four years ago, because the financial crisis has reduced the room for maneuver," says Eckart von Klaeden, a CDU lawmaker and the party's treasurer. "I hope it asks the right question: How to improve growth, and how to cut burdens on citizens," he says.

In addition to battered public finances, the global financial crisis has discredited the idea of U.S.-style freewheeling capitalism in many Germans' eyes. Throughout the campaign, Ms. Merkel has sought to reassure voters that she supports strict market regulation and a strong social safety net.

"The national mood and the whole party spectrum has shifted to the left," says Josef Joffe, one of Germany's leading political commentators, who teaches international studies at Stanford University and publishes German weekly newspaper Die Zeit.

"Neither the FDP nor the CDU will attack the kind of issues that Germany needs to attack, to get off its sclerotic average economic growth of 1.5% in the last decade," Mr. Joffe says.

Still, some economists predict the balance in Germany will tilt back towards business-friendly policies.

"You have to see it relatively to what went before," said Thorsten Polleit, economist at Barclays Capital in Frankfurt. "The FDP, which will feel very confident now, and much of the CDU will want to bring down government spending in order to cut income taxes. For corporate Germany, this is a good signal," he said.

In a campaign widely derided as the dullest in living memory, Ms. Merkel and her rivals have stressed their belief in Germany's postwar traditions of strictly regulated markets, strong social protections and a cautious foreign policy, papering over the mounting challenges facing Western Europe's most populous nation.

Those challenges range from international pressure to rebalance its lopsided, export-dependent economy, to the growing demands for Germany to take more responsibility for managing international security problems, including the war in Afghanistan.

Instead, German leaders have sought to reassure Germans that their existing policies can cope with the fallout from the financial crisis, despite forecasts that Germany's gross domestic product could fall by over 5% this year, a postwar record.

Germany, like similarly export-dependent Japan, faces adapting its economy and public finances to an aging population and rising competitive pressure from emerging economies such as China. Both countries must now pursue economic growth in a world that can no longer buy its exports in the same quantities as before the financial crisis

But unlike Japan, which threw out its long-time ruling party last month and elected the upstart Democratic Party of Japan in search of a fresh beginning, Germany has decided to stick with the tried and trusted.

Ms. Merkel's campaign, which has shied away from talk of painful structural changes, has earned her comparisons with Helmut Kohl, Germany's longtime CDU chancellor. Mr. Kohl governed Germany for 16 years together with the FDP, leaving a backlog of economic overhauls when voters finally ejected him from power in 1998.

—Vanessa Fuhrmans, Almut Schoenfeld and Matthew Karnitschnig contributed to this article.

LEADING THE NEWS: THE GERMAN ELECTIONS

FDP gains bigger role

Pro-business party could butt heads with Merkel's agenda

By Marcus Walker

BERLIN—The victory of a center-right alliance in German elections on Sunday marks the likely return to government for the small, pro-business Free Democratic Party after more than a decade in opposition.

How much power the FDP will have to steer Germany on a path of lower taxes and other economic reforms that it champions is less clear. Its likely coalition partner, Chancellor Angela Merkel's Christian Democratic Union, has promised voters it would protect the country's "social market economy" with its mix of capitalism, regulation and a strong social safety net.

The FDP garnered around 14.6% of Sunday's vote, its best showing yet, paving the way for a coalition with the CDU, which led the polls with 33.6%, according to preliminary results.

The FDP's strong showing puts its leader, Guido Westerwelle, in position to become vice chancellor in a new cabinet led by Ms. Merkel. The FDP is also expected to win the post of foreign minister and push for a key economic position, such as finance minister or economy minister, in order to push its tax-cutting agenda.

On Sunday night, Mr. Westerwelle told cheering supporters at a rally in Berlin that he would push for "a fair tax system," with radically simpler tax laws as well as lower income-tax rates.

However, Mr. Westerwelle has also stressed the need for a strong social safety net, showing that he is sensitive to Germans' attachment to their social protections, which conflicts with the goal of scaling back the state.

Ms. Merkel's CDU supports more limited tax cuts and has called the FDP's tax proposals unrealistic.

Most economists doubt Germany has much scope to cut taxes soon: The country's budget deficit is projected to rise to around 6% of gross domestic product next year because of the financial crisis.

The FDP is Germany's most free-market party and has long called for cutting red tape that holds back business activity. However, proposals such as deregulating the labor market are highly controversial in Germany, where even most center-right voters blame the global financial crisis on excessive market deregulation.

Despite the FDP's business focus, Mr. Westerwelle would likely claim the prestigious post of foreign minister if the party forms a government with the CDU and its sister party, the Christian Social Union.

Mr. Westerwelle, a 47-year-old trained lawyer, has said little so far about his foreign-policy priorities. In a recent interview with The Wall Street Journal, Mr. Westerwelle said he agreed with the "basic thrust" of foreign policy under Ms. Merkel since 2005.

"We are committed Europeans," Mr. Westerwelle said. He added that he "can't shed my Atlanticist skin," a reference to maintaining a strong U.S.-German relationship.

An FDP-run German foreign ministry would be a familiar sight for the U.S. and other German allies: The party supplied West Germany's foreign ministers from 1969 to 1998.

After years in opposition and a generational change, the FDP's foreign-policy profile and experience have declined, say analysts.

"Westerwelle has been invisible on foreign policy. He has been all about domestic economic policy," says Lothar Probst, a political scientist at Bremen University.

Ms. Merkel has restored Germany's traditional ties with the U.S., following a tense period during the administration of her predecessor, Gerhard Schröder, who sided with Russia and France over the 2003 invasion of Iraq.

Since 2005, Berlin has reaffirmed its alliance with Washington while insisting on the need for cooperation with Russia, Germany's main energy supplier. Ms. Merkel has also sought to balance close cooperation with France, and its prickly President Nicolas Sarkozy, with improved relations with the U.K. and Germany's East European neighbors such as Poland.

Agence-France Presse

Free Democratic Party leader Guido Westerwelle, right, celebrates with honorary chairman of the FDP Hans-Dietrich Genscher, left, after elections in Berlin Sunday.

CORPORATE NEWS

Prisa strives to ease big debt burden

After costly expansion, the Spanish media company attempts to shed assets amid global financial downturn

BY JASON SINCLAIR

MADRID—**Promotora de Informaciones** SA of Spain is at a crossroads. After a costly and ill-timed expansion drive at home and abroad during Spain's boom years, the media company is now intensifying efforts to unload assets and attract investors to cut down on debt and generate cash flow.

Prisa, as the company is known, is Spain's most influential media company and its global reach in the television, radio and publishing sector has widened to Portugal, Latin America and the U.S.

A key date for Prisa is March 31, when nearly €2 billion in debt is due.

Its international recognition grew in tandem with a wider economic boom in Spain, and the company loaded up on debt when it was easy to come by and to finance. In 2005, Prisa, owner of Spain's biggest daily, El País, invested millions to bail out leading French newspaper Le Monde.

A few years later, Prisa needs a lifeline of its own. Its challenges arise from the debt-fueled growth Spanish companies embraced before the financial crisis. The credit crunch sparked a dramatic drop in revenue as Spain slid into recession, forcing Prisa to come up with plans to sell prized assets at the worst possible time.

"We've suffered from the global financial crisis, a structural crisis at the company level and a crisis in the media sector," Chief Executive Juan Luis Cebrián said during a recent interview at the company's headquarters on Gran Vía in Madrid's historical center. "We took on more debt than we expected when the markets crashed," he said.

At the end of 2007, Prisa launched a bid to consolidate control of TV unit Sogecable, offering a generous premium just before global markets staged a broad correction. The change in market conditions prompted key shareholders, such as telecommunications giant **Telefónica** SA, to sell their shares.

"If we had known what was going to happen to the market, we would have offered less," Mr. Cebrián said.

Last year, Prisa tried to sell Sogecable's flagship satellite pay-TV unit Digital+, but rejected offers as too low. Bidders "wanted to pay less than our assets are worth; our banks advised us not to sell assets at these prices," Mr. Cebrián said.

Prisa's board and Spain's Polanco family own roughly 70% of the company. As such, they have room to dilute their stakes if they need to raise more capital by luring potential partners.

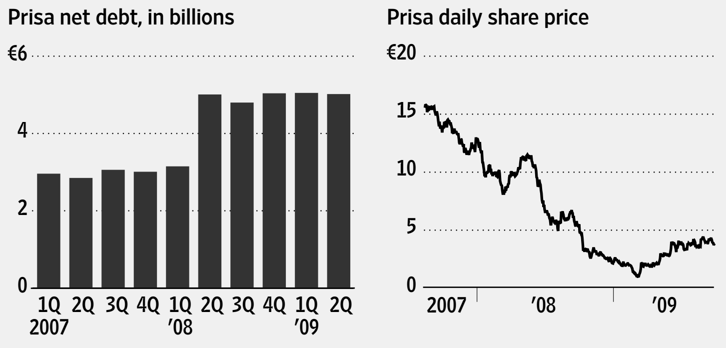
Mr. Cebrián said Prisa's main focus now is how to "achieve reasonable debt levels through partial divestments," hoping to complete significant sales and sign up new partners by year end. Prisa's debt totals about €5 billion, or approximately $7.3 billion.

Chief Executive Officer Juan Luis Cebrián, left, and Chairman Ignacio Polanco

Agence France-Presse/Getty Images

Debt doldrums

After loading up on debt during boom times, Prisa now seeks to sell off assets to raise cash.



Sources: the company, Thomson Reuters datastream

A key date on the company's calendar is March 31, when nearly €2 billion in debt is due. Prisa already has renegotiated several extensions with its creditor banks.

Compounding the company's woes, Prisa's grip on the pay-TV market and football broadcast rights has weakened considerably in favor of Barcelona-based production and media company **Mediapro**, which is widely seen as benefiting from its ties to Spain's socialist government.

It remains to be seen if Mr. Cebrián is the appropriate manager to succeed long-time Prisa Chairman Jesús de Polanco, who died in July 2007, just as Prisa was entering a critical expansion phase and right before the financial crash.

Seen as one of the doyens of modern journalism in Spain, Mr. Cebrián, 64 years old, led El País for more than a decade during Spain's key democratic transition. At the time of its creation, El País was among the few leading publications offering alternative, center-left editorial analysis.

Prisa's decline in market value has been extreme, dropping to €850 million at present from nearly €3 billion two years ago. Earlier this year, its liquidity squeeze was so dramatic that it was forced to delay wage payments.

Mr. Cebrián said the lack of credit affected all companies, and added that liquidity issues had been sorted out. The company is moving forward with plans to sell minority stakes in Portuguese media unit Media Capital or its publishing division Santillana, he said.

Abbott wins Solvay drugs unit

Abbott Laboratories has struck a deal to acquire the pharmaceutical unit of Belgian conglomerate **Solvay** SA for roughly €4.8 billion ($7 billion), in another sign of the consolidation of the drug industry.

*By **Jeanne Whalen, Dana Cimilluca** and **Jeffrey McCracken***

The all-cash deal could be announced as soon as Monday, people familiar with the matter said. According to two people familiar with the situation, Abbott will pay €4.5 billion now and up to €300 million between 2011 and 2013 if the business hits certain targets.

Abbott sees Solvay as a way to expand into emerging markets in Eastern Europe and Asia, where Abbott had limited presence, while adding new drugs for hypertension and Parkinson's disease. It is the biggest deal Abbott has done since 2002.

The deal also gives Abbott full control of two drugs for cholesterol and triglycerides that Abbott and Solvay already sell together—Tricor and Trilipix.

Solvay also sells hormone treatments and has a small flu-vaccine business—a hot area in the drug industry as concern mounts about flu pandemics. In a press release in early September, Solvay said it had begun producing small batches of vaccine for the H1N1 swine-flu virus, which it planned to test in studies. Abbott may be hoping to boost investment in that business to take advantage of the current desire of many countries to buy H1N1 vaccine, though it is unclear how quickly Solvay's factories could produce it in large quantities.

Abbott will pay for the deal from existing cash on hand and won't go to the markets to raise acquisition financing, said a person familiar with the matter.

For Solvay, a sale will enable it to narrow its focus and invest more in the two other areas where it already gets more revenue, chemicals and plastics.

Analysts say Abbott needs to lessen its reliance on Humira, a drug for rheumatoid arthritis that had $4.5 billion in sales last year, representing 15% of Abbott's net income.

Even amid a slowdown in mergers and acquisitions over the past year, there has been a wave of pharmaceutical deals, led by **Pfizer** Inc.'s roughly $62 billion takeover of **Wyeth** and **Merck**'s roughly $41 billion deal to acquire **Schering-Plough** Corp. Drug companies are rich in cash and looking for new products to offset those losing patent protection and sales to generic copies.

The price tag is good news for shareholders of Solvay. The shares have already surged 42% since the company announced it was considering selling the division on April 1, and they closed Friday at €74.73 in Brussels.

Abbott outbid Swiss drug company **Nycomed**, which had been pursuing Solvay's drug business. Nycomed, owned by private-equity firms, was widely expected to win the auction before Abbott came on strong in recent weeks.

In the absence of any perceived competition, Nycomed had resisted meeting Solvay's asking price of roughly €5 billion, at one point lowering its offer to below €4 billion, according to a person familiar with the matter. Its final bid was well shy of Abbott's, another person said.

For Nycomed, the failed bid represents the second time lately that its M&A ambitions have been frustrated. Earlier this year, the firm quietly sounded out possible buyers, to no avail. When Solvay's drug unit went on the block, it provided Nycomed with an opportunity to bulk up in advance of a possible initial public offering of stock.

Barclays PLC's investment bank advised Abbott on the Solvay deal; Morgan Stanley, Citigroup Inc. and NM Rothschild & Sons Ltd. advised Solvay.

—Jonathan Rockoff contributed to this article.

Marketplace

Rich pitch

A Saudi play for Liverpool is the region's latest foray into English football > **Page 29**

ITV chairman to step down; field shrinks for CEO post

BY KATHY SANDLER

LONDON—The leadership conundrum at **ITV** PLC remained unresolved after discussions with the front-runner for the chief-executive post, Tony Ball, were terminated, potentially leaving the British TV broadcaster without a leader amid the worst advertising slump in its history.

Adding to the uncertainty about its leadership, ITV said Friday that Executive Chairman Michael Grade will step down from his positions, relinquishing both his executive and strategic posts, once a new chairman is announced. That could come as early as the next few weeks, a person familiar with the matter said.

The new chairman would be charged with appointing a chief executive, although the pool has shrunk by at least two candidates since the search began earlier this year.

Mr. Ball, a former head of pay-TV operator **British Sky Broadcasting Group** PLC, was widely considered a shoo-in for the CEO post after **HMV Group** PLC boss Simon Fox withdrew his candidacy last month.

Talks with Mr. Ball fell apart over "a number of substantial differences, including a failure to finally agree contractual arrangements, together with a disagreement over the future chairmanship," ITV said.

These differences were initially linked to Mr. Ball's remuneration demands, which amounted to pay awards of up to £42 million ($66.9 million) over five years, the person familiar with the matter said. This had been negotiated down to a range of £20 million to £25 million, but the deal finally collapsed over Mr. Ball's demands for veto power over candidates for the chairman post, this person said.

Mr. Ball said in a statement Friday that all compensation terms had been agreed, but that the ITV board had imposed an ultimatum on the appointment of a new chairman. "Whilst I was ready to participate in a debate about the company's next chairman, the board decided it no longer wished to proceed [with my candidacy]."

Mr. Ball's demise as a CEO candidate disappointed investors. ITV stock closed down 3.5% in London trading Friday, after falling more than 5% earlier in the day.

Goldman Sachs said in a research note that Mr. Ball was the candidate most qualified to undertake further restructuring of the business, and added the developments raised concerns about the board's resistance to restructuring candidates.

ITV has been caught in a squeeze amid the dispersal of its viewers across multiple digital channels, the rise of the Internet as a rival for advertising, and the slump in ad revenue caused by the recession. Even though a £285 million cost-cutting effort is already in progress, a new chief executive will need to address the company's structural problems.

CORPORATE NEWS

HSBC re-emphasizes the 'H' in its name

As it looks to China, bank will relocate CEO to Hong Kong

By Jonathan Cheng And Aries Poon

HONG KONG—Who says you can't go home again?

HSBC Holdings PLC's decision to return the principal office of the group chief executive to Hong Kong is a small but symbolic gesture that highlights the rising importance of the U.K. bank's business in Asia for its growth—particularly in China, where it hopes to list its shares.

CEO Michael Geoghegan will relocate to Hong Kong in February, the bank said, though HSBC will remain domiciled in the U.K. for tax purposes and has no plans to move.

"We want to be at the gateway to China. Being in China itself is a logical goal and the place to work on it is Hong Kong," Mr. Geoghegan said at a news briefing Friday.

The announcement is a return home of sorts for HSBC, which was set up in Hong Kong in 1865 as Hongkong & Shanghai Banking Corp. to finance trade between Europe, India and China. Hong Kong remained its home until 1992, when the bank relocated to London after acquiring the U.K.'s Midland Bank.

The news was welcomed with glee in Hong Kong.

The city's top leader, Chief Executive Donald Tsang, called it "a significant move for the bank, which has its historical roots in our city."

For HSBC, the move to Hong Kong is perhaps most important for its symbolism.

HSBC already has a strong presence here, with about 16% of its overall \$2.5 trillion in assets based in the city, according to its most recent annual report.

It is one of three banks authorized to print the local currency, and its steel-girded Hong Kong headquarters is a local landmark.

More than half of HSBC's assets are in Europe, and a fifth are in North America, where its purchase of U.S. subprime lender Household Financial led to a \$10 billion goodwill write-off earlier this year.

Associated Press

HSBC Holdings' headquarters in Hong Kong is a local landmark. The bank was set up in 1865 in the city and was based there until 1992, when it moved to London.

The bank has been beefing up its presence in China in recent years and is planning an initial public offering in Shanghai that will help raise the company's profile in the lucrative mainland Chinese market.

Sandy Flockhart, HSBC's chief executive for Asia-Pacific, said last month that the bank had hired advisers to handle the IPO plan but didn't provide specifics. Mr. Flockhart has called China "the largest part of the puzzle" of growth, and said China would be an investment focus over the next 25 to 50 years.

HSBC framed its move as a much larger one than just Hong Kong, saying it "positions the group for the shift in the world's center of economic gravity from West to East."

At the same time, the bank took great pains to say that it wouldn't be neglecting its presence in London. Group Chairman Stephen Green and two executive directors will remain in London, and the U.K. Financial Services Authority will continue to be HSBC's lead regulator. "There is absolutely no question of HSBC pulling away from London," Mr. Green said in a statement. "We will operate from two equally strategically important centers...."

As part of his move, Mr. Geoghegan will succeed Vincent Cheng as chairman of the bank's Asia unit.

Mr. Cheng will remain an executive director and continue to help the bank develop its business in mainland China, Hong Kong and Taiwan.—*Chester Yung contributed to this article.*

Glaxo to give Brazil some vaccine technology

By Jeanne Whalen

In an effort to crack the lucrative Brazilian market, **GlaxoSmithKline** PLC has agreed to give Brazil some of its vaccine technology and also to fund research into a vaccine for dengue fever, a disease that hits Brazil particularly hard.

The agreement is a sign of the growing clout emerging markets have in negotiating deals with the drug industry. Glaxo and other companies are hoping that countries such as Brazil will provide much of their sales growth in the future as sales in more developed markets slow.

Andrew Witty

Glaxo Chief Executive Andrew Witty said Brazil has agreed to buy roughly €1.5 billion (\$2.2 billion) worth of the company's vaccine for pneumococcal disease, Synflorix, over roughly 10 years.

During this time period, Glaxo will gradually give Brazil the technology to make the vaccine, and when the time is up, Brazil will make it on its own, Mr. Witty and Brazilian officials said in a meeting with journalists in London Friday.

Glaxo will also invest €35 million in a research project for a dengue-fever vaccine, Brazilian officials said. The research will be carried out at Brazil's Oswaldo Cruz Foundation, with Brazil also investing €35 million. Dengue fever is a tropical disease spread by mosquitoes that strikes as many as 100 million people each year.

"One of our strategic visions is to strengthen the Brazilian capacity for producing, developing and innovating" new drugs and health-care tools, Brazil's health minister, Jose Gomes Temporao, said at the briefing.

Glaxo said it is giving Brazil a discounted price on the pneumococcal vaccine, in part because Brazil agreed to a multi-year order. Glaxo will start out charging about €11.50 per dose, with the price gradually falling over time.

Abbas Hussein, the head of Glaxo's emerging-markets business, said Brazil's health minister lobbied for the Synflorix technology. He added that Glaxo would consider similar deals with other countries.

Synflorix is designed to prevent different kinds of pneumococcal disease, including some forms of bacterial meningitis and pneumonia.

Meanwhile, the European Union's drug regulator recommended approval of swine-flu vaccines from Glaxo and **Novartis** AG, following a swift review, to ensure the vaccines are available to Europeans this fall.

A Glaxo spokeswoman said the company expects a decision on approval from the European Commission within 10 to 12 working days, far faster than the 65 or so days normally taken.

—*Jason Douglas contributed to this article.*

CORPORATE NEWS

Chrysler car plan faces pushback

Parts suppliers balk since making money could be difficult

By Neal E. Boudette And Jeff Bennett

Chrysler Group LLC this week is expected to present its new-product plan to the Obama administration's auto task force, according to people familiar with the matter.

Chief Executive Sergio Marchionne is proposing the new lineup as part of his turnaround plan for the auto maker, which received a U.S. bailout. But the company faces pushback from suppliers that worry about making money on the cars' parts, as well as questions about which Chrysler plants would make the vehicles, said people familiar with the situation.

The lineup, part of a five-year strategy, consists of updated versions of existing Chrysler cars and Jeeps and new compact and midsized sedans based on components developed by Chrysler's alliance partner, **Fiat** SpA, these people said.

Mr. Marchionne, who also runs Fiat, last Friday was scheduled to present the models to Chrysler's new board of directors at Chrysler headquarters in Auburn Hills, Mich. But the management team is still trying to work out many of the details of how Chrysler would build the vehicles, these people said.

A Chrysler spokeswoman declined to comment.

One of the biggest hurdles is persuading suppliers to spend money up front to develop and make parts for the new models, these people said.

Reuters

Chrysler CEO Serio Marchionne, shown at the Frankfurt auto show earlier this month, is proposing a new lineup that will incorporate components developed by Chrysler partner Fiat, but suppliers worry about making money on the cars' parts.

Some smaller suppliers that are under financial strain themselves are hesitating because they are unsure whether the vehicles will sell in high enough volumes for them to make money, they said.

In most cases, these people said, Chrysler is declining to guarantee certain production volumes, a change from what it and other car makers have typically done.

Car companies usually give suppliers a volume estimate, and allow them to raise parts prices if actual sales fall short of the target.

"Why would we want to tie ourselves to Chrysler when GM and Ford are a known factor," said an executive with an interior-parts supplier who didn't want to be identified. "We're already financially strapped so we have to be more choosey in where we will spend our money."

Chrysler also needs to figure out which plants could produce the Fiat-derived vehicles most efficiently, these people said. Chrysler currently builds two slow-selling midsized sedans at a plant in Sterling Heights, Mich., that is slated to close.

Trailing rivals, Ford to build third China plant

By Norihiko Shirouzu

CHONGQING, China—**Ford Motor** Co. on Friday announced plans to build a car-assembly plant here, its third such facility in China, part of a broader effort to overcome the auto maker's late start in China and catch up with key competitors.

The new plant, to be built with an investment of $490 million, will be run jointly with a Chinese partner, **Chongqing Changan Automobile** Co., and Japan's **Mazda Motor** Corp., as are its two existing plants. It will make Ford's next-generation Focus compact car and be capable initially of producing 150,000 vehicles a year when it opens in this southwestern China city in 2012, the company said.

"We are going to really focus on China" and the rest of the Asian market, which should account for at least one-third of global demand for cars, said Ford Chief Executive Alan Mulally in an interview. "We are going to build up our product lineup," he said, pledging that Ford will be "best-in-class" in quality, fuel-efficiency, safety, design and value with an array of new and redesigned vehicles it plans to launch in Asia.

The new plant would boost Ford's and Mazda's combined annual capacity in China—long a comparatively weak link in Ford's global operations—to 600,000 vehicles from the current 447,000. Ford wouldn't say how much of the capacity is its own and how much is Mazda's.

Ford still has a lot more ground to make up to catch up with key competitors in China—**Volkswagen** AG, **General Motors** Co., **Hyundai Motor** Co. and **Toyota Motor** Corp., the four top car concerns in China's fast-growing auto market.

Toyota is capable of producing 800,000 vehicles a year and expects to lift that to more than one million in a few years. GM has partnerships and joint ventures that give it capacity of 1.29 million vehicles a year, including low-cost micro commercial vans.

According to J.D. Power & Associates, Ford is the No. 12 auto brand in China by sales. It is so weak a player in China among established foreign brands that Toyota doesn't even "benchmark" Ford's products, according to a senior Toyota marketing manager in Beijing. "We care more about Hyundai here, at least until now," said the executive, who spoke on condition of anonymity. Benchmarking is a practice by auto makers to monitor what options and features competitors have as well as color choices and pricing strategy.

"We know we are where we are," Mr. Mulally said, referring to Ford's weak position in China. "But we are going to use all of our resources world-wide" to catch up, "which we have not done before," he said.

Company executives said Ford will add four models over the next three years in China. One is expected to be a subcompact, a car segment Ford just entered in India with the unveiling of the Figo. The Figo, due to be built southern India, is expected to hit showrooms in India early 2010 and be exported to other countries.

Ford's new China plant will be flexible enough to make a range of products but is expected to begin with the next-generation Focus, due to be shown in January. One of Ford's current plants is also in Chongqing, while the other is in Nanjing in eastern China.

British Airways to charge fee for seat selection

By Kaveri Niththyananthan

LONDON—**British Airways** PLC Friday said it will start allowing customers to choose their seats more than 24 hours in advance but for a fee, in the U.K. carrier's latest move to boost revenue.

From Oct. 7, BA will charge economy travelers £10 ($16) each for selecting their preferred seats up to 24 hours before departure on domestic flights or flights within Europe. Travelers flying short-haul business within Europe or long-haul economy trips will be charged £20 each, and those traveling long-haul business will be charged £60.

Seats in the emergency exit row, which are popular given the extra leg room, will cost £50. BA has been looking to boost revenue while also trying to cut costs to cope with the economic downturn. BA has been hit particularly hard by the falloff in premium traffic. Earlier initiatives to boost revenue include reducing its free baggage allowance from Oct. 7 and seeking advertisers for its Web site and boarding passes.

It isn't uncommon for airlines, particularly on long-haul routes, to charge an additional fee for exit row seats. BA continues to allow frequent flyers with top-tier gold and silver membership to select seats at the time of booking for free, but silver cardholders will be charged for emergency exit rows.

The carrier's decision to introduce such charges mirrors budget carrier **Ryanair Holdings** PLC's "priority boarding," which charges passengers extra to board the plane first and have first choice of seating.

Rivals criticize Microsoft offer to settle probe

By Charles Forelle

BRUSSELS—Makers of competing Web browsers have complained about a proposal to end the European Union's antitrust investigation of **Microsoft** Corp.'s Internet Explorer, possibly complicating efforts to wrap up one of the software giant's last remaining tangles with the EU regulator.

The investigation is at a late stage: EU officials over the summer sent out questionnaires to makers of competing browsers, computer vendors and others asking for views on Microsoft's proposal for a settlement.

The EU has charged that Microsoft puts other browsers at a disadvantage by packaging Internet Explorer with its dominant Windows software. In July, Microsoft—adopting a notion long championed by the European Commission— agreed to put a "ballot screen" in Windows that would allow users to choose a rival browser.

But the European Committee for Interoperable Systems, a group that has been a frequent Microsoft antagonist in Europe and counts among its members browser maker **Opera Software** ASA, said Microsoft's version of the ballot screen presents too many hurdles for potential browser-switchers, said Thomas Vinje of Clifford Chance LLP, the group's lawyer.

Selecting another browser requires "the user to confirm and answer threatening and confusing warnings and questions," said Mr. Vinje.

Mozilla Corp., which makes the No. 2 browser, told the EU that "modifications/clarifications" were in order, said Harvey Anderson, the company's general counsel . But, he said, the company supports a ballot-screen settlement.

It isn't clear how the EU will respond to the objections; it isn't likely to scuttle the settlement entirely since nearly all sides—including ECIS—favor some variety of ballot screen. An EU spokesman declined to comment.

A Microsoft spokesman said the company continues "to look forward to the next steps."

Finding an effective remedy is crucial for the EU, which missed the mark in 2004 when it ordered Microsoft in another antitrust case to sell a version of Windows without its Media Player. Microsoft complied—but sold the stripped-down version for the same price. Not surprisingly, almost no one bought it.

This summer, the EU was moving toward bringing a formal case against Microsoft condemning it for illegally tying Internet Explorer to Windows. In July, Microsoft relented and agreed to a ballot screen offering five browsers.

As envisioned by Microsoft's proposal, the ballot screen itself is a Web page in Internet Explorer that offers download links to other browsers. Mr. Vinje says that means a user would encounter six windows, some of them security warnings, before successfully installing another browser.

The EU has levied more than $2 billion in fines on Microsoft since 2004. Besides the Internet Explorer matter, the regulator has one more open investigation, involving how Microsoft Office and other products work with competitors' software. That probe is at an earlier stage.

CORPORATE NEWS

Unilever, Sara Lee in $1.9 billion pact

Anglo-Dutch giant to buy Radox, Sanex and other brands

By Lilly Vitorovich

LONDON—**Unilever** said it will acquire personal-care brands from **Sara Lee** Corp. in a €1.28 billion (about $1.9 billion) deal, cementing its grip on the deodorant and skin-cleansing market.

The acquisition, the Anglo-Dutch company's first since Chief Executive Paul Polman took the reins in January, adds the Sanex, Radox and Duschdas brands, among others, to Unilever's stable of products that includes Dove, Axe and Rexona. Unilever also produces Ben & Jerry's ice cream, Dove soap, Lipton teas and Hellmann's mayonnaise.

Unilever said the deal will strengthen its operations in Western Europe and Asia and added that it sees "significant potential" in building the newly acquired brands in developing and emerging markets.

The Sara Lee brands have solid market share in France, Germany, the Netherlands, the U.K. and Denmark, a Unilever spokesman said. The brands generated annual sales of more than €750 million and earnings before interest, tax, depreciation and amortization of €128 million for the year ended June 30.

Investec Securities analyst Martin Deboo said Unilever's deal looks strategically sensible because it plugs gaps in the company's portfolio at a good price.

A Unilever spokeswoman said 85% of the personal-care brands acquired offer a "perfect strategic" fit with its existing brands. "We may in the future sell some of the smaller acquired brands, but this is something that we will look at later," she said.

ING Wholesale Banking analyst Marco Gulpers forecasts annual synergies from the deal of €50 million and expects the personal-care business to lift Unilever sales in Western Europe by 5%.

Unilever said it is too early to comment on synergies and whether any factories would be closed or jobs lost.

Bloomberg News

Sara Lee struck a pact to sell its skin-care unit for $1.9 billion to Unilever, which gains the Radox brand (shown in London on Friday).

Sara Lee Chief Executive Brenda Barnes said Friday that selling the brands, about half of its household and body-care business, to Unilever "will have an impact" on the Downers Grover, Ill., company's tax rate in the future. But a lot of the effect on Sara Lee's tax rate would be "driven by use of proceeds," she said.

The company also said that the board of directors authorized a plan to repurchase about $1 billion of Sara Lee shares.

The deal, which is expected to be completed next year, would have a tax rate of about 15%, Ms. Barnes said. Investors should have "no fear of us doing something that's not the right answer" and not in shareholders' best interest, she added.

Sara Lee also said it has received "significant interest" in the remainder of its household business and is continuing to pursue sale options for the unit, which includes air care, shoe care, insecticides and non-European cleaning brands.

Sara Lee announced in April said it was exploring options for its international household and body-care business, including a possible sale, after receiving interest in the division. In August, it said it was continuing to consider "all alternatives" for the segment, including a divestiture.

—Ilan Brat in Chicago, Ishaq Siddiqi in London and Anna Marij van der Meulen in Amsterdam contributed to this article.

ECONOMY & POLITICS

Data suggest slow U.S. recovery

Consumer sentiment and new-home sales improve, but durable-goods orders tumble

BY SARA MURRAY

Consumer sentiment and new-home sales showed signs of improvement Friday, while sales of durable goods fell, signaling the U.S. economy's recovery won't be a smooth ride.

Optimism among U.S. consumers reached its highest level in September since January 2008, and new-home sales posted their fifth-straight month of improvements. But manufacturers' orders for durable goods—big-ticket items designed to last three years or more—tumbled 2.4% to a seasonally adjusted $164.44 billion in August, on a plunge in aircraft orders.

Together, "it's indicative of a patchy, slow recovery," said Joshua Shapiro, MFR Inc.'s chief economist. "In that type of environment, you're going to get some things that disappoint; you're going to get some things that are all right."

The Commerce Department's durable-goods report was a surprising blow to the manufacturing sector. In July, durable orders rose 4.8%, and data released earlier this month showed the industry was growing. Orders for nondefense capital goods excluding aircraft, a gauge of business spending, declined 0.4%, after falling 1.3% in July. The small drop added to concerns about the underlying health of the U.S. economy, particularly as government stimulus programs—including the "cash for clunkers" program and housing-market support—wind down.

That said, the manufacturing sector has largely posted improvements lately, and most analysts say the durable-goods numbers should look better in coming months.

The Reuters/University of Michigan consumer sentiment index rose to 73.5 this month, up from 65.7 in August. Consumers' views of the current and future state of the economy improved. Even though consumers expect things to get better, a variety of headwinds, such as stagnant wages and the high unemployment rate, still plague them. That's likely to contribute to the slow rebound in consumer spending, which makes up about 70% of the country's gross domestic product.

New-home sales rose 0.7% in August, from the previous month, to a seasonally adjusted annual rate of 429,000, the Commerce Department said Friday. The supply of unsold homes fell to 7.3 months in August from 7.6 months in July.

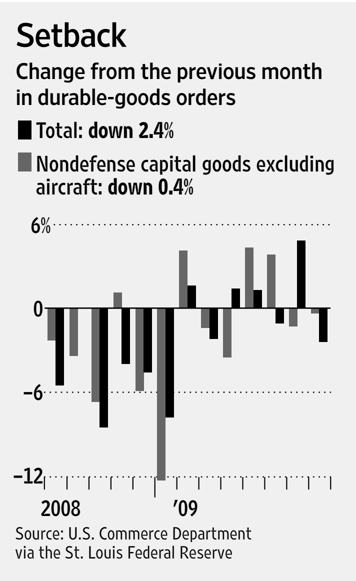
Prices remained low as a result of excess inventories and a plethora of foreclosed homes. The median price for new homes was $195,200 in August, down 11.7% from a year earlier.

Despite the increase in new-home sales and evidence that inventories of both new and existing homes are falling, analysts expressed some concern that housing numbers weren't stronger last month. On Thursday, a report showed that existing-home sales dropped 2.7% in August after four months of improvements.

The overall trend, though, shows the sector has come up from the bottom and is stabilizing, aided by reduced prices, a government tax credit and lower levels of construction.

Associated Press

A new Boeing 787, shown this spring in Everett, Wash. Weak aircraft sales helped drive down durable-goods orders 2.4% in August.



Private-sector lending eases in euro zone

BY NINA KOEPPEN AND TERENCE ROTH

FRANKFURT—Lending to the private sector in the euro zone cooled in August, indicating continued financing constraints for companies and households.

The report came amid other signs Friday that the euro zone's economic recovery could be gaining strength in the current quarter, but that the process is likely to be patchy and prone to setbacks.

Annual growth in private-sector lending activity slowed to a record low 0.1% last month from a revised increase of 0.7% in July, European Central Bank data showed Friday.

The trend underscores concerns among policy makers that banks aren't passing on all of the increase in funding from the ECB under special monetary-stimulus programs, and thereby are holding back an economic recovery. But it also is an indication that the ECB won't begin increasing rates again soon.

"The ECB is unlikely to start raising interest rates until broad money and private-sector credit growth have decisively turned the corner, which we do not expect to occur before mid-2010," said Martin van Vliet, an economist at ING Bank.

The euro-zone economy appears to be emerging from recession as industrial production and exports recover and confidence strengthens, according to a measure of activity compiled by the Centre for Economic Policy Research and the Bank of Italy.

The survey, published Friday, added to evidence that the economy should return to growth soon. The CEPR's EuroCoin indicator rose to 0.07 in September from minus 0.21 in August. The indicator is intended to measure the quarter-on-quarter rate of growth in the euro-zone economy, based on business and consumer sentiment and improvements in output. It indicates that the economy began to grow in September for the first time in 15 months. "The result...suggests that the recession in the euro-area economy may be coming to an end," the CEPR said.

German market-research group GfK said Friday that its forward-looking consumer climate index for October rose to 4.3 points from 3.8 this month. But GfK joined German economists and government officials in warning that the improvement could be reversed as the government winds down stimulus programs.

French consumer confidence rose in September to a level last seen in February 2008.

—Paul Hannon in London contributed to this article.

Rising world trade volumes suggest broad recovery

BY PAUL HANNON

LONDON—World trade volumes rose at the fastest rate in more than five years in July, another indication that the global economy appears to be on the path to recovery.

According to data released Friday and compiled by the Netherlands Bureau for Economic Policy Analysis, trade volume rose 3.5% from June, the largest increase in a single month since December 2003.

World-trade flows plummeted in the final months of last year, as demand slowed and banks shied away from financing cross-border transactions. The collapse in trade hit the world's largest exporting economies, such as Japan and Germany, particularly hard.

The revival in trade flows has been a factor behind the return to growth in a number of large, export-dependent economies. Germany, for much of this decade the world's largest exporter, recorded economic growth of 0.3% in the second quarter, while the Japanese economy also grew.

According to the CPB, the euro zone recorded the largest rise in exports in July, up 5.7% from June. Latin America recorded the largest rise in imports, up 6.4% from June.

In a further indication the global economy has stabilized and may be on the mend, the CPB said world trade prices in the three months to July were up 3.7% from the three months to April, driven by jumps in energy and commodities. Prices of traded goods fell slid toward the end of last year.

However, the CPB's figures also provided a reminder that the recovery may not be strong or sustained. It said global industrial production stalled in July, having risen 2% in June, the largest rise since the series began in 1991.

Sharp rise in U.S. rates might loom

BY JON HILSENRATH

A senior Federal Reserve official said the central bank could push interest rates up more aggressively than usual when it decides to shift away from its easy monetary policy.

Fed officials have gone to great lengths in recent weeks to reassure investors that they will keep interest rates low for "an extended period." Until now, they haven't articulated how aggressively they would move once interest-rate increases do kick in.

"When the decision is made to remove policy accommodation further, prudent risk management may prescribe that it be accomplished with greater swiftness" than is customary, said Kevin Warsh, a Fed governor, at a conference on banking Friday at the Federal Reserve Bank of Chicago.

Mr. Warsh was a close adviser to Fed Chairman Ben Bernanke during the financial crisis. Late last year, the Fed pushed the federal-funds rate, charged for overnight loans between banks, to near zero in an attempt to kick-start a reeling economy.

While Mr. Warsh doesn't speak for the Fed as a whole, and a full debate on the issue likely isn't complete, his comments were a signal that officials are considering aggressive rate increases once they are convinced a durable recovery is on track and decide to take steps to head off inflation. Excepts of his speech were published in The Wall Street Journal on Friday.

An aggressive approach to rate increases would be a sharp departure from the Fed's approach after the last recession earlier this decade, when it cut its target federal-funds rate to 1%, committed to keep it low for a long time and then signaled to markets that rates would rise only at a "measured pace." In moves engineered by former Fed Chairman Alan Greenspan, the Fed pushed rates up in small, quarter-percentage-point increments over two years.

Some economists argue the Fed's gradualist approach helped to stoke the credit bubble earlier this decade.

The idea of an aggressive approach to interest-rate increases has been in the air at the Fed for several weeks. At the Fed's annual retreat in Jackson Hole, Wyo., in a much-talked-about paper, economist Carl Walsh, from the University of California, Santa Cruz, argued that "there is no support for raising rates at a gradual pace once the zero rate policy is ended."

Mr. Warsh's comments mark the first public embrace of that idea by a senior Fed official. In its latest policy statement, the Fed reiterated that for now it expects to keep its target rate extremely low for an "extended period."

The timing of rate increases will be dictated in large part by how the economy performs. If the recovery is weak and inflation continues on a downward path, as some on the central bank's policy-making committee expect, the Fed may be on hold for many months to come. If the recovery proves to be stronger than expected and the economy's slack is soaked up quickly, or if inflation expectations start to rise, the Fed could move more quickly.

Mr. Warsh, who has never dissented at a Fed policy meeting, put himself in the camp of officials who would lean toward moving quickly, saying, "Policy likely will need to begin normalization before it is obvious that it is necessary," he said.