Leading the News: Five critical questions for U.S. and allies to ask Iran

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

What's News

Xerox agreed to acquire Affiliated Computer Services for $6.4 billion in cash and stock, jumping on the trend of high-tech companies buying big services firms. The deal will accelerate the growth of Xerox's business of managing printing services for corporate customers. Page 6

■ **Abbott and J&J** announced separate deals aimed at securing vaccines and other drugs. Page 6

■ **U.S. stocks gained** broadly, helped by corporate deals. European shares rallied, with German utilities strong after election results. Page 20

■ **Poland is under pressure** to move ahead with a privatization plan to help ease a 2010 budget squeeze. Page 3

■ **German consumer prices** fell in September, but leading indicators continue to point to an economic pickup. Page 2

■ **Spain's Prisa will sell** 25% of its profitable textbook-publishing unit for about $360 million in an effort to reduce debt. Page 6

■ **France Télécom will begin** selling iPhones in England late this year, ending Telefónica's sales exclusive. Page 7

■ **GM's planned sale** of Opel faced further uncertainty as Spain urged an investigation and German critics were set to gain influence. Page 2

■ **The Bank of England** may decide to lower the deposit rate on reserves to spur lending, observers say. Page 2

■ **Guinean security forces** killed at least 14 people when they fired live rounds to disperse thousands of protesters, a rights group said. Page 3

■ **Polanski's attorney said** the director planned to fight extradition to the U.S. from Switzerland after his arrest. Page 5

■ **Thousands of students** defied threats and protested against Iran's government at Tehran University. Page 9

■ **A severe budget crunch** is holding up the sale of American military equipment critical in helping Iraq take over all security duties. Page 9

■ **Activist hedge funds** have achieved a sharp turnaround in recent months from a dire year in 2008. Page 19

■ **Swedish police arrested** six suspects in connection with last week's helicopter raid on a cash depot in Stockholm.

Editorial&Opinion

The Biggest Deficit
Britain needs a pro-growth political party. Page 13

Breaking news at europe.WSJ.com

Agence France-Presse/Getty Images

British Prime Minister Gordon Brown, right, and Business Secretary Peter Mandelson tried to rally support at a party conference Monday.

Labour's frugal agenda

Party targets law and order, adds extra funding to car-scrapping scheme

By Laurence Norman and Joe Parkinson

BRIGHTON—U.K. Prime Minister Gordon Brown's governing Labour Party promised Monday to extend its version of the cash-for-clunkers program as it sought to rally itself for the upcoming election.

With the government's purse squeezed tight, two of the party's biggest hitters—Finance Minister Alistair Darling and Business Secretary Peter Mandelson—had to foreswear the kind of big, new initiatives that could help Labour regain the support of disaffected U.K. voters. Instead, its last annual convention before the next general election due by June 2010 focused on pledges of fiscal responsibility and the shortcomings of David Cameron's Conservative Party, which enjoys a substantial lead in the polls.

Tuesday is the climax of the conference, with Mr. Brown set to focus on social issues, taking particular aim at antisocial behavior that is hard for the police to prosecute, but a growing worry for U.K. voters. He will promise a crackdown on parents of children who cause often drink-fueled havoc in local communities, threatening to cut their benefits if they don't seek help.

"We will not stand by and see the lives of the lawful majority disrupted by the behaviour of the lawless minority," he is due to say, according to remarks released by the Labour Party.

"Because the decent, hard-working majority are getting evermore angry—rightly so—with the minority who will talk about their rights but never accept their responsibilities."

Mr. Brown's close ally Peter Mandelson produced the biggest cheer of the conference up to that point on Monday afternoon, when he announced the government would put £100 million ($160 million) extra behind a car-scrapping scheme that allows consumers to get a discount when they trade in old cars to buy new ones.

The government's plan had been due to run its allocated £300 million in funding, enough to cover the cost of 300,000 vehicles, until it was exhausted. Experts said that could have happened as early as this week, far sooner than the govern-

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German business has new wish list

By Marcus Walker and Vanessa Fuhrmans

BERLIN—German business wasted no time in making demands on the country's next government, following Sunday's election victory by Chancellor Angela Merkel's center-right alliance.

Business leaders said Europe's biggest economy needs tax cuts, more-flexible labor laws and a better education system, in an attempt to make sure the next government doesn't settle for the status quo.

Jürgen Hambrecht, chief executive of BASF AG, hailed the decisive result as an opportunity for significant policy changes. "The new government has important decisions to make to assure the future of our country, and a clear mandate from the voters was essential," he said.

The new coalition's top priorities, Mr. Hambrecht added, should include improvements to the tax code, new investments in the education system and growth-sustaining energy and environmental policies.

The German Chambers of Industry and Commerce called for a first-100-days program to cut tax burdens on business, overhaul the tax code and improve the availability of credit for firms. Business-unfriendly aspects of Germany's corporate and inheritance taxes are making it harder for companies to cope

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Obama will lobby for U.S. Olympic bid

By Elizabeth Williamson

U.S. President Barack Obama will travel to Copenhagen on Thursday to lobby the International Olympic Committee on behalf of Chicago's bid for the 2016 Olympic Games, according to Valerie Jarrett, a White House adviser.

Mr. Obama will make a joint presentation with first lady Michelle Obama Friday morning in Copenhagen, said Ms. Jarrett, who heads a White House team devoted to promoting the bid. The couple will then participate in a formal question and answer session with the IOC, which will announce the winning host city the same day.

Mr. Obama had said earlier this month that he wouldn't attend the IOC's meeting in Copenhagen, noting he was busy with health-care legislation. He put the first lady in charge of the U.S. delegation.

Ms. Jarrett said the president now believes the legislation is progressing such that he can take the time for the trip.

This will be the first time a sitting U.S. president personally lobbies at the key final meeting of the 106-member IOC. The outcome is expected to be determined by only a handful of votes from country representatives. The IOC will vote by secret ballot over several rounds.

IOC executive board member Gerhard Heiberg, who will cast a vote Friday, said Mr.

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Inside

Superpower Iran

Tehran's bid to extend global reach shows mixed results.
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9789.36	+1.28
Nasdaq	2130.74	+1.90
DJ Stoxx 600	243.20	+1.78
FTSE 100	5165.70	+1.64
DAX	5736.31	+2.78
CAC 40	3825.00	+2.30
Euro	$1.4630	-0.42
Nymex crude	$66.84	+1.24

LEADING THE NEWS

German data bring hope

Consumer prices fall but indicators signal a pickup in growth

BY EMESE BARTHA AND PEPPI KIVINIEMI

FRANKFURT—German consumer prices fell 0.3% in September from September 2008, but leading indicators continue to point to a pickup in economic growth that should bring the euro zone's brush with deflation to an end in coming months.

With Europe's largest economy reporting a fourth straight month of deflation, it is very likely that figures to be released for the currency area as a whole Wednesday will again show prices were down for the year.

But indicators and surveys released in recent weeks suggest that the European economy is returning to growth. In the latest sign, the composite index of leading indicators for the euro-zone economy rose 1.8% in August to 99.1, according to the Conference Board, a U.S.-based, nonprofit research group. That follows a 1.6% increase in July and 1.3% increase in June, the Conference Board said.

Tumbling

Germany's consumer price index, change from a year earlier

Source: German Federal Statistics

The leading indicator, which comprises several forward-looking pieces of data and survey information, can show turning points in the economic cycle.

The board warned that the recovery may not be smooth.

"Economic conditions should continue to improve in the short term, but a potential jobs crisis may derail a sustainable recovery in Europe," said Jean-Claude Manini, the board's senior economist for Europe.

But euro-zone consumers appear to be increasingly hopeful that the economy is on the mend, a development that in itself makes such an outcome more likely.

Still, few expect the European Central Bank to raise interest rates anytime soon. Its mandate is to keep an inflation rate close to, but just below, 2%. Currently, its interest rates are set at 1%.

In an interview published Monday, a member of the ECB's governing council said the inflation rate is likely to remain below 2% for the next two years.

—Flemming Emil Hansen in Vienna and Luca Di Leo and Chiara Vasarri in Rome contributed to this article.

BOE set to lower rate on reserves

BY NATASHA BRERETON

LONDON—Expectations are mounting that the Bank of England soon will lower the deposit rate on reserves after the central bank confirmed that governor Mervyn King last week traveled to Sweden for meetings with central bank officials there.

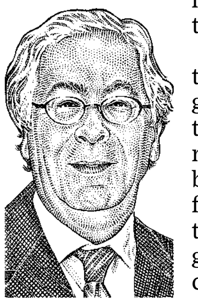
Mr. King told British lawmakers this month that the BOE was considering reducing the deposit rate on a portion of the reserves held by banks, to improve the effectiveness of its quantitative-easing policy. Under that policy, the U.K. central bank buys government bonds using freshly created money.

In early July, Sweden's Riksbank took the unusual step of charging banks 0.25% to hold deposits, having previously paid them 0.25%.

The BOE has confirmed that Mr. King had a series of official meetings, including some with the Riksbank, during his visit to Sweden on Thursday and Friday.

"Given that Mervyn King has openly talked about lowering the interest rate that the Bank of England pays on commercial banks' deposits, such a visit can only fuel speculation that he is seriously interested in going down that path," said Howard Archer, chief U.K. economist at Global Insight.

"However, there are other matters he may well be keen to discuss such as the Sweden banking crisis in the 1990s and what happened with bank lending then," he said.



Mervyn King

Mr. King and other BOE officials have frequently voiced concerns that the continuing lack of credit availability could hinder a hoped-for economic recovery.

Testifying to lawmakers this month, Mr. King said that lowering the deposit rate on reserves held above a certain level might help discourage banks from hoarding the cash that the BOE is pumping into the economy through its £175 billion ($278.8 billion) quantitative-easing policy.

Mr. King also indicated that any cut should be regarded as a complementt to rather than a replacement for any further bond buying. "This may be a useful supplement. We will think about it, but it is not going to be a major change," Mr. King said.

It remains unclear whether responsibility for cutting the deposit rate would lie with the rate-setting Monetary Policy Committee or the BOE's management, but analysts believe that any action would likely coincide with the MPC's regular monthly policy decisions. The MPC meets Oct. 7 and 8.

Spain, German election pose risks to Opel deal

BY VANESSA FUHRMANS

More uncertainty was injected into the planned sale of **General Motors** Co.'s Opel to a group led by **Magna International** Inc. as Spain urged European regulators to investigate the agreement and Germany's Free Democrats, consistent critics of the deal, were poised to win a powerful voice in Germany's new government.

The deal has run into steady fire from Magna customers and European governments alike since the Canadian auto-parts maker reached a preliminary agreement to buy a majority stake Opel earlier this month.

Spain's industry minister added to the criticism over the weekend, asking EU commissioners to examine whether the deal unfairly spares Opel's German operations from job cuts and possible plant closures that are planned.

Germany's election results may add another snag. The decisive gains of Germany's business-friendly Free Democratic Party in Sunday's elections assured it a heavyweight position in a new governing coalition with Angela Merkel's Christian Democrats.

Ms. Merkel threw her weight early on behind the Magna deal with €4.5 billion ($6.6 billion) in pledged loans to keep Opel going. But the Free Democrats have criticized the rescue plan as a waste of German taxpayer money.

Analysts said it is unlikely the FDP would spend its newly minted political capital by upending an agreement already crafted by its new coalition partner. Its party leader, Guido Westerwelle, refrained from any policy specifics or potential areas of dispute during a news conference Monday.

But if serious cracks emerge in the deal, the new government may find less reason to keep fighting to push it through, some analysts said.

"Overall, this deal is not as near to completion as many people are trying to present," said Tim Urquhart, an automotive-industry analyst at IHS Global Insight in London. "There are still many more twists and turns."

The biggest threat is the possibility the European Union could block the government aid-backed deal or demand it be significantly restructured. Government officials in the U.K., Belgium and Spain, where Opel has factories, have asked EU competition officials to scrutinize whether Germany is engaging in protectionism in exchange for the loans.

Under the terms of the deal, Magna and its partner, Russian bank OAO **Sberbank**, plan to take a 55% stake in Opel, which GM is giving up as it emerges from bankruptcy. Both Magna and the German government have said the transaction could take two more months to close.

Magna says it may cut as many as 10,500 jobs from Opel's 49,000-employee workforce in Europe, 4,500 of them from Germany. It hasn't confirmed which plants would be affected or possibly closed, but GM has said that Opel's plant in Antwerp could be wound down and that some production in Spain could be moved to Germany. So far, Magna has pledged to keep all four German plants open.

Speaking in New York last week, the EU's antitrust chief, Neelie Kroes, said she was reviewing the deal carefully for any signs of protectionism. "We cannot accept one government bribing companies in order to steal or end the jobs of another," she said at an antitrust conference at Fordham University.

The Magna-led deal has also ruffled the feathers of some of the auto-parts maker's customers, such as **Volkswagen** AG and **BMW** AG, which have expressed concern about sharing technical secrets with a supplier that now stands to become a direct competitor in making cars. Volkswagen in particular said it is prepared to pull business in areas where it shares "development know-how" with Magna.

Magna officials said they plan meetings with big auto-maker customers to assure them that firewalls will remain between the auto-supply business and the company's stake in Opel. A person familiar with Magna's strategy said its executives have already met with some Asian car makers and the Detroit makers in the U.S.

—Phred Dvorak contributed to this article.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Polish privatization will narrow budget gap

Treasury is planning to raise $12.8 billion by selling state assets

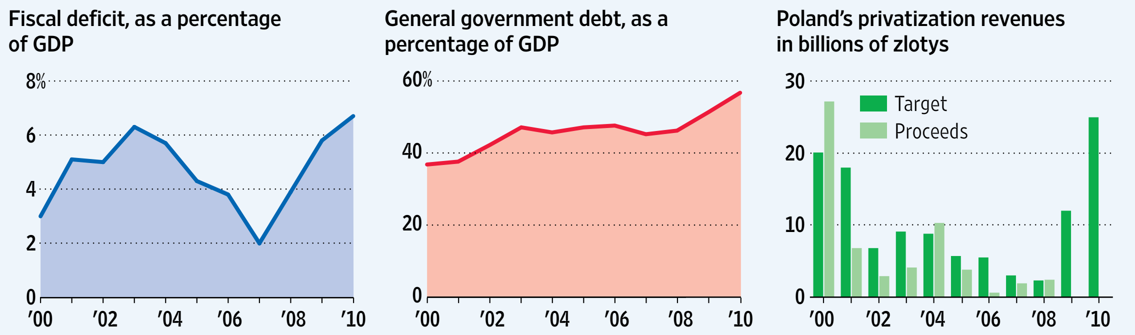
BY MALGORZATA HALABA

Railways at the Bogdanka coal mine, part of Poland's privatization plans.

Bogdanka

Selling the store

The Polish government will likely step up its sales of government-owned companies to help fill the budget deficit



Note: Figures for 2009 and 2010 are forecast
Source: Poland's Treasury Ministry and Finance Ministry

WARSAW—Poland's government, faced with a 2010 budget likely to include a ballooning deficit and heavy borrowing, has little choice but to proceed with its ambitious privatization plan while hoping for a quick recovery, economists say.

Other methods of dealing with the budget crunch—such as tax increases or attempts to limit spending—will have to wait, because President Lech Kaczynski opposes both tax increases and deep spending cuts, and his term doesn't run out until 2011.

In late July, the Polish Treasury presented an updated privatization plan aimed at raising 36.7 billion zlotys ($12.8 billion) by the end of 2010 through the sale of state-owned assets. The ministry expects to sell 25 billion zlotys in assets next year, effectively drawing Poland's privatization process to a close 20 years after the end of communism.

"In the short term, accelerated privatization is the only way—privatization, a fast economic recovery and a strong zloty," said Radoslaw Bodys, an economist with Bank of America Merrill Lynch in London. "If not, it will be impossible to avoid tax increases in the long term."

Poland managed to avoid recession through the worst of the downturn; GDP rose 0.8% in the first quarter from a year earlier, and 1.1% in the second. But the central government's budget is very sensitive to changes in GDP growth rates, and the slow growth has eaten into tax revenue. The government widened this year's deficit forecast to 27 billion zlotys, and said next year's gap is set to double to 52.2 billion zlotys.

That means Poland's net borrowing requirements will rise to 82.1 billion zlotys in 2010 from 52.1 billion zlotys this year, according to the Finance Ministry's budget plan.

Poland can't allow its deficit and public debt to stay at that level for long. The Maastricht criteria for adoption of the euro place limits on government deficits, and the government is forecasting 2012 as the year when Poland might meet those criteria.

Also, Poland's constitution includes a provision that would require a balanced budget in the year after government debt exceeds 55%. The Finance Ministry said the 55% threshold won't be exceeded next year, but some experts think otherwise.

The Finance Ministry declined to comment on its strategy to curb public debt and narrow the budget deficit.

The government plans to sell stakes in strategic companies including copper miner Polska Miedz SA and refiner Grupa Lotos SA. The ministry is proceeding with the sale of the Warsaw Stock Exchange this year. It also plans to sell stakes in power companies Enea, Tauron, PGE, Energa and PAK.

Chemical plant Kedzierzyn SA and stakes in Bank Pekao SA, dominant telecom Telekomunikacja Polska SA and retailer Ruch SA are also for sale. Coal miner Bogdanka, valued at 2.5 billion zlotys, listed 35% in June, and is looking to sell a controlling stake by the end of 2010.

Guinean forces kill 58 in breaking up protest

A WSJ NEWS ROUNDUP

CONAKRY, Guinea—Guinean security forces killed at least 58 people when they fired into a stadium to disperse thousands of people protesting against the leader of a coup in the West African nation, a human-rights group said, as the political crisis worsened in the world's top exporter of bauxite, the raw material used to make aluminum.

The violence follows months of wrangling between Capt. Moussa Dadis Camara, the military ruler who seized power in a December 2008 coup hours after longtime dictator Lansana Conte died, and his rivals. Capt. Camara has told diplomats in private that he will be a candidate in presidential elections scheduled for Jan. 31, angering opponents and foreign donors alike.

Opposition parties had organized Monday's protest, which drew some 50,000 people, in the main soccer stadium in Conakry, the capital. Demonstrators chanted "We want true democracy."

Red-bereted soldiers from the presidential guard later entered the stadium and fired into the crowd. Several opposition leaders were arrested, witnesses said, and at least 20 protesters were injured.

"At one hospital alone, we have counted 58 bodies," Thierno Maadjou Sow, president of the Guinean Human Rights Organization, told Reuters. "It seems there are many more corpses" in another hospital.

One witness said he had counted at least 20 people with bullet wounds. Other witnesses said a police station was torched and several police vehicles, equipment and at least one officer captured by crowds.

The ruling junta, known as the National Council for Democracy and Development, said it wouldn't negotiate. "Those who want to defy the authority of the state, we will stop them," said commandant Moussa Diegboro Camara on local radio.

A coalition of opposition parties is leading the campaign against Capt. Camara's candidacy and wanted to hold a meeting at the stadium. It was banned but thousands of people took to the streets and broke into the stadium anyway.

Capt. Camara enjoyed initial support from a population hungry for change after decades of Mr. Conte's rule left the nation in disarray. However, his crackdowns on former backers in the military, attacks on mining companies that the country depends on and the likelihood he will run in the January election have fueled instability.

Since the coup, the international community has cut off aid and frozen Guinea's membership in the African Union. Mining firms such as UC Rusal and Rio Tinto haven't indicated they are ready to leave the country despite a series of disputes with the government, but officials say government revenues from mineral exports are expected to fall dramatically next year.

Since winning independence half a century ago from France, Guinea has been pillaged by its ruling elite. Its people are among the world's poorest, though its soil has diamonds, gold, iron and half the world's reserves of bauxite.

LEADING THE NEWS

New sanctions against Iran seem more likely

Chinese opposition, Russian indifference threaten U.N. moves

UNITED NATIONS—The revelation of Iran's undeclared nuclear-enrichment plant has increased the likelihood of a new round of sanctions against Tehran, but numerous obstacles remain, including opposition from China, ambivalence from Russia and evidence that an array of existing sanctions have so far failed to have much effect.

By Joe Lauria, Farnaz Fassihi and Steve Stecklow


Agence France-Presse/Getty Images

Iran's firing of a long-range Shihab-3 missile, seen here rising from an unspecified location in Iran, raises diplomatic tensions.

Tenions between Iran and the West have risen even further in the past two days as Iran has disclosed it has tested its short- and medium-range missiles, ahead of its Oct. 1 meeting in Geneva with the U.S. and other nations aimed at negotiations over Iran's nuclear program.

Iran test-fired its longest-range missiles on Monday, a second day of a military show conducted by its elite Revolutionary Guard. The missiles have ranges of up to 2,000 kilometers, according to state media, and could reach Israel and U.S. bases in Iraq, Afghanistan and the Gulf.

Tensions rose last week with the disclosure that Iran had built a second uranium enrichment plant near the holy city of Qom causing a concern among Western countries that say they don't trust Iran's claim that its nuclear program is for peaceful energy purpose.

Officials say a military strike is off the table-for now. "We are 100% focused on a diplomatic solution to this," said British Foreign Secretary David Miliband in an interview. "I don't think any sane person should have any illusions about the dangers of a military confrontation in respect of the nuclear issue."

That leaves just one option to force Iran to halt its apparent drive to acquire nuclear weapons—more sanctions. But three rounds of United Nations measures already passed with Russian and Chinese approval, plus a raft of unilateral U.S. and European Union sanctions, so far have not halted Iran's continuing nuclear activities.

And there already exist doubts about passing the one new sanction that Britain, France and the U.S. have seriously discussed—a ban on Iranian imports of gasoline to target its fragile, inflation-plagued economy. While Iran is a major oil exporter—earning $80 billion in its last fiscal year ended in March—its lack of refining capacity requires it to import about 40% of its gasoline and other petroleum-based fuels.

Iran President Mahmoud Ahamdinejad has brushed off the threat of sanctions on gasoline imports. He boasted in a ceremony in September in Tehran that Iran could overcome the challenge. Some experts warn that sanctions often hurt only ordinary citizens and can serve to rally the public behind a regime.

A total embargo on Iranian oil—which Israel has called for—seems unlikely. While U.S. law already forbids American firms from buying Iranian oil, Europe, Japan and China are big customers. Analysts say the global economic recovery would take a serious hit as an Iranian oil embargo would drive up world oil prices.

China and Russia, which sit on the U.N. Security Council and can veto resolutions, are unlikely to support such a measure. In fact, it isn't even clear they would support a ban on Iranian gasoline imports. Both countries are major Iranian suppliers.

The three rounds of sanctions already implemented against Iran attempt to restrict its arms trading and procurement of nuclear materials. The U.S. and EU also have slapped on further sanctions, targeting trade and banking and accusing Iran of financing terrorist activities.

But Iran has found ways to get around many of the sanctions. In January, for example, Lloyds TSB Bank PLC in Britain agreed to pay $350 million in fines and forfeitures for, among other things, disguising the illegal transfer of more than $300 million on behalf of Iranian banks and their customers. The transfers were made to buy goods and services from U.S. companies, and pay foreign vendors in dollars, in violation of U.S. sanctions on Iranian financial transactions.

Manhattan District Attorney Robert M. Morgenthau, whose office brought the case in coordination with the Justice Department, said in an interview he expects in the next few weeks to bring a similar case against another bank—which he declined to identify—for also helping Iran violate U.S. sanctions on financial transactions.

"For sanctions to be effective, there has to be an international commitment," says Adam Kaufmann, an assistant district attorney in Mr. Morgenthau's office who headed the Lloyds probe. "If you're going to have EU sanctions, then countries in the EU have to penalize people that transact in violation of their sanctions."

Despite existing U.S. sanctions on U.S. goods sold to Iran, there is virtually nothing made in America that you can't buy in Iran. The markets overflow with American goods, from General Electric refrigerators to Apple laptops and Levi's jeans.

The embargoed goods typically are smuggled in by way of the Persian Gulf from places like Dubai. For the average Iranian consumer, though, American goods remain a luxury because of high prices.

The U.S. restrictions on companies doing business with Iran have by and large isolated American companies, especially in the oil and gas field, and opened the door for Russia, Europe and Asian companies. They haven't brought projects to a halt.

U.S. sanctions on Iranian banks have hindered Iranian merchants. From pistachios to rugs, businesses have been forced to use third parties to import goods and raw materials, driving up their cost.

While the U.S. Treasury Department oversees U.S. sanctions on Iran, U.N. sanctions are monitored by a Security Council sanctions committee, made up of all 15 council members. Nations legally are bound to obey the sanctions resolutions, yet there aren't specific penalties spelled out for sanctions violations, which must be reported to the committee.

In March, the sanctions committee reported that Iran tried to violate sanctions by exporting weapons-related material to Syria. In August, the United Arab Emirates seized an Iranian-bound ship transporting North Korean-made rocket-propelled grenades, explosives and detonators in violation of the arms-import ban.

Talks give U.S., allies chance to ask Iran key questions

BY GERALD F. SEIB

Yes, last week's announcement that Iran is building a new, covert nuclear processing facility was stage-managed by the U.S., Britain and France for maximum dramatic effect. And yes, it was timed to put Iran on the defensive heading into this week's long-awaited talks with the U.S.

CAPITAL JOURNAL

But the obvious choreography of the disclosure doesn't change the reality that it is one of the most troubling yet about Iran's nuclear program.

The disclosure, in fact, suggests a handful of key questions that the U.S. and its allies should ask Iranian officials when they meet with them Thursday in Geneva, in fulfillment of President Barack Obama's pledge to engage Iran diplomatically.

The new facility, near Iran's holy city of Qom, isn't just one more nuclear outpost. If the descriptions U.S. officials offer are correct, it may be precisely the kind of plant outside experts have been worrying about for several years: a covert spot where Iran planned to do the higher-level enrichment of nuclear material necessary to make it suitable for a weapon.

Iran already has one giant facility for enriching uranium, which the world has known about since it was disclosed by Iranian opposition figures in 2002. But it isn't producing uranium sufficiently enriched to serve as bomb material. The key question has been: How could Iran move up the enrichment scale without the world finding out?

The new facility might provide the answer—and that is why it is a big deal. Of course, seven years after faulty American intelligence was used to justify the war in Iraq, skepticism about such U.S. claims persists. That is why it is significant that the leaders of France and Great Britain stood with Mr. Obama to make this disclosure.

Now the U.S., the four other permanent members of the United Nations Security Council and Germany—all of which will be part of the talks with Iran—can this week pose to Iran these five questions:

■ Why is the new facility so small?

This is one case where smaller is more dangerous. That big uranium-enrichment plant that the world knows about, at Natanz, already has some 8,000 centrifuges that can produce low-enriched uranium.

The Natanz plant has the capacity to ultimately hold 54,000 such centrifuges, U.S. officials say. Iran says they are all needed to produce the large amount of fuel needed for its planned nuclear power plants.

But the uranium processed at Natanz is enriched only to about 5% purity, and a bomb requires something like 90% enrichment. With the world watching Natanz so closely, it hasn't been clear how Iran would sneak away some uranium for further enrichment there.

Hence the concern over the new, smaller facility. U.S. officials say the new plant, still under construction, appears designed to hold only 3,000 centrifuges. "An enrichment plant able to hold only 3,000 centrifuges can't make enough fuel for a civilian nuclear plant," says one American government expert.

But it could do the more intense work of making the smaller amounts of highly enriched uranium needed for weapons. For its part, Iran has said the new plant is designed to make slightly more enriched uranium for medical purposes. But that leads to question two:

■ Why is it being built underground, and on a military base?

The new facility is being built in, essentially, a tunnel under a mountain, at a base used by Iran's Revolutionary Guards, U.S. experts say.

It isn't clear why a separate facility would be needed at all simply to do enrichment for more civilian projects. "If you're going to add another 3,000 centrifuges, why build on another spot?" says Ray Takeyh, a Middle East scholar at the Council on Foreign Relations. "Why not just expand the capacity of Natanz?"

Iran says it wanted to keep the project separate, underground and under wraps because it worries about Israeli or American military strikes. That, though, leads to question three:

■ Why did you suddenly decide to disclose its existence?

If Iran's position was that it needed to keep the facility hidden to protect it, it's unclear why Tehran suddenly reversed course a little over a week ago and sent a cryptic letter to the U.N.'s International Atomic Energy Agency acknowledging its existence.

■ When did you start building it?

This question is crucial to Iran's legalistic case for keeping the plant secret. In October 2003, Iran reached its own, special agreement with the IAEA that required it to, among other things, disclose when it begins construction on new nuclear facilities.

Iran withdrew from that agreement in early 2007, and now maintains that, as a result, it has only the more standard international obligation to disclose to the outside world when a facility is about to go online, which the new one isn't.

Still, the U.S. experts suspect construction on the new facility was under way before 2007, meaning Iran was, in fact, obliged to tell the world about it under any conditions.

■ How soon will IAEA inspectors be allowed in?

This may be the key question in seeking to resolve the others. The U.S. is pressing for days, but will it instead be weeks or months before Iran opens the doors to outside eyes?

Polanski plans to fight extradition to U.S.

Arrest of director in Zurich sparks a diplomatic row

By Deborah Ball
And Tamara Audi

ZURICH—An attorney for Roman Polanski said the Academy Award-winning director plans to fight extradition to the U.S. from Switzerland, where he was arrested over the weekend on a 31-year-old warrant for having sex with a 13-year-old girl.

The arrest and possible extradition opened a diplomatic row in Europe as French Foreign Minister Bernard Kouchner pressed the Swiss to free Mr. Polanski, branding his detention "a bit sinister." Mr. Kouchner and Poland's foreign ministry are considering a joint request to U.S. Secretary of State Hilary Clinton to arrange for a pardon of Mr. Polanski.

The Los Angeles district attorney's office said that it plans to pursue extradition through the U.S. Department of Justice. A U.S. law-enforcement official said Monday that preparing such a request can take weeks. According to the U.S. treaty with Switzerland, Mr. Polanski can be detained by Swiss authorities for up to 60 days while U.S. authorities file the extradition request. Either side could appeal the outcome.

Hervé Temime, one of Mr. Polanski's Paris-based lawyers, issued a statement Monday saying that his client plans to fight any request to send him back to the U.S. "Mr. Polanski has refused to be extradited," Mr. Temime said in the statement. "Considering the outrageous circumstances of his arrest, his Swiss lawyer will immediately request his release, possibly under certain conditions. His lawyers also emphasize that any extradition request is illegal." In addition to his French lawyers, Mr. Polanski has retained counsel in Zurich.

The arrest adds a new chapter to the long-running legal saga of a celebrated but controversial film-industry figure. Mr. Polanski, director of the films "Chinatown" and "Rosemary's Baby," fled the U.S. in 1978 after being convicted in California on one count of having sex with an underage girl. After fleeing the U.S., Mr. Polanski took up residence in France, where he was born to Polish parents.

Reuters

Director Roman Polanski pictured in Berlin in 2006. He was arrested Saturday at the request of U.S. authorities in connection to a 1978 warrant.

Mr. Polanski was taken into custody Saturday evening upon his arrival in Zurich for a film festival, where he was to have received a lifetime-achievement award. Swiss police arrested him at the request of U.S. authorities on a 1978 warrant issued after he became a fugitive.

Mr. Polanski's decision to fight extradition opens the door to another long legal battle to decide his fate. He could have opted to return to California in the hope that his conviction would be dismissed. Earlier this year, he appealed his conviction in a California court, arguing that the judge who heard his case was guilty of misconduct. The court acknowledged "substantial misconduct" by the presiding judge in the original 1978 case, but refused to rule on any appeal as long as Mr. Polanski was on the run.

Mr. Polanski has long ties to Switzerland, including a country home in Gstaad, the resort that has attracted celebrities for decades. Some commentators have suggested that Mr. Polanski be allowed to stay in his home there pending the judicial procedures.

Swiss authorities have defended their move to arrest Mr. Polanski, saying that they were bound by an extradition treaty with the U.S. to respect a valid request. During a visit in France Monday, Swiss Economy Minister Doris Leuthard said, "The Americans are convinced of the necessity to arrest Polanski. It was up to them."

CORPORATE NEWS

Xerox to buy big services firm

Deal to pay $6.4 billion for Affiliated Computer marks effort to revitalize printer giant

By William M. Bulkeley
And Joseph Pereira

Xerox Corp. jumped on the trend of high-tech companies buying big services firms, agreeing to acquire **Affiliated Computer Services** Inc. for $6.4 billion in cash and stock.

Wall Street reacted negatively to Xerox's prospects under the deal. Shares in the company declined 15%, or $1.31, to $7.67 at 4 p.m. Monday in composite trading on the New York Stock Exchange. ACS rose 14%, or $6.61, to $53.86, also on the NYSE.

The agreement shows that Xerox's recently elevated chief executive, Ursula Burns, is moving quickly to invigorate the copier and printer giant, which has steadied its balance sheet in recent years but has been mired in slow-growth businesses for most of a decade.

The companies said their combination will accelerate the growth of Xerox's business of managing printing and document services for corporate and government customers—a key focus for Xerox as it has tried to move beyond the ruthlessly competitive businesses of selling copiers and printers. They said the deal will create a world-wide sales channel for ACS paper-handling and processing services, which currently are mostly used by U.S. enterprises. ACS is a leader in servicing state Medicare and Medicaid agencies, and 40% of its business is with government entities.

The deal is expected to nearly triple Xerox's service revenue to an estimated $10 billion next year from 2008's $3.5 billion.

Xerox, of Norwalk, Conn., will pay $18.60 per share in cash plus 4.935 Xerox shares for each share of ACS, whose headquarters are in Dallas. Based on Friday's closing price, Xerox valued the deal at $63.11 a share, a 34% premium to ACS's closing price of $47.25 on Friday.

Despite the market's negative reaction, analysts predicted the sale will go through. ACS founder and Chairman Darwin Deason, who has a 42% voting stake through special voting rights, has pledged his vote for the pact. Mr. Deason, 69 years old, said he will remain a major shareholder of Xerox after the acquisition. ACS President and Chief Executive Lynn Blodgett, 55, also backed the deal and said he plans to remain with the combined company, running its business-process-outsourcing services.

Mr. Deason stands to realize about $790.5 million on the transaction from his stock and options based on a Xerox stock price of $7.34 a share, its midday price. He has been trying to sell ACS for at least two years. Mr. Blodgett will realize about $31 million. In 2007, Mr. Deason and ACS agreed to take the company private through a $6.2 billion leveraged buyout led by Cerberus Capital Management. The deal was canceled in October 2007 when credit markets tightened for equity capital. A similar deal two years earlier also fell apart.

The Xerox deal doesn't carry a break-up fee. However, one person familiar with the company's thinking said it is unlikely other bidders will emerge, because any acquirers already would have been aware that ACS was available at this price.

The Xerox stock decline isn't unusual for a company making a big acquisition. But some observers said there are even more risks in this deal than in many others. Standard & Poor's Ratings Services said it put Xerox's credit rating on "watch" with negative implications because Xerox will be taking on $2 billion of ACS debt and adding $300 million of convertible preferred stock that will be paid to Mr. Deason. S&P said the rating would likely drop one notch to triple-B-minus.

Keith Bachman of BMO Capital Markets wrote that the combination has "less than optimal initial strategic overlap," because he is skeptical that Xerox's sales force will have much success cross-selling ACS services.

Ms. Burns was promoted from chief operating officer in May, succeeding Anne Mulcahy, who had taken the reins in 2001 amid an accounting scandal and a revenue meltdown that left Xerox teetering on the brink of a bankruptcy filing.

In an interview, Ms. Burns said she started intense negotiations with ACS, examining the possible benefits of a takeover, shortly after she became CEO.

Xerox worked with Blackstone Advisory partners and J.P. Morgan Chase & Co. Citigroup Global Markets advised ACS.

Bloomberg News

Xerox Chief Executive Ursula Burns talked with Affiliated Computer Services CEO Lynn Blodgett at Xerox's Connecticut headquarters on Monday. The copier maker agreed to buy ACS as it expands into computer services.

U.S. drug firms set deals to acquire vaccines

A WSJ News Roundup

U.S. health-care companies **Abbott Laboratories** and **Johnson & Johnson** announced deals valued around €5 billion ($7.3 billion) with European rivals on Monday aimed at securing vaccines and other products key to future growth.

Abbott confirmed it will acquire the pharmaceutical unit of Belgian conglomerate **Solvay** SA for €4.5 billion in cash, with as much as €300 million more if certain milestones are met between 2011 and 2013.

J&J said it will pay €301.8 million for an 18% stake in Dutch biotechnology company **Crucell** NV as part of a deal to collaborate on the treatment and prevention of influenza.

Merck & Co., meanwhile, said it has agreed to sell **CSL** Ltd.'s seasonal flu vaccine in the U.S. for a six-year period starting next fall. It didn't disclose terms of its deal with CSL, its vaccine-development partner since 1980.

CSL's Afluria vaccine was approved by the U.S. Food and Drug Administration two years ago. Under the deal Merck said it will have eight of the 10 vaccines on the recommended list for U.S. adults.

J&J's deal with Crucell will provide it "access to antibody and vaccine know-how and technology," said Paul Stoffels, J&J global head of pharmaceutical research and development.

Big pharmaceutical companies have been increasingly eyeing the global vaccines market as blockbuster drugs go off-patent. In January, Crucell pulled out of friendly takeover talks with U.S.-based Wyeth, which will merge with **Pfizer** Inc.

Crucell and J&J will start with the development and commercialization of a universal antibody product for the treatment and prevention of influenza, while in the longer term they will work on new discovery programs for a universal influenza vaccine and antibodies targeting up to three other infectious and noninfectious diseases.

Crucell in August received a contract for up to $69.1 million in funding from the National Institutes of Health for the development of antibodies to treat seasonal and pandemic influenza.

Abbott executives said the deal for Solvay will diversify the company's product lineup, expand its presence in emerging markets, beef up its pipeline of experimental drugs and give Abbott an entry into the vaccines market.

"This is a significant business that will further diversify sources of our pharmaceutical growth," Abbott Chief Executive Miles White told analysts on a conference call.

Abbott, of Abbott Park, Ill., is also assuming €400 million in liabilities from Solvay, Brussels-based Solvay said in a statement.

It is the biggest deal Abbott has done since 2002, and it will add more than $3 billion in annual sales, most of which will be outside the U.S., Abbott said Monday.

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

Sales of those drugs, however, could come under pressure if the results of a large U.S.-sponsored patient trial involving Tricor are negative, as some doctors and analysts expect. Also, Tricor could become exposed to generic competition in the next couple of years.

Solvay also sells hormone treatments and has a small flu-vaccine business. In a news 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.

Prisa to sell 25% stake in textbook unit

By Santiago Perez
And Jason Sinclair

MADRID—Spain's **Promotora de Informaciones** SA agreed to sell 25% of its profitable textbook-publishing unit Grupo Santillana Ediciones to private-equity firm **DLJ South American Partners** in a deal valued at about $360 million, as part of an effort to reduce its debt.

The Spanish media company, known as Prisa, said the deal values the whole of Santillana at $1.45 billion. The agreement calls for a pact to be set up to manage the publishing company. No additional details were disclosed.

Santillana, the leading provider of textbooks in Spain and Latin America, is one of Prisa's most profitable units, contributing steady cash flow amid a drop in advertising revenue that is hitting some of its other businesses. In the first half of 2009, Santillana was Prisa's best-performing division in terms of revenue growth, with sales rising 6.5% to €271.6 million ($398 million; Prisa's total sales dropped 17% to €1.68 billion during the period.

The fact that Prisa is selling off part of such a lucrative unit shows the extent of its debt woes. The company is struggling with a debt load of €5 billion after an ill-timed expansion spree during boom times. Prisa's move to sell stakes in key assets to improve its finances comes at a time when the global media industry is facing unprecedented challenges.

Prisa also owns El Pais, a large, influential Spanish newspaper.

Shares in Prisa rose 1.6% in an overall lower Spanish market, having risen nearly 4% immediately following the announcement.

"The deal is good for Prisa, but isn't enough to make a significant impact on Prisa's overall debt load," said Ahorro Corp. analyst Virginia Perez.

South American Partners is controlled by Credit Suisse Group's Alternative Investment arm and targets investment opportunities in Latin America, with a focus on Argentina, Brazil and Chile.

In a meeting with journalists and business leaders Monday, Prisa's Chief Executive Juan Luis Cebrián said the company as a whole would reach sales of more than €3 billion this year. He added the company's television unit Sogecable, which includes pay-satellite TV platform Digital+ and free-to-air channel Cuatro, has a healthy balance sheet. Prisa tried to sell Digital+ last year, but rejected offers as too low.

Prisa's international expansion 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. 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.

Prisa's decline in market value has been extreme, dropping to about €850 million from nearly €3 billion two years ago.

Orange will offer iPhone

France Télécom unit, in deal with Apple, ends O2's exclusivity

By Kathy Sandler

LONDON—**France Télécom** SA's Orange said Monday that it reached an agreement to sell **Apple** Inc.'s iPhone in the U.K. later this year, bringing to an end a two-year exclusive contract held by rival **Telefónica** SA's O2 mobile network.

An Orange spokesman said the iPhone would be available on Orange's U.K. network by Christmas.

Orange will sell both the original iPhone 3G model and the latest iPhone 3GS version, which was launched in June and which offers faster service with added features.

O2's deal with Apple has helped the company boost sales, customer numbers and average revenue per user, and has catapulted the operator ahead of rival **Vodafone Group** PLC into first place as the largest mobile network in the U.K. by subscriber numbers.

This first-mover advantage won't be quite as strong for second-comer Orange, said CCS Insight analyst Geoff Blaber, not least because the price has fallen in the two years since the original iPhone launched. However, Orange now has an opportunity to lure high-spending customers to its network if the company is prepared to compete with O2 on price, he noted. "If they decide to put a greater subsidy on the handset than O2, that could be a valuable tool to drive subscriber growth and attract customers from other networks," Mr. Blaber said.

No details of Orange's pricing or tariffs were released. O2 currently offers the highest-specification iPhone 3GS on a sliding scale from £274 ($436) for the lowest-tariff 18-month contract to free on the highest-tariff 24-month contract.

Mr. Blaber said he believes Apple's move away from exclusive deals for the iPhone means that other network operators are likely to be in negotiations to sell the device in the U.K., as well as in Germany, where **Deutsche Telekom** AG holds the exclusive agreement, and in the U.S., where **AT&T** Inc. is the sole supplier.

Vodafone has previously expressed interest in stocking the iPhone.

A Deutsche Telekom spokesman said: "We have a long-term partnership [with Apple] that will last for several years."

AT&T declined to comment on its deal with Apple on Monday.

Apple said it was happy with the Orange deal and added that it also has an excellent relationship with AT&T. An Apple spokesman declined to comment further on its plans for Germany and the U.S.

The iPhone's launch in 2007 heralded a new benchmark for touch-screen mobile phones and spawned an industry of applications from a host of vendors.

Apple said Monday that more than two billion applications had been downloaded from its App Store since it launched just over a year ago, and more than 85,000 online applications are now available.

At its launch in the U.K., the new iPhone proved so popular that O2 sold out of the device, and the problem was compounded by a supply-chain issue during the early stages of the rollout. These issues have now been resolved and the only item unavailable is the white iPhone 3GS, although the black version is in stock, an O2 spokesman said.

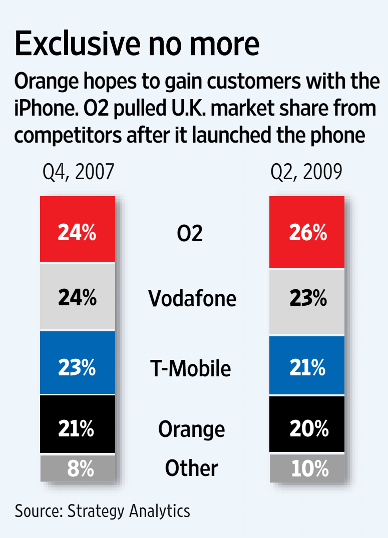
The spokesman said the iPhone will continue to be available on the O2 network. "We have well over one million customers with an iPhone, and a strong relationship with Apple which will continue," he added.

Meanwhile, **China Unicom (Hong Kong)** Ltd., which signed a deal with Apple in August to sell the iPhone in China, said Monday that it will begin offering the device in October at a retail price of about 5,000 yuan ($732).

Unicom, China's second-largest wireless operator by users after **China Mobile** Ltd., will offer a choice of eight packages with the phone, ranging from 126 yuan to 886 yuan per month.

Unicom hopes the phone will give it an edge over China Mobile, though China Mobile Chairman Wang Jianzhou said this month the company remains in talks with Apple over selling iPhones in China.

—Aaron Back in Beijing contributed to this article.



Associated Press

Shopper buys iPhone in London

CORPORATE NEWS

ArcelorMittal cools growth plans

CEO Lakshmi Mittal seeks more flexibility from the steelmaker

BY ROBERT GUY MATTHEWS

Lakshmi Mittal, head of the world's largest steelmaker and one of the world's richest men, has a new mantra: Slow and steady wins the race.

This from a man who created a steel giant by collecting mills around the planet and putting them under one umbrella. **ArcelorMittal**, which didn't exist a decade ago, now accounts for 10% of global steel production.

That pedal-to-the-metal growth strategy worked until a year ago when the world's economy took a dive. The company, based in Luxembourg, posted three consecutive quarterly losses, the latest at $792 million, and some analysts expect it to post another loss in the current quarter.

Still Mr. Mittal says it would have been far worse if the steelmaker didn't shut mills, slash production about 35% and lay off thousands of workers.

From his Berkeley Square office in London, Mr. Mittal says that the worst is likely behind but that the growth trajectory the company had been on since the merger of Arcelor SA and Mittal Steel Co. in 2006 isn't going to return anytime soon. An edited transcript follows:

Benjamin Thomas for The Wall Street Journal

'We will be much more selective,' says Lakshmi Mittal, CEO of ArcelorMittal, the world's biggest steelmaker. The company expects slow growth, he adds.

WSJ: What did you do right in the past year during the economic downturn?

Mr. Mittal: We reduced our fixed costs by $10 billion, which is about 30% to 35% of our total fixed costs, in a period of nine months.

Immediately, ArcelorMittal took a lot of steps. We announced production cuts. We reduced our inventories. We reduced our costs.

We restricted receiving raw materials from all the vendors. We immediately started looking at the organization and technically laying off a lot of people in different units. There were shorter working hours.

WSJ: What would you do differently? What did you do wrong?

Mr. Mittal: After the merger, ArcelorMittal was focused on a growth strategy. We built a company, 420 million tons [of steel-production capacity] and we were hoping to build it 450 million tons in the following five years. We were focusing growth in emerging markets, Brazil, India, China. That was the right strategy but we should have slowed it down.

WSJ: What are you doing now in terms of managing ArcelorMittal going forward?

Mr. Mittal: We will work on our mining projects—Liberia, Senegal—and we will continue to expand in the mining sector. We halted some of these projects during the crisis period.

On the steel sector, we will start looking at Brazil and India and [Commonwealth of Independent States] countries.

We will be much more selective and now we have to take a slightly different view. So instead of finishing a project in 2011-2012, we will finish in 2014.

Demand has clearly gone down. We have seen a 35% drop in developed markets over 2008. We have seen a 10% drop in developing markets excluding China.

WSJ: Do you see upturn or downturn in the next few years and how are you navigating?

Mr. Mittal: Growth will be a slow, progressive recovery. Maybe by 2012, we could come back to the pre-crisis level.

Growth will only come from emerging markets. That is where we will focus.

World-wide steel demand this year is going to drop by 35% in the Western world and 10% in the Asian non-Chinese market. China will grow by 15%. Earlier in the year, projections were that China would shrink by 5%. We have to become more flexible to the changes in the economy. In the Western world, we will have to maintain our position in terms of production, quality and research and development. We are not looking for any growth in these markets.

The question that we will have to address is how to make the industry in the Europe and the U.S. competitive and whether they could survive in the next 30 years going forward. The answer lies in making Western plants more productive and reducing their costs.

Productivity in the emerging markets is also going up. If we look at some of the plants in China and some of the plants in India, they are catching up really fast in terms of productivity. We have to work with the unions to ensure that they understand what is competition and productivity in the emerging markets.

We have to become cost competitive. That is the only solution.

WSJ: What signs are you seeing now that point to the slow, progressive recovery?

Mr. Mittal: Steel production was cut by 35% to 50% world-wide, below actual demand for steel. Customers are now restocking. This is why ArcleorMittal has announced the start-up of its blast furnaces. Our customers are now demanding more steel.

Wolseley to forgo dividend after posting loss

BY STEVE MCGRATH

LONDON—U.K.-based building supplier **Wolseley** PLC said Monday it wouldn't pay a final dividend after it swung to a fiscal-year loss and warned that conditions in its markets will remain challenging.

The seller of building materials as well as plumbing and heating supplies makes a large proportion of its revenue in the U.S., and has been hard hit by the downturn in construction markets across North America and Europe. It has sold some operations and eliminated thousands of jobs as it cuts costs in response to the downturn. It closed 653 sales offices and shed 10,364 staff during the fiscal year ended July 31, and now has about 50,000 staff, down from about 80,000 prior to the start of the credit crunch.

Wolseley's fiscal-year net loss was £1.17 billion ($1.87 billion), compared with a £74 million profit a year earlier, even though revenue slipped only 2.5% to £14.44 billion. Revenue was helped by the British pound's weakness against the dollar and euro, which boosted revenue earned abroad in sterling terms, while profit was hit by expenses related to shedding staff and other cost cutting.

The company said that while new residential markets continue to stabilize, commercial and industrial markets will decline at a faster rate. It will continue to cut costs as a result, and expects profit trends to improve in the second half of its new fiscal year thanks to the cost-reduction measures it is taking. It expects the measures already made to boost its fiscal 2010 result by £233 million.

"Market trends since the July trading update continue to support the group's view that in the short term market conditions will remain challenging driven by tight credit conditions, high levels of foreclosures and rising unemployment rates," the company said.

Former Chief Executive Chip Hornsby stepped down in June and was succeeded by Ian Meakins, who was recently CEO of foreign-exchange and payments business Travelex Holdings and ran Alliance UniChem before its merger with Boots in July 2006.

Mr. Meakins said he is happy with the overall strategy of Wolseley but he would be taking a more hands-on role at the multiple business units, reallocating resources in the short-term to business units with the best growth prospects. He said he also sees opportunities for further enhancing performance at individual units.

Wolseley managed to cut its net debt to £959 million at the end of the fiscal year from £1.26 billion a year earlier.

China allows GM to buy Delphi assets

BY J.R. WU

BEIJING—China approved U.S. auto maker **General Motors** Co.'s plan to buy part of **Delphi** Corp., following an antitrust review by the country's Ministry of Commerce.

Authorities in the U.S. and European Union had earlier given their approval for the deal after Delphi, GM's former parts division, received approval from a U.S. court to sell assets to its lenders and GM, clearing the way for the auto-parts supplier to end its four-year stay in bankruptcy.

Delphi operates 17 wholly owned entities and joint ventures in China and 21 manufacturing sites. It employs about 12,000 full-time staff in China.

The Chinese authorities set standard conditions for the deal to eliminate competition concerns. The two companies won't be allowed to exchange any trade secrets Delphi might have on other auto facilities in China, to prevent GM from obtaining competitive information such as research and development and car models of local auto makers.

It also stipulated that GM couldn't set unreasonable procurement conditions that would benefit Delphi and hurt other suppliers.

China's antimonopoly law took effect in August 2008. Under the law, major merger and acquisition deals on a global scale that could impact the domestic Chinese market are subject to review by Chinese authorities before they can proceed.

—Juan Chen contributed to this article.

GLOBAL BUSINESS BRIEFS

Électricité de France SA

Utility's board nominates Henri Proglio for CEO post

Henri Proglio, head of **Veolia Environnement** SA, is set to become chief executive of state-controlled **Électricité de France** SA, putting him in charge of Europe's largest utility, an extensive French nuclear-plant network and nuclear projects in the U.S. and Britain. The French prime minister's office said it "supports and recommends" Mr. Proglio for the post. EDF's board met Sunday and nominated six new executives, including the CEO. Mr. Proglio, 60 years old, would take over from Pierre Gadonneix, who spent five years at the helm of EDF.

Eni SpA

Eni SpA said Monday that it has returned to Ghana after several decades through the acquisition of the majority stake in two offshore exploration blocks from **Vitol Group.** Eni, Italy's biggest oil and natural-gas company by revenue, said it will also be the operator of the blocks. The two exploration licenses are for the Offshore Cape Three Points and Offshore Cape Three Points South, Eni said. The Italian company had a presence in Ghana until pulling out in the 1970s. Eni also said it forecasts cooperation projects in Ghana with state-controlled company **Ghana National Petroleum** Corp. Eni currently operates in the sub-Saharan African countries of Angola, Nigeria, Republic of Congo, Gabon and Mozambique.

Toyota Motor Corp.

Toyota Motor Corp. and **Nissan Motor** Co. said Monday their domestic production in August declined from a year earlier but at a slower pace than in recent months. Toyota, the world's biggest automobile manufacturer by sales volume, said it built 24% fewer vehicles in Japan in August, which compares with a 30% decline in July. Production at Nissan, Japan's third-largest car maker, fell 12% from August last year. In July, its output was off 28%. Government tax breaks and subsidies spurred sales of fuel-economy cars such as Toyota's Prius hybrid. **Honda Motor** Co., Japan's second-largest car maker, saw its domestic output slide more steeply in August, off 37% from a year earlier, compared with a 29% drop in July.

Volkswagen AG

Volkswagen AG said a collective bargaining agreement with German labor union IG Metall has cleared the way for a 4.2% wage increase for 95,000 workers, effective Jan. 1. VW, Europe's largest auto maker by sales, said that on top of the raise, workers will receive bonus payments, getting €510 (about $750) next month and €200 in February. The IG Metall union traditionally has a strong influence at Volkswagen, where labor representatives can block important company decisions such as plant closures through their votes on the company's supervisory board. Labor representatives account for half of the 20 supervisory board members. Volkswagen has remained profitable in recent quarters despite the industry gloom, partly because scrapping incentives in several key markets.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Iraq struggles to find money for arms

Cheaper oil has made it hard to cover orders for equipment crucial to country's ability to take over from U.S. forces

By Gina Chon

BAGHDAD—A severe budget crunch here is holding up the sale of billions of dollars of American military equipment, including tanks, more than two dozen helicopters and thousands of radios.

The hardware is seen by Iraqi and U.S. officials as crucial in helping Iraq's military and police force completely take over security from American combat forces, scheduled to depart by August 2010.

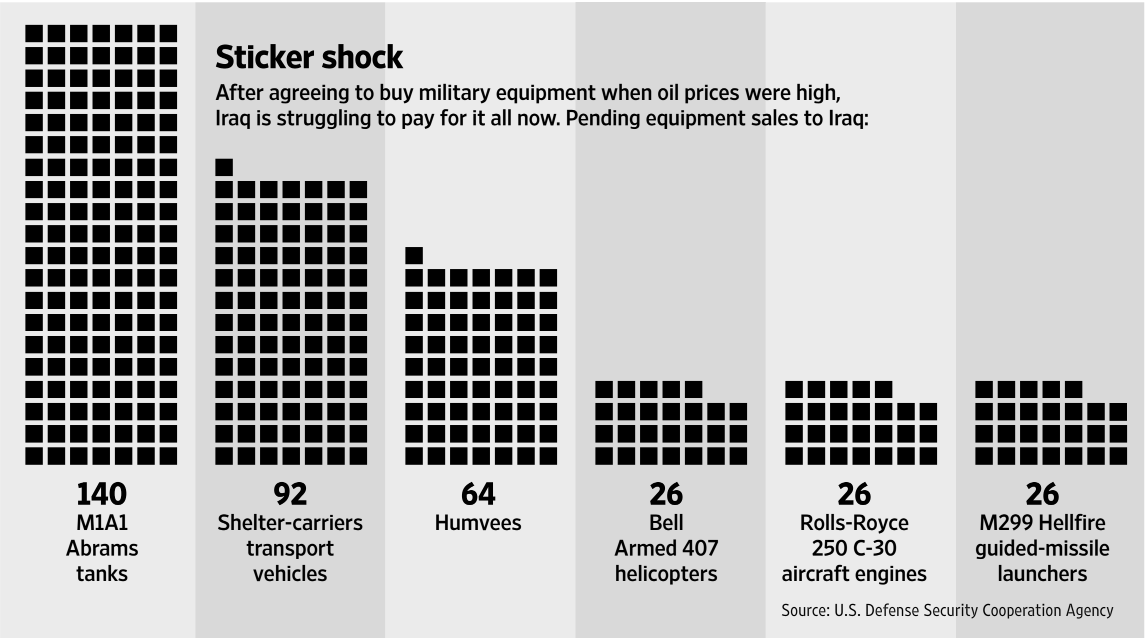
"We are in a cost-crunch, time-crunch situation," says Army Lt. Gen. Frank Helmick, head of the Multi-National Security Transition Command-Iraq, the command training and equipping Iraqi security forces.

Iraqi officials placed orders for the equipment during superhigh oil prices in recent years, then saw their finances dwindle as crude prices fell. Iraq gets most of its revenue from oil sales.

After soaring well above $100 a barrel last year, prices slumped during the global economic downturn. Officials in Baghdad slashed their budget several times to make up for the reduced forecast revenue.

For its 2009 budget, the ministry of defense requested $15 billion. It was allocated $4.1 billion.

Oil has since recovered, with U.S. benchmark crude for November delivery trading at $66.84 a barrel in New York on Monday. That has helped Iraq's spending plans, but it won't come close to covering the country's big-ticket defense needs.



Gen. Helmick says American commanders have asked the U.S. government to give Iraq what is known as "dependable undertaking" status as part of Washington's Foreign Military Sales program. Under the program, foreign defense ministries negotiate with Washington for the purchase of equipment. The U.S. government then awards contracts to private companies to deliver the goods.

Dependable-undertaking status would allow Iraq to pay the U.S. government for the equipment in installments. But qualifying requires proof of ability to pay in full eventually and a good credit history.

So far, Iraq hasn't qualified because of its financing crunch and its history of bad debts under Saddam Hussein. It also hasn't developed a reputable credit history since Mr. Hussein was ousted.

Its finances have created a kind of Catch-22, with Iraq's credit rating after being invaded by the U.S. keeping it from buying U.S. equipment meant to aid the end of the U.S. military presence here. The equipment holdups go back as far as about a year.

The dependable-undertaking status review for Iraq has been held up partly because of an internal debate in the Pentagon over whether Iraq should be treated like any other country in the FMS program or if exceptions should be made given U.S. interests there, according to people familiar with the matter.

The need to get equipment moving fast enough to help with the U.S. drawdown is forcing more flexibility in Washington. For example, the U.S. government is no longer making Iraq pay upfront for the 15 coastal patrol boats Baghdad agreed to buy from the U.S. in 2008. The boats are part of a $454.3 million package aimed at beefing up basic maritime defense. Instead, Iraq will pay for the boats when it receives them.

Washington also is considering allowing Iraq to buy on credit. Big-ticket purchases will be reviewed on a case-by-case basis, says Gen. Helmick. The uncertainty over Iraq's dependable-undertaking status, meanwhile, is holding up the release of 140 M1A1 Abrams tanks, 26 helicopters and thousands of radios.

"We are still waiting for lots of equipment from the U.S. side," said one Iraqi defense ministry official. "And they are things we really need."

Iranian students protest amid state clampdown

By Farnaz Fassihi

Thousands of students defied threats by security officials and demonstrated against Iran's government at Tehran University on Monday, the first day of the semester, signaling the opening of a new front in the opposition's battle against the government.

With pressure increasing both at home and abroad, President Mahmoud Ahmadinejad's government, fearful of the university's influence and reach, has been systematically cracking down on students.

For the past month, security agents have been trying to clamp down on university students across Iran. Hundreds have been called in for interrogations and warned that they would be banned from higher education if they brought the opposition movement of Mir Hossein Mousavi and Mehdi Karroubi to school.

Monday marked an annual ceremony at the campus for the start of the academic year, an event typically attended by the president, the higher-education minister and lawmakers.

But President Ahmadinejad canceled his appearance at the last minute Monday, and the higher-education minister, Kamran Daneshjoo, was hustled quietly into the auditorium from a back door to avoid encountering the angry crowd. When Hadad Adel, a conservative lawmaker and professor, entered the campus, students booed him and shouted, "You are against the people, traitor."

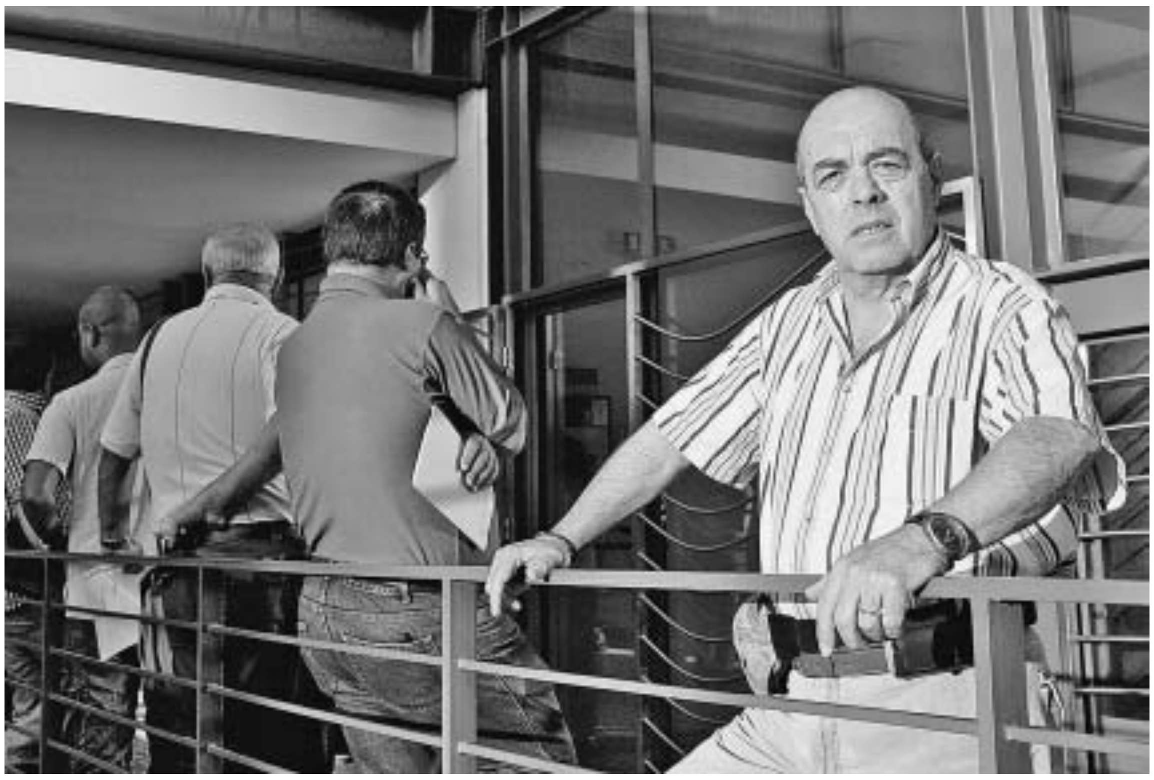
Students carrying green balloons—the color of the opposition—and wearing green T-shirts, chanted "Death to dictator" and "You killed our youth. Death to you," as they marched across the campus. The commotion caught the attention of passersby outside the gated campus located on Revolution Street. By noon, hundreds of people had gathered outside the gates, chanting with the students as others in cars honked their horns.

Riot police and security forces swarmed the area. They locked the gates of the university and prevented students from leaving and the public from entering. The police didn't enter the university, but clashes were reported outside with the public, as they tried to disperse the crowd. The police grabbed cellphones if any one attempted to take a picture or film the demonstrations and smashed the phones on the ground, according to a witness.

Iranian Web sites reported some students were arrested upon leaving the campus in the afternoon.

Students supporting the government also staged counterdemonstrations, but their numbers were smaller, witnesses said. They got into a verbal shouting match, screaming at opposition students, "Mousavi and Israel are one." Students supporting the opposition screamed back, "Ahmadinejad is president—it will be like this every day."

In another development, Mr. Karroubi, the outspoken reformist cleric and presidential candidate, wrote a bold letter to former President Akbar Hashemi Rafsanjani demanding he review the actions of Iran's supreme leader, Ayatollah Ali Khamenei. Mr. Rafsanjani heads the Expediency Council, a committee of clerics, who have the power to name and remove the supreme leader.



Alexandre Almeida for The Wall Street Journal

A Portuguese resident waits for the Angolan consulate in Lisbon to open on Thursday so he can apply for a visa. Angola is drawing interest from Portuguese seeking new job opportunities in the fast-growing African country.

Angola lures job seekers

Construction work, high salaries attract wave of Portuguese

By Susana Ferreira

Nearly 35 years after winning independence from Portugal, Angola is being populated by its former colonizer once again—this time by professionals and scores of workers laid off amid the economic slump.

Luis Amaro, a sales manager for Lisbon-based software company LocalSoft, saw the opportunity in July when he went to Angola on a business trip.

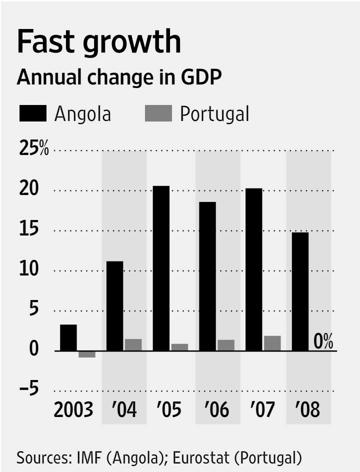
"Things are happening here. I can build a new life," Mr. Amaro remembered thinking. He plans to move to Luanda at the end of this year with his wife and teenage son.

He will leave behind his native Portugal, which has been hard hit by the global downturn. Unemployment in the second quarter was 9.2% and the economy is expected to shrink by 3.7% this year. Temporary and seasonal construction work in other European Union countries—a mainstay for Portuguese laborers—have been drying up. As workers from across Europe return to Portugal, a country of 10.6 million, they struggle to find jobs.

Portugal's former colony, meanwhile, has emerged in recent years as one of the world's fastest-growing economies. Angola's gross domestic product has grown well over 10% annually since 2004, and topped 20% in 2007, bolstered by oil production and mining. Even with the drop in oil prices in 2008, GDP grew 14.8% for the year.

Keen to rebuild infrastructure destroyed by more than four decades of war, Angola, with a population of 12.8 million, has experienced an explosion in civil-engineering and construction projects.

Neither country's government keeps exact numbers, but economists say an estimated 60,000 to 100,000 Portuguese nationals like Mr. Amaro have entered Angola during the past five years, not counting trips of long-term residents or people staying on short-term work visas. Manual laborers, doctors, engineers and bankers have flocked to the country. Demand



Sources: IMF (Angola); Eurostat (Portugal)

for visas is so high that the most desperate job-seekers camp out overnight to get at the front of the line at the Angolan consulate in Lisbon.

"In the last few years, Angola is the country that has received the most emigrants" from Portugal, said Rui Pena Pires, a sociology professor at the CIES, the Center for Sociology Studies and Research, in Lisbon. According to the Angolan consulate, some 17,000 Portuguese nationals moved to Angola on visas of at least one year in 2006. For both 2007 and 2008, that number surged to roughly 24,000. By the first three months of 2009, nearly 7,700 Portuguese had packed their bags for Angola.

That movement is striking in contrast to European countries' efforts to tighten restrictions on immigration, including on people from their former colonies and territories.

Angola's recent growth spurt comes after decades of damage and stagnation due to military conflict. After centuries as a colony and then as an overseas province of Portugal, Angola's struggle for independence erupted in war in 1961. Angola declared independence on Nov. 11, 1975, but the country's rival political groups launched into a bloody civil war that killed and displaced millions. A cease-fire was reached in 2002. Since then, Angola has been in the process of recovery.

Filomeno Vieira Lopes, an economist and member of the Angolan opposition party Front for Democracy, said three factors have contributed to economic growth. "First, there was the rise in petrol prices and the rise in production; second, the interest from China; and now, all the rebuilding after the war," he said.

The need for infrastructure—roads, railways, pipelines and skyscrapers—created the most demand for labor. According to Portuguese government figures, Angola imported more than €2.27 billion ($3.34 billion) in goods from Portugal in 2008, up from €1.68 billion in 2007.

"There is not a single industry in Portugal that has not benefited from this," said Daniel Bessa, a former Portuguese minister of economy. In March, Angolan President José Eduardo dos Santos and his Portuguese counterpart, Aníbal Cavaco Silva, signed a deal to create a joint Portuguese-Angolan investment bank.

While Angola is luring unemployed and underemployed Portuguese, it has many internal problems, including an unemployment rate of its own that has reached 40%, increasing inflation and widespread poverty. This reality has created a "certain a level of animosity," toward foreigners, who are seen as taking jobs from Angolans, said Mr. Vieira Lopes.

But for Justino Pinto de Andrade, a professor of economics at the Catholic University of Luanda, having foreigners—particularly those who have come to work on rebuilding projects—pour into his country is something positive, and temporary. Local companies were paralyzed during the wars, he said, putting the country's workers at a disadvantage in terms of training.

"Angola has to be constructed," said the professor. "Borders are disintegrating. They don't make sense in this globalized world. We need qualified people—not just people with advanced school degrees, but people who are qualified in all senses of the word."

One of the appeals of Angola's job market is high salaries. For many of Mr. da Costa's clients in Angola, a starting salary for an entry-level position in banking or civil engineering is between $2,000 and $5,000 a month. By comparison, a high starting rate in Portugal for a similar job is €1,000 (about $1,460) a month.

When Mr. Amaro goes to Luanda, Angola, to house-hunt in October, the software sales manager hopes to lead an expansion of his company. "Anything can happen here," he said. "It's chaotic—but in a dynamic way."

Al Qaeda makes strides toward Yemen stronghold

By Margaret Coker
And Sarah Childress

Arab and Western officials worry that al Qaeda is securing a stronghold in Yemen, where the government's focus on quelling a tribal insurgency is allowing the terror group to strengthen its ability to destabilize neighbors in East Africa and the Mideast.

Yemen's government, which has long struggled to assert control over the country's far-flung tribes and Islamic militant groups, launched a new offensive this summer against a rebellious tribe living near its northern border with Saudi Arabia. Escalating battles have killed dozens of soldiers on each side as well as hundreds of civilians.

The fighting, now in its seventh week, has shaken a fragile humanitarian situation. United Nations officials warned recently that food aid in the region is running low.

A report released this month by the Carnegie Endowment for International Peace warned that Yemen is facing "unprecedented" levels of instability.

The ancestral homeland of Osama bin Laden, Yemen has long been a top U.S. security concern. For years, al Qaeda militants—including at least one Saudi released from U.S. custody in Guantanamo Bay, Cuba—have taken refuge here. One complication surrounding the closing of the U.S. military prison at Guantanamo is what to do with the more than 200 Yemeni detainees there. U.S. intelligence officials say they have little confidence in the Yemeni government's ability to keep them in prison back in their home country.

Since the 2000 al Qaeda attack on the USS Cole in the Yemeni port of Aden, U.S. officials have reported mixed results from the Yemeni government in the fight against terrorism. President Ali Abdullah Saleh established a rehabilitation program for jailed Islamic militants, but hasn't curbed the growing network of al Qaeda fighters who have flocked to lawless parts of Yemen and are using the country as a launching pad for attacks.

Fighting in Yemen has shaken a fragile humanitarian situation. Food aid is running low.

U.S. officials say they believe that the lack of resolve on the part of the Yemeni government is due to President Saleh's preoccupation with what he sees as more pressing internal security threats coming from the nation's fractious political and tribal system.

Chief among his priorities these days is the government's massive offensive against the Houthis, a tribe that lives near the border with Saudi Arabia. The government has been fighting the tribe intermittently for the past five years.

The Houthis, like the president, adhere to a branch of Shiite Islam. They rose up against the government this decade to protest official corruption and lack of development in their northern enclave.

President Saleh says the tribe is trying to unseat him. Government officials have tried to paint the struggle in sectarian and wider geopolitical terms, hinting—but offering no proof—that Iran is helping the rebels. The Houthis deny this.

In August, the army launched another offensive and met strong resistance from the Houthis. According to local news reports, the army then apparently redeployed troops tasked to fight al Qaeda cells over to the Houthi front lines. (The Yemeni government has blocked journalists from entering the area, so troop movements are difficult to verify.)

The new offensive comes as al Qaeda in the Arab Peninsula, as the local branch of the militant group is called, appears to be gaining strength. An Arab intelligence official says that al Qaeda fighters fled to Yemen this summer from Pakistan and Afghanistan, where the movement suffered significant military setbacks in recent months.

While the number of fighters retreating to Yemen is unknown, the movement is worrying Yemen's Arab and African neighbors. In 2007, al Qaeda announced the merging of the Saudi and Yemeni branches of the organization in Yemen after a crackdown by Saudi authorities.

A Saudi militant, traveling from an al Qaeda safe house in Yemen, injured Saudi Arabia's deputy interior minister in a failed suicide-bombing attack last month.

In 2008, al Qaeda in the Arabian Peninsula claimed responsibility for two suicide-bomb attacks against the U.S. Embassy in Sana'a, the Yemeni capital, in which 16 Yemenis were killed. This year, the group claimed responsibility for an attack that killed four Korean tourists and two of their Yemeni security guards.

Al Qaeda operatives in Yemen are also aiding Islamic rebels trying to topple the Somali government, according to U.N. officials in Somalia and Yemen. Al Shabab, the Somali insurgency group that U.S. officials view as an al Qaeda proxy in East Africa, restocks with fighters and weapons through Yemeni smugglers working the narrow Red Sea passage between the two countries, these officials said.

Al Shabab claimed responsibility for a suicide car bombing last week against African Union troops, who are given the task of helping to stabilize the country. The attack killed 21 people.