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How a Mexican cement mogul fell on hard times

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U.S. economists predict longest decline since '30s

Recession will end in June, survey says; stimulus plan lauded

By Phil Izzo

The current U.S. recession may turn out to be the longest and most painful downturn since the Great Depression, according to economists in the latest Wall Street Journal economic-forecasting survey.

"For the household sector, this will be the worst event we've had in the post-World War II period," said Bruce Kasman of J.P. Morgan Chase & Co.

The 54 economists who participate in the survey, on average, forecast quarterly contractions in gross domestic product for the current quarter and the first two periods of 2009. The Commerce Department's preliminary estimate showed a 0.5% decline in quarterly GDP for the third quarter. If the economists' predictions bear out, it would mark the first time GDP has contracted in four consecutive quarters during the postwar period.

On average, economists expect the downturn to conclude in June 2009. Last week, the National Bu-

Please turn to back page

Associated Press

A man looks at job listings in San Francisco last week. U.S. employers slashed 533,000 jobs in November, the most in 34 years.

Tire maker Continental battles debt

By Dana Cimilluca in London and Mike Esterl in Frankfurt

Continental AG, the big German tire maker, is trying to restructure its bank loans to avert a possible default, according to people familiar with the matter, in the latest sign of stress in the global auto market.

Continental is in preliminary talks with its bankers because it could breach terms of loans it took on in the €11 billion ($14.33 billion) acquisition of Siemens AG's VDO auto-electronics business last year, the people said. Continental's earnings, hit by a sharp decline in global auto demand, could fall below a level stipulated in the loan agreement as early as March, one of the people said.

Continental, which is being swallowed by smaller German rival **Schaeffler Group**, doesn't expect to have trouble winning new terms for the loans and is willing to pay more for them, the person said. The company is acting now because it wants to negotiate from a stronger position than it would be in if it waited, the person said.

The talks underscore the difficulties faced by companies world-

Please turn to page 27

Nations work to extend pursuits to catch pirates

By Paulo Prada And Alex Roth

In September, special forces in the Royal Danish Navy intercepted two Somali fishing boats in the Gulf of Aden and arrested 10 suspected pirates aboard.

But after holding the suspects for six days in wooden cells aboard the frigate HDMS Absalon, they let the men go. The Danish government wasn't convinced it could convict them, even though the men had been found with assault weapons and handwritten notebooks outlining how to split spoils with warlords on land.

That doubt, shared by many countries helping patrol the waters connecting the Red Sea and Indian Ocean, reflects a dilemma that is turning one of the world's most vital shipping corridors into one of its most dangerous. Though piracy is a globally recognized crime, few governments are willing to navigate the legal and logistical barriers that impede convicting seaborn bandits.

In an apparent acknowledgement that the current piecemeal system for prosecuting pirates isn't working, the U.K. agreed Thursday to hand over captured suspected pirates to Kenya, which has shown a willingness to prosecute pirates captured off the shores of Somalia's lawless coast.

At the same time, the U.S. is circulating a draft United Nations Security Council resolution to bolster the U.N.-backed Somali government, which has been seeking assistance, to chase Somali pirates from

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What's News—

Business & Finance

Continental is trying to restructure bank loans to avert a potential default, another sign of trouble for the global auto market. The tire maker is in discussions with banks because it could violate terms of loans it used to buy the Siemens VDO auto-electronics business last year. Page 1

■ **Switzerland slashed** its key interest-rate target by a half percentage point to 0.5%. Page 2

■ **Sweden will support** car makers with a $3.43 billion program, but repeated it won't take stakes in Saab or Volvo. Page 4

■ **Boeing is pushing back** the schedule of its 787 Dreamliner program by about six months on delays caused by a recent strike and the need to replace thousands of fasteners. Page 4

■ **U.S. securities filings show** several life-insurance firms seeking a piece of the taxpayer-funded $700 billion federal bailout pay little in income taxes themselves. Page 17

■ **Crude oil jumped** to $47.98 a barrel, propelled by weakness in the dollar and expectations that OPEC will cut output significantly on Wednesday. Page 19

■ **U.S. stocks slid** amid a selloff in the financial sector. European shares fell for the first time in four days despite a rebound in the oil sector. Page 18

■ **Inditex posted** a 2.2% rise for the first nine months and sales jumped 11% as shoppers snapped up the retailer's trendy, yet inexpensive designs. Page 5

■ **P&G cut** its fiscal second-quarter sales view because of the economic downturn, but reiterated its earnings forecast for the quarter. Page 5

■ **Club Med returned** to a profit, but its underlying business remains vulnerable to the global economic slump. Page 6

■ **EU regulators charged** several makers of electricity-generation equipment with forming a price-fixing cartel. Page 6

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8565.09	-196.33	-2.24
Nasdaq	1507.88	-57.60	-3.68
DJ Stoxx 600	203.79	-1.58	-0.77
FTSE 100	4388.69	+21.41	+0.49
DAX	4767.20	-37.68	-0.78
CAC 40	3306.13	-14.18	-0.43
Euro	$1.3229	+0.0241	+1.86
Nymex crude	$47.98	+4.46	+10.25

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World-Wide

The U.S. recession may turn out to be the longest and most painful downturn since the Great Depression, according to economists in the latest Wall Street Journal economic-forecasting survey. The 54 economists who participate in the survey, on average, forecast quarterly contractions in GDP for the current quarter and the first two periods of 2009. Page 1

■ **The U.K. agreed** to hand over suspected pirates to Kenya, which is willing to prosecute pirates captured off Somalia's coast. Meanwhile, the U.S. is pushing a U.N. resolution to bolster Somalia's government. Page 1

■ **Belgian police** arrested 14 Islamic militants, some with links to Pakistani and Afghan radicals. The sweep came hours before an EU summit in Brussels. Page 10

■ **Pakistan took** sweeping action against the Islamic charity linked to the militant group blamed for the Mumbai attacks. Page 10

■ **A suicide bomber** struck a restaurant in northern Iraq where Kurdish officials were meeting with Arab tribal leaders, killing at least 55 people, police said.

■ **A suspected U.S. strike** killed at least six people on the Pakistan side of the Afghan border, intelligence officials said.

■ **The Pentagon plans** to deploy two more combat brigades to Afghanistan by next summer, Gates said, accelerating the shift of resources from Iraq. Page 2

■ **Sweden is bucking** Europe's immigration trend by opening its labor market to foreign workers of all skill levels without quotas, despite a recession.

■ **Obama said** he never spoke with Illinois Gov. Blagojevich about his vacant Senate seat, distancing himself from the pay-for-play allegations facing the governor.

■ **As Greece suffered** its sixth day of violence, angry youths smashed shop windows and clashed with police in protests in Spain and Denmark, while cars were set alight in France.

■ **Several ruling party officials** in Zimbabwe plan to launch a breakaway party amid a deadly cholera outbreak, putting further pressure on Mugabe. Page 28

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Greek fire

A feckless government stands to the side as anarchists set the country ablaze. Page 13

THE WALL STREET JOURNAL.

LEADING THE NEWS

Gates seeks Afghan effort

U.S. defense official plans troop influx, slams NATO, U.N.

BY YOCHI J. DREAZEN

Getty Images

Defense Secretary Robert Gates said the U.S. aims to send two more combat brigades to Afghanistan by summer, for a high of 49,000 troops in the country.

KANDAHAR, Afghanistan—U.S. Defense Secretary Robert Gates said the North Atlantic Treaty Organization and the United Nations have failed to provide enough resources to Afghanistan.

Mr. Gates, wrapping up an unannounced visit, said he hoped to deploy two additional combat brigades to Afghanistan by next summer, pushing the U.S. military presence here to a high of about 49,000 troops.

He told U.S. troops here that NATO members have resisted American entreaties for them to deploy more forces to Afghanistan, leaving the U.S. to "bear a disproportionate part of this burden."

"This is a real issue for NATO, for the future," he said. "NATO is a military alliance—it's not a talk shop."

Mr. Gates also had harsh words for the U.N., arguing that the world body hadn't provided its special envoy for Afghanistan, Kai Eide, with "the resources—both people and money—that he needs to do the job."

The comments reflect the disconnect between the U.S. and its allies over Afghanistan, which has taken a turn for the worse in recent months. U.S. and Afghan fatalities hit record highs this year, and some remote parts of the country are controlled by the resurgent Taliban.

U.S. President-elect Barack Obama—who will keep Mr. Gates on as defense secretary—has said he sees Afghanistan as a bigger priority than Iraq and will adjust the human and financial resources devoted to the two conflicts accordingly. There are about 34,000 U.S. troops in Afghanistan. Mr. Obama has promised to raise that number quickly.

Senior U.S. commanders said the U.S. will need to keep up its military presence in Afghanistan for at least the next three or four years. "We'll need a sustained commitment on the part of international military forces for the next few years," said Gen. David McKiernan, the top American commander in Afghanistan. He declined to be more specific.

Within Europe, few governments see Afghanistan as a major national-security threat. NATO members see few signs of progress in Afghanistan and are wary of being locked into a worsening and open-ended conflict. Some European officials say the growing U.S. commitment to Afghanistan has done little to reverse the country's downward spiral or expand the reach of the embattled central government in Kabul.

"NATO nations need a sense of when this war will end, and Washington can't or won't provide one," a European diplomat said in an email.

There are 30,000 NATO troops in Afghanistan, but only a small fraction take part in combat against the Taliban. The U.S. share will grow even larger in the months ahead. Gen. McKiernan has asked for four new brigades, or roughly 20,000 troops, to combat the Taliban and help speed the training of the Afghan army and national police force.

Swiss central bank adopts a near zero-rate approach

BY MARTIN GELNAR

ZURICH—Switzerland's central bank cut its key interest-rate target by half a percentage point, effectively embracing a near zero-rate policy to cushion the country against a predicted recession in 2009.

Easing monetary policy a fourth time since early October, the Swiss National Bank set a new target of 0.50% for the three-month Swiss franc London interbank offered rate.

That was close to the record low of 0.25% set in March 2003, and currently one of the world's lowest interest rates, apart from that of the Bank of Japan, which stands at 0.3%. The cut was in line with market expectations, but some economists described the move as bold, given the already low level of Swiss interest rates.

The SNB also warned that the country's economy, heavily geared to the financial industry, will suffer due to the financial market crisis. However, the country's biggest banks that have been battered by the crisis—**UBS** AG and **Credit Suisse Group**—should be able to withstand further shocks, the SNB said.

The central bank now expects Switzerland's gross domestic product to contract between 0.5% to 1% next year. The SNB also downgraded its inflation projections, predicting the average rate will be at 0.9% in 2009 and 0.5% in 2010. Observers said the central bank has virtually no room left to maneuver on rates after recent cuts of two and a quarter percentage points.

This means the SNB will likely resort to so-called quantitative easing—unusual monetary policy tools such as intervention on the foreign exchange market or a purchase of securities from commercial banks, experts said.

CORRECTIONS & AMPLIFICATIONS

General Growth Properties Inc.'s Columbia Town Center development is located in Columbia, Md. A News in Depth article Wednesday incorrectly described its location as Washington, D.C. A photo that ran with the article showed a 1958 event marking the remodeling of founders Martin and Matthew Bucksbaum's first shopping center in Cedar Rapids, Iowa. A caption incorrectly stated that the photo portrayed the center's 1954 grand opening.

The U.K.'s Civil Aviation Authority proposed a plan that would force **BAA** Ltd. to offer rebates to airlines if it fails to meet certain standards. Penalties could cost BAA as much as 7% of its revenue from airport charges for passenger flights at London's Stansted Airport. A headline on a Corporate News article Wednesday incorrectly said the rebates were higher than expected; they weren't expected.

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Summit tests response to economic crisis

Leaders of China, Japan, South Korea plan to address woes

By Hiroko Tabuchi

TOKYO—The leaders of Japan, China and South Korea will meet Saturday in a summit that will test whether the rivals can put aside old animosities to collectively address the global economic crisis.

The response to the crisis will be at the top of the agenda at the one-day meeting, which was originally planned in an effort to build relations, according to Japanese officials.

The summit in Fukuoka, Japan—the first trilateral gathering for the three countries—is likely to yield vague promises to bolster their export-reliant economies, which are all hurting from a slowdown in overseas markets. The nations' leaders—Japanese Prime Minister Taro Aso, Chinese Premier Wen Jiabao and South Korean President Lee Myung-bak—are expected to issue a declaration promising action, according to Japanese officials.

Japan said it will prod China to put some of its vast foreign-currency reserves toward propping up the International Monetary Fund. Tokyo last month pledged a loan of $100 billion to the IMF to support needy nations. With China's economy quickly cooling, however, Beijing may have its hands full managing its own economy.

Three-way summit

On the agenda in Fukuoka:

- **A solid response** to the economic crisis, including boosting government spending
- **Possible expansion** of currency swap deals with South Korea to support its flailing currency
- **Japan may urge** China to tap its foreign-currency reserves to boost the IMF's lending capacity to needy nations
- **Agreement to hold** a trilateral summit every year
- **Other items:** coordinated disaster management, climate change, aid to Africa

Source: WSJ reporting

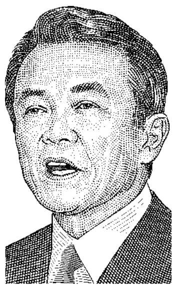
Japan is also prepared to discuss expanding a currency swap deal with South Korea to support the Korean won, said Kazuo Kodama, press secretary at Japan's Foreign Ministry. The won has weakened sharply against the dollar and yen in recent weeks as foreign investors withdrew funds from South Korea.

Japan could increase its swap line with Seoul from the current $13 billion worth of funds in yen and dollars, Mr. Kodama said, with China also possibly joining the arrangement. That would allow South Korea to support the won by selling more dollars and yen for the South Korean currency. Liu Jianchao, spokesman at China's Ministry of Foreign Affairs, said the meeting was "timely and very important." He said he hopes the three countries can "jointly respond to this financial crisis" but offered no details on how they can cooperate.

The summit comes amid growing concern that Asian economies are feeling the brunt of global turmoil. China said Wednesday that exports and imports fell sharply in November, raising concerns over its ability to buoy growth elsewhere.

Japan's economy is already contracting, and revised GDP figures released Tuesday showed a sharper downturn than initially expected. South Korea posted its weakest growth in four years in the third quarter, causing its central bank to cut interest rates Thursday by one percentage point to 3%.

Ties have been warming among the three countries, which have previously met only on the sidelines of larger international summits. But old issues that have dogged relations could get in the way of greater cooperation.



Taro Aso

On Monday, two Chinese survey boats entered waters surrounding islands claimed by both Beijing and Tokyo in the East China Sea, triggering a protest from Japan. Officials in Japan say Mr. Aso will demand an explanation at the summit. Meanwhile, Japan and South Korea remain at odds over a separate set of disputed islands.

Still, relations among the three countries have improved following years of friction under former Japanese Prime Minister Junichiro Koizumi, who angered Beijing and Seoul by praying at a war shrine that honors Japan's war dead.

Differences over how Japan atones for its wartime atrocities in Asia have long cast a shadow over Tokyo's relations with its neighbors. Mr. Koizumi's successors have been eager to mend ties. The summit was conceived by Mr. Aso's predecessor, Yasuo Fukuda, but he quit before the event took place.

For Mr. Aso, the meeting will be an important opportunity to demonstrate leadership. The Japanese prime minister has seen his popularity ratings fall sharply after a recent series of gaffes and policy flip-flops.

—Jason Leow in Beijing contributed to this article.

CORPORATE NEWS

Freight haulers slam on the brakes

Expecting the weakest year in three decades, many carriers are scaling back by rail, road and sea

By Corey Dade
And Alex Roth

In a normal year, **Gordon Trucking** Inc. might replace 20% of its fleet of 1,500 big rigs with new trucks. But given the bleak outlook for the freight business, the Pacific, Wash., hauler doesn't intend to buy a single new truck next year.

"We're settling in for nuclear winter in the first half of 2009," says Steve Gordon, operating chief for the company, which hauls everything from paper products to electronics.

He's not alone. Some industry executives and analysts predict that 2009 could be the worst year for freight-transportation volume in three decades or more. As a result, companies in industries ranging from trucking to railroads to ocean shipping are scaling back sharply.

Ocean freighters are docking vessels and putting off delivery of new ships. Rail-car production is expected to plummet as railroads put box cars in storage rather than buy new ones. And U.S. trucking companies are projected to buy just 101,000 tractor trailers next year, down an estimated 22% from this year and 64% from two years ago, according to freight-transportation forecaster FTR Associates.

Next year "is going to be the worst year for transportation demand in 30 years," FTR economist Noel Perry said in an industry conference call last month.

The drop comes as weak consumer spending has prompted retailers and other businesses to delay or reduce orders. As the carriers have responded, their retrenchment already has reverberated across various industries that heavily rely on haulers to transport supplies and raw materials, including U.S. auto makers and home builders teetering on the brink of collapse.

Bloomberg News/Landov

Amid the freight business's gloomy outlook, rail-car production is expected to decline as railroads put box cars in storage rather than purchase new ones.

Business is so bad that **FedEx** Corp. and **United Parcel Service** Inc. canceled their annual predictions of how many packages they would handle in the peak shipping days before Christmas. The couriers, the world's largest cargo airline and the world's biggest ground courier, respectively, are looked to by economists and other analysts as barometers because they carry a combined average of 22 million packages a day. "The economy is so unpredictable that we're just not comfortable making a prediction," says UPS spokesman Norman Black.

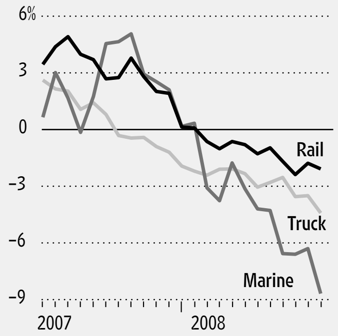
UPS, which reported a 9.9% decline in third-quarter profit, expects U.S. package volume in the current quarter to fall 4% from a year ago.

FedEx on Monday substantially cut its earnings outlook for the fiscal year ending May 31 and said it would announce additional cost-curbing plans when it reports quarterly results on Dec. 18. FedEx declined to comment further.

Trucking company **Con-Way** Inc. this week announced an 8% workforce reduction in its freight division, eliminating about 1,450 positions.

Dropping off

Freight carriers are scaling back, expecting weak volume. U.S. employment in select transportation sectors, change from a year earlier



Note: Not seasonally adjusted; Data for Oct. and Nov. 2008 are preliminary.

Source: U.S. Labor Dept.

Across the trucking industry, volume fell 6.3% from July through October, when volume usually begins to grow as retailers restock their inventories ahead of the holiday season, according to the American Trucking Associations. But not this year. November remained weak. "It doesn't look like December's any better," says Stifel Nicolaus & Co. analyst John Larkin. "It could actually be worse."

Several truck manufacturers, such as Daimler Trucks North America and **Kenworth Trucking** Co., are closing facilities, severely cutting back production or laying off employees.

At a Kenworth plant in Renton, Wash., more than 400 employees will lose their jobs when the company, a subsidiary of **Paccar** Inc., suspends making heavy-duty highway trucks at the plant next year, according to Don Hursey of the machinists union, who says he has been briefed on the plans.

The picture is similar on the rails. Delivery of new railcars could drop below 40,000 next year from a projected 58,000 this year, according to analyst Paul Bodnar of Longbow Research in Cleveland. U.S. railroad car-load volume dropped 10% last month from a year earlier, the biggest drop since the Association of American Railroads began tracking such data in 1997.

For ocean shipping lines, the global downturn is particularly brutal. The lines have been slashing prices in the face of plummeting demand. The industry also is plagued by overcapacity, as some carriers are taking delivery of new ships that were ordered several years ago, when the global economy was booming. Greek ocean shipper **DryShips** Inc. on Wednesday announced it was canceling $400 million in orders for four new dry-bulk vessels.

Not everyone in the freight-hauling industry is quite so gloomy, however. Ray Kuntz, the chief executive of **Watkins Shepard Trucking** Inc., says he expects business to improve in the second half of 2009 for stronger trucking firms that will pick up business as weaker competitors shut down.

Boeing 787 is delayed six months

By J. Lynn Lunsford
And Kerry E. Grace

Boeing Co. on Thursday said it is pushing back the schedule of its troubled 787 Dreamliner jet program by about six months as it unravels delays caused by a recent union-machinists strike and by thousands of improperly installed fasteners on the first few planes.

The company also announced a number of management changes aimed at improving oversight of supply-chain and quality problems that led to delays on all of Boeing's jet programs in recent months.

The additional delay on the 787, which had been widely expected, throws the high-profile program roughly two years behind schedule. The company said it is moving the airplane's maiden flight to sometime in the second quarter of 2009, with the first delivery to launch customer All Nippon Airways occurring sometime "into the second quarter of 2010."

The previous schedule had called for the first flight to occur later this month, with the first deliveries in the third quarter of 2009. The company said it was still evaluating the impact of the delays on customers' delivery dates and on its earnings.

As part of a management shake-up, Commercial Airplanes President Scott Carson promoted two of the company's rising stars into new jobs that could put either of them in the running to someday succeed Mr. Carson.

Chief salesman Ray Conner will now be in charge of supply-chain management and operations for all of the company's jet programs. The 53-year-old executive started as a mechanic on the Boeing 727-jetliner assembly line in 1977 and has held a number of management roles since. Pat Shanahan, 46, who was brought in from the company's defense unit in 2007 to take over the already troubled 787 program, was elevated to a new position that puts him in charge of all current production and development programs, including the 787.

AFP/Getty Images

Boeing's 787 Dreamliner program is now about two years behind schedule.

Marlin Dailey, who leads Boeing's sales organization in Europe, will succeed Mr. Conner as chief aircraft salesman. Scott Fancher, who most recently led Boeing's missile-defense business, will succeed Mr. Shanahan as day-to-day manager of the Dreamliner program.

Carolyn Corvi, who was previously in charge of the company's airplane programs, elected to retire at the end of the year, Boeing said. Ms. Corvi, who has been at Boeing for 34 years, is widely credited with modernizing Boeing's assembly lines by adapting lean manufacturing techniques used in the automotive business.

In the company's statement, Mr. Shanahan said Boeing is "laser focused" on preparing for the Dreamliner's first flight.

Although the new timetable gives Chicago-based Boeing some additional breathing room, it still contains an aggressive plan to complete U.S. Federal Aviation Administration certification tests in nine months, shaving about three months from a typical flight-test program.

Boeing spokeswoman Yvonne Leach said the company has been in contact with FAA officials and still believes such a feat is possible, although it will require around-the-clock flying involving 34 pilots and six airplanes.

A two-month strike by Boeing's union machinists, which ended last month, shut down the company's commercial-airplane production lines. The company also said last month it had to replace thousands of improperly installed fasteners on the first 787 Dreamliner jets before they could be flown.

Sweden sets $3.43 billion to bail out its auto sector

By Joel Sherwood

STOCKHOLM—The Swedish government announced 28 billion Swedish kronor ($3.43 billion) of measures to help bail out the country's ailing auto industry, but the long-term future of its two car producers, Saab and Volvo, remains uncertain.

The government reiterated that it won't take stakes in Volvo and Saab, which together employ some 20,000 people in Sweden. The crisis in the sector has already cost thousands of Swedish jobs in response to a sharp downturn in demand for autos and parts.

The parents of the car makers, **Ford Motor** Co. and **General Motors** Corp., have said they are considering a sale of the loss-making Swedish subsidiaries as they try to scale down to reduce losses and debt.

The U.S. government is putting together an emergency funding package for Ford, GM and **Chrysler** LLC, estimated at $14 billion, in a move to help the U.S. automakers stave off bankruptcy. In return the companies would be obliged to come forward with a thorough restructuring plan.

Sweden hasn't made demands in exchange for its bailout. Detailing the plan, Swedish Finance Minister Anders Borg and Swedish Enterprise, Energy and Communications Minister Maud Olofsson said state credit guarantees would be made available to companies, up to a maximum 20 billion kronor, to be used for loans from the European Investment Bank to develop environmentally friendly technology in the industry. The guarantees will be pledged against adequate security and with fees that reflect the market under normal market conditions, they said.

A further 3 billion kronor will be used to establish a company run on a commercial basis to undertake research and development, and 5 billion kronor will be made available "to enable financially weakened companies to stay afloat for as long as it takes to develop a restructuring or liquidation plan," the government said.

The measures require authorization from parliament. They will comply with the European Commission's guidelines on state aid and will be granted against adequate security, the government said.

The package will apply to the auto industry but not Sweden's huge truck-making industry.

"At first glance, the government plan looks positive to us," said Volvo Cars spokeswoman Maria Bolin. She said it is too early to tell if the amount of support would be enough.

Saab couldn't immediately be reached for comment.

—Adam Ewing and Anna Molin contributed to this article.

CORPORATE NEWS

Inditex bucks the trend

Retailer's earnings rise; plans on track to open more stores

By Christopher Bjork

MADRID—**Inditex** SA, most famous for its Zara clothing chain, Thursday bucked the weakening trend for European retailers by posting higher profit and sales.

The Spain-based company reported net profit of €843 million ($1.1 billion) for the first nine months of its fiscal year, through Oct. 31, up 2.2% from €825 million a year earlier, as it opened more stores world-wide and attracted frugal shoppers with its trendy, yet inexpensive designs.

Retailers world-wide have cut forecasts in recent months and reduced growth plans amid the economic downturn. But Inditex—Europe's largest fashion retailer by revenue, ahead of Sweden's **Hennes & Mauritz** AB—said it plans to maintain growth next year, opening roughly two stores a day, even while cutting capital expenditure.

Inditex's sales rose 11% to €7.35 billion from €6.63 billion. Operating expenses jumped 15%, partly because of store openings.

The company, which has expanded aggressively overseas in recent years and is now present in 72 countries, has also recently rolled out its new accessories-store concept Uterque in big Spanish cities. It opened 456 stores in the nine-month period, 45 more than a year earlier, and had 4,147 stores as of Oct. 31.

"We continue to see many growth opportunities," Chief Executive Pablo Isla said in a conference call following the results. "There are markets where we're just beginning, and there are markets which remain very fragmented, where we've been present for many years but where our market share is very low."

Sales from stores open for more than two years, rose in the third quarter. Mr. Isla said Inditex is targeting such like-for-like sales to grow next year, after reporting that business in the first six weeks of its fiscal fourth quarter showed "similar growth patterns" to those of the third quarter.

"We think this is a consequence of an improved product offer by Zara and a general trend of chains outperforming independents more during a consumer downturn," said J.P. Morgan analyst Richard B. Chamberlain.

Inditex shares rose 4.5% in Madrid.

Reuters

As part of its expansion drive Inditex, which owns Zara stores such as the one above, has rolled out a new accessories-store concept Uterque in big Spanish cities.

Tesco cuts prices to lure Christmas shoppers

By Lilly Vitorovich

LONDON—The price war on the U.K. high street escalated Thursday as the nation's biggest retailer, **Tesco** PLC, announced a half-price sale in an attempt to draw Christmas bargain shoppers to its stores.

The sharp price cut comes as general retailer **Woolworths Group** PLC started store-closing sales at its 800 outlets. Conditions for retailers have worsened amid the economic slowdown.

Tesco's 50% off sale on 1,000 products—including food, drinks, toys and gifts—kicks off Friday and runs until Christmas. The company said the focus is on "gifts and essentials for Christmas" because its research suggests that customers are worried that if they shop too soon they will miss out on discounts.

"Customers are telling us that they are delaying their main Christmas purchases as they wait for bargains," Commercial Director Richard Brasher said.

The move follows months of heavy promotional activity within the U.K. grocery sector, which has seen **William Morrison Supermarkets** PLC and **Wal-Mart Stores** Inc.'s Asda Group Ltd. benefiting as cash-strapped consumers seek out less-expensive items.

Germany-based discounters **Lidl** GmbH and **Aldi Einkauf** GmbH are also increasing their grocery market share, albeit from low bases.

Department-store chains **Debenhams** PLC, **Marks & Spencer Group** PLC and **House of Fraser** have also been offering sale discounts of between 20% and 25%. **John Lewis** has also cut prices.

Asda said Thursday that it won't be following suit. The grocer's chief executive, Andy Bond, said promotional sales offering 20% to 25% off product prices aren't a good way for retailers to expand business during an economic downturn, and warned that the moves could haunt them later.

A spokesman for **J Sainsbury** PLC wouldn't say whether it plans a half-price sale, but noted that the supermarket chain, the U.K.'s third largest after Tesco and Asda, already has a number of promotions.

Morrison didn't respond to queries on whether it plans to follow Tesco's steep discounting.

A Tesco spokeswoman declined to comment on how much the sale will cost the retailing giant, but said the impact won't hurt the company's suppliers.

Tesco, the world's third-biggest retailer by sales after Wal-Mart and France's **Carrefour** SA, has responded aggressively to attacks in the U.K. from no-frills supermarket chains in recent months by launching new initiatives, in particular expansion of its low-cost Discounter brand.

P&G reduces sales outlook as consumer demand ebbs

By Anjali Cordeiro

Procter & Gamble Co. cut its sales outlook for the current quarter, noting that around the world distributors, retailers and consumers are stocking up less amid the economic downturn.

For its fiscal second quarter, the U.S. consumer-products giant said organic sales growth— which excludes the effect of acquisitions, divestitures and currency fluctuations—will fall short of the target of 4% to 6% that the company set in October. It said it hadn't expected customer inventories to fall as quickly and sharply as they have.

At the same time, P&G reiterated its earnings forecast for the quarter, as well as for full fiscal-year profit and sales.

In an investor presentation, the Cincinnati-based company said the strengthening dollar will dent sales growth for both the quarter ending this month and the full year.

P&G said many of its retailers and suppliers are being hurt by tough credit conditions, with the slowdown being felt in both developed and developing markets. The company said its markets around the world are growing at 3%, about two percentage points below growth rates before the credit crisis began.

Jon Moeller, who will soon take over as chief financial officer, said P&G is seeing evidence consumers are trading down from brand-names to products sold under store labels.

Chief Executive A.G. Lafley said the company is going through the most difficult period of the credit crisis but hopes "to see early signs of recovery" next year.

U.S. retail sales fell in November

By Phil Izzo

November's decline in U.S. retail spending was bad even by recessionary standards, new data say.

Sales, excluding automobiles, declined 5.5% from a year earlier to $295.3 billion and fell 3% from October, according to Mastercard Inc.'s SpendingPulse unit, which compiles data based on credit-card purchases as well as estimates for cash and checks. Seasonally adjusted total retail sales tumbled 4.4% from a year earlier, SpendingPulse said.

"In the past few months, there has been a dramatic pullback in spending that is pretty pronounced, even for a recession," said Kamalesh Rao, director of economic research at SpendingPulse.

November sales were hurt by the late Thanksgiving holiday as well as a sharp drop in the price of gasoline. Excluding those factors, sales were off by about 0.5% from the same month last year, Mr. Rao estimated. He said this fall's pullback in spending flattened out a bit in November, suggesting it may be starting to stabilize.

America's Research Group/UBS said in its recent survey of 1,000 people a record 40.1% said they plan to spend less this holiday season.

Club Med ekes out profit

Asset sales help avert loss, but bookings are down for winter

By Max Colchester

PARIS—French resort operator **Club Méditerranée** SA returned to a slim profit for the year ended Oct. 31 after a gain on the sale of some noncore operations, but its underlying business remained vulnerable to the global economic slump.

Club Med swung to a net profit of €2 million ($2.6 million) from a year-earlier net loss of €8 million after it sold 80% of its gym business and all its Jet Tours travel-agency arm. Its gain on the sale of discontinued operations was €31 million.

Sales rose 5.7% to €1.49 billion from €1.41 billion the previous year.

Analysts said that deteriorating economic conditions mean that Club Med's return to profitability could be short-lived. Indeed, the company would have posted a loss for the year without its asset sales. Club Med said winter bookings this year are down 2.4% from last year.

"These figures are not as bad as expected, but next year will be very difficult," said Matthias Desmarais, an analyst at Exane BNP Paribas.

Recently Club Med has moved upscale in an attempt to attract wealthier clients. It has invested more than €1 billion over the past four years to renovate 70 of its resorts and open 20 new ones. After several closures, it now has 80 resorts world-wide.

Revenue per available bed, a key indicator of profitability in the hotel sector, rose 7.5% from the previous year to €91.40. The group attracted 61,000 extra clients to its four- and five-star hotels.

To counter the economic slump, Club Med Chief Executive Henri Giscard D'Estaing is cutting costs. The renovation of two of the company's resorts has been put on hold, reducing planned expenditure by €40 million. A number of two- or three-star resorts will close during periods of bad weather when demand is low.

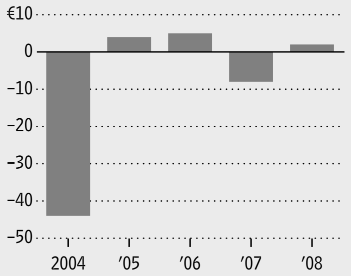
The group also announced a plan to save €31 million in 2009. This includes reducing investment in marketing and laying off staff. "We would have liked another year to consolidate the move upscale," Mr. Giscard D'Estaing said during a meeting with analysts. "But we are ready to confront the crisis."

Mr. Giscard D'Estaing remains upbeat about Club Med's position, saying that wealthier clients are less likely to stop going on holiday during the economic crisis. The company also hopes next year to attract clients with a new loyalty card.

Back in black

French holiday group Club Méditerranée made a net profit of €2 million, after a loss of €8 million in 2007

Net profit/loss*
In millions of euros



52-week share performance
On Euronext Paris

*Fiscal year ends Oct. 31

Sources: the company; Thomson Reuters Datastream

ABB, others face antitrust charge

A WSJ News Roundup

BRUSSELS—European Union antitrust regulators said Thursday they charged several makers of electricity-generation equipment with forming a price-fixing cartel.

The EU didn't name the power-transformer makers it had charged but said the companies would be able to defend themselves in writing and at a hearing before the EU decides whether to fine them.

The charges come in the form of a "statement of objections," which opens up the European Commission's formal investigation into the companies and lays out the concerns of the European antitrust enforcers.

Siemens AG of Germany, **ABB** Ltd. of Switzerland, **Areva** SA of France and **Toshiba** Corp. of Japan all said they received the charges.

ABB said the charge sheet formed part of an investigation in the power-transformer sector for which the commission conducted raids at an ABB unit in Germany in February 2007. ABB said it has a zero-tolerance policy for employees who break the law or behave unethically.

Areva said it is examining the charges and will cooperate fully. A Toshiba spokesman said the company had received the charge sheet and will study it before deciding how to respond. Siemens confirmed it was among those charged but had no further comment.

Power transformers are used to control the voltage in electrical circuits and are important components in transmission and distribution networks. They are bought by major power-generation and transmission companies—so higher prices may raise costs and contribute to more expensive electricity prices for households and companies.

EU cartel fines can cost a company as much as 10% of its global revenue for each year it is deemed to have broken antitrust rules, potentially hundreds of millions of dollars.

Officials raided several power-transformer firms in France, Germany and Austria in February 2007. Siemens acknowledged at the time that its business was under investigation.

Siemens said last year it suspended three employees suspected of colluding with rivals on the German market in 2001 to 2003. It said this happened before it bought the Power Transmission and Distribution Group and VA Tech EBG units in 2005. But Siemens said the behavior became known only as a result of the antitrust raids.

Lilly to post loss amid merger costs

By Kerry E. Grace
And Peter Loftus

Eli Lilly & Co. said it will post a net loss for the year amid more than $4 billion in fourth-quarter charges for its acquisition of ImClone Systems.

The U.S. pharmaceutical company forecast little sales growth for 2009, but cited progress in cutting drug-development costs and said it may follow **Merck** & Co. into the field of so-called follow-on biologics.

Lilly, which reiterated its 2008 profit outlook excluding the charges, expects "robust" growth in sales volume again in 2009 from drugs including Cymbalta and Cialis and the expected launch of prasugrel. The company is still in talks with the U.S. Food and Drug Administration on getting approval for the anticlotting drug, co-developed with **Daiichi Sankyo**. It had hoped for approval by year end.

The company expects 2009 sales growth to be in only the low-single digits on a percentage basis because of the stronger dollar. Analysts surveyed by Thomson Reuters were predicting growth of 7% to $22 billion.

Margins are expected to rise "substantially" next year, driven by the strengthening dollar, particularly in the first half, the company said, in an annual presentation to analysts.

The company projected 2009 earnings, excluding dilution from the shares issued for purchasing ImClone, of $4.35 to $4.55 a share. The dilution is expected to hurt profit by 30 cents to 35 cents a share. The company still expects the deal, which closed in November, to begin adding to earnings around 2012.

For this year, the company said it now expects a loss of $1.56 to $2.06 a share, reflecting ImClone-related charges of $4.05 to $4.50 a share.

Lilly said it is halfway to meeting its goal of cutting the cost of bringing a new drug to market to $800 million by 2010 from $1.2 billion in 2007. Drug makers face patent expirations for blockbusters, and have been looking to cut costs because their pipelines generally aren't seen as being able to recoup the revenue losses caused by generic competition.

Steven Paul, Lilly's research chief, said the company would consider entering follow-on biologics, essentially generic versions of leading branded biotechnology drugs.

Alcatel-Lucent chief to detail recovery plan

By Jethro Mullen

PARIS—**Alcatel-Lucent** SA's new chief executive, Ben Verwaayen, will Friday explain his strategy for steering the telecommunications-equipment maker to profitability while at the same time aiming to motivate workers anxious about potential job cuts.

Mr. Verwaayen faces the challenge of winning over investors to a company whose stock has fallen 63% in value so far this year, without demoralizing a work force from which Alcatel-Lucent is already slashing 16,500 employees.

"It's not true that we're a beleaguered company," Mr. Verwaayen said last week at an event showcasing the company's research projects.

To add substance to those words, he will give details Friday on how he plans to find more cost savings, ditch underperforming products and free up resources for the development of next-generation technologies.

The former BT Group PLC chief executive will need to unveil solid plans to convince investors that Alcatel-Lucent can fulfill the promise of its 2006 merger and become a profitable rival to the likes of Sweden's **Telefon AB L.M. Ericsson**, U.S. networking titan **Cisco Systems** Inc. and Chinese gear maker **Huawei Technologies** Co.

His task is made harder by tenacious competition in a telecommunications-equipment market set to shrink next year as the economic slowdown makes operators more cautious about investing in networks.

Ben Verwaayen

Rival Nokia Siemens Networks, the joint venture of **Nokia** Corp. and **Siemens** AG, recently said it expects the market for mobile infrastructure, fixed infrastructure and related services to fall 5% or more in euro terms next year from 2008 levels.

Mr. Verwaayen has put profitability and cash generation among his chief priorities. The company's cash balance looks set to improve now that it is in talks to sell its 20.8% stake in defense-electronics company **Thales** SA to aerospace group **Dassault Aviation** SA.

Some of the estimated €1.5 billion ($1.95 billion) in proceeds from that sale could be used to pay down part of the company's debt, or to fund potential restructuring programs associated with trimming the company's broad product range.

The strategy will be carried out by a senior management team whose structure Mr. Verwaayen has already significantly reshaped, bringing in a new chief financial officer and three new regional bosses.

While Mr. Verwaayen has sought to move the focus away from job cuts, his use of words like "streamlining" and "eliminating duplication" have left employees anxious.

"We still fear that this strategic announcement may be accompanied by a plan to further cut staff," said Hervé Lassalle, a spokesman for the CFDT union at Alcatel-Lucent in France.

Analysts, on the other hand, are looking for more job cuts to improve profitability, despite Mr. Verwaayen's assertion that headcount is a "silly" way to measure success.

RBC Capital Markets analyst Mark Sue on Wednesday upgraded his rating on Alcatel-Lucent stock to "sector perform" from "underperform," saying he believes the group may cut about 5% of its global work force, on top of the 16,500 previously targeted.

The company hasn't disclosed the annualized cost savings it has made from existing restructuring measures, as some of those savings have been passed on to customers.

Mr. Verwaayen is also expected to prune the company's varied product portfolio, though few analysts expect big disposals. Alcatel-Lucent has repeatedly reiterated its commitment to its wireless division, the root cause of most of its losses in recent quarters.

That includes its profitable but declining CDMA, or Code Division Multiple Acccess, business. The shriveling market for the CDMA mobile-phone technology has already helped to bring Alcatel-Lucent's Canadian rival **Nortel Networks** Corp. to its knees.

Wherever possible cuts fall, Mr. Verwaayen's plans Friday are expected to provide a clean break from the previous era of former Chief Executive Patricia Russo and Chairman Serge Tchuruk, the architects of the merger of Paris-based Alcatel SA and Murray Hill, N.J.-based Lucent Technologies Inc., who were both closely tied to the company's existing activities and products. The company hasn't made a profit since.

"I think it is a lot easier for him to take perhaps a harsher decision because he doesn't necessarily have the legacy" that the previous management had, said Alcatel-Lucent's head of investor relations, Remi Thomas, at an investor conference last month.

DAILY SHARE PRICE PERFORMANCE

Alcatel-Lucent

Thursday's close: €1.85, down 2.4%

Source: Thomson Reuters Datastream

Corporate News

Lighter load

The economic downturn takes its toll on freight transporters > **Page 4**

CORPORATE NEWS

Lukoil's net rises 40% on refining and expensive oil

By Jacob Gronholt-Pedersen

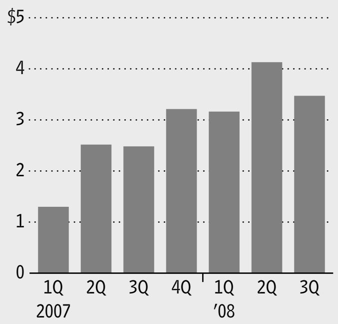
MOSCOW—OAO **Lukoil Holdings** reported a 40% surge in third-quarter net profit on higher refining margins and oil prices, but failed to give a firm steer on its capital-expenditure plans for next year amid sharply falling prices.

Lukoil, which is Russia's second-biggest oil producer after state-controlled OAO **Rosneft** and is 20%-owned by U.S. oil major **ConocoPhillips**, said net profit climbed to $3.47 billion from $2.48 billion in the year-earlier period.

Revenue rose 52% to $32.56 billion, lifted by a 55% jump in the oil price from a year earlier, despite crude production remaining virtually flat. Analysts said the results were expected, adding that investors will be looking out for any indication of possible cuts in capital spending next year.

OAO Lukoil Holdings

Net profit, in billions of dollars



Source: the company

"Crude oil prices are now close to the level at which development of many oil fields becomes unprofitable," Lukoil said in a statement. "If the trend lasts, a concern over a shortage of hydrocarbon supply may appear."

U.K. oil major **BP** PLC's Russian joint venture **TNK-BP** Ltd., for instance, said Thursday it will cut its capital spending program next year by a third. Lukoil has said it expects capital spending for next year to total $9.7 billion, although that could be cut if oil prices fall further. In October, the company said next year's spending could fall to $5.1 billion.

Some analysts doubt Lukoil will be able to keep capital spending at $9.7 billion. "They'd have to find financing somewhere, because I don't believe they'll be able to make enough money next year to fund a capex program like that," said Artyom Konchin, an analyst at UniCredit investment bank in Moscow.

A person familiar with the matter said last month that Lukoil is interested in buying as much as 30% of Spanish oil company **Repsol YPF** SA. Lukoil has so far declined to comment on the deal.

Wednesday, Russia's Energy Minister Sergey Shmatko said the government would offer "political support" should Lukoil decide to bid for Repsol. Analysts, however, doubt Lukoil would be able to finance such a deal amid tight liquidity on financial market.

Separately, the TNK-BP board meeting where the capital spending decrease was decided failed to name a successor to Chief Executive Robert Dudley, who left the company Dec. 1.

GLOBAL BUSINESS BRIEFS

OAO Magnitogorsk

Net profit increases 66% amid strong steel prices

OAO **Magnitogorsk Iron & Steel Works** on Thursday posted a 66% rise in third-quarter net profit, thanks to record-high steel prices this past summer. The company said the price of hot-rolled steel coils was about 50% higher in the third quarter than a year earlier, driving net profit up to $667 million from $402 million a year earlier. Sales rose 64% to $3.53 billion. However, since late September, steel prices have collapsed, reversing most of the gains made over the previous year. The company said it expects full-year revenue to increase 27% to $10.4 billion, but warned that the average price for its steel products is likely to decline by about 40% to $670 a ton. Seven days after the third quarter ended, Magnitogorsk reduced its October rolled-steel production schedule by 15%.

Outokumpu Oyj

Finnish stainless-steel maker **Outokumpu** Oyj warned Thursday that it will post a fourth-quarter loss because of poor demand for stainless steel and said that it will lay off personnel and postpone investments. Markets "deteriorated much faster than anticipated," the company said, adding that it expects no improvement in 2009. Outokumpu plans to lay off 450 workers in Sweden and an unspecified number world-wide. The company said it now expects to record a loss of €50 million ($65 million) for its fourth quarter, compared with an earlier forecast of a "slightly positive" result. It also plans to slash 2009 investments by 65% to €300 million. Outokumpu employs 8,700 people in some 30 countries.

UPM-Kymmene Oyj

Finish paper maker **UPM-Kymmene** Oyj said it won't meet its fourth-quarter earnings targets as markets continue to weaken. Thursday's announcement sent the company's stock down 8.6% to €9.53 ($12.41) in Helsinki trading. In October, the world's largest producer of magazine paper by revenue had already warned that paper demand was likely to fall. At the time, Chief Executive Jussi Pesonen said he expected fourth-quarter operating profit, excluding special items and change in the fair value of biological assets, to be about the same as last year's €142 million ($185 million). UPM said it will change shift arrangements, enforce temporary lay-offs and manage capacity in an effort to counter the effect of deliveries falling more than expected in the coming months.

Anheuser-Busch InBev

Anheuser-Busch InBev said investors had bought all the €6.4 billion ($8.34 billion) in new shares it issued to pay for the takeover that made it the world's largest brewer last month. The share sale will help pay off a $9.8 billion short-term loan that funded InBev's $52 billion acquisition of Anheuser-Busch. The company had postponed the share issue, which was initially scheduled for October, amid volatile stock markets. It was finally launched on Nov. 24. The company said 99.58% of the 986 million new shares had been bought at €6.45 a share, a more than 50% discount to Tuesday's closing of €14.68 on the Brussels stock exchange. The remaining shares were sold to institutional investors on Thursday.

Fraport AG

German airport operator **Fraport** AG said Thursday it saw a steep decline in passengers at its main airport in November as the economic slump affected travel. The Frankfurt-based company that runs Frankfurt Airport—continental Europe's second-largest by passengers after Paris Charles de Gaulle—said November passenger levels fell 7% from a year earlier to 3.9 million. Fraport said that in the January to November period, passenger levels at Frankfurt Airport fell 1% to 49.7 million. The company said air-freight tonnage through the airport also fell by 8.2% for the month of November. Fraport said most of its other majority-owned airports recorded growth in November. Bulgarian airports Varna and Burgas saw increases of 19% increase and 38%, respectively.

Qantas Airways Ltd.

The Australian competition regulator said **Qantas Airways** Ltd. and **British Airways** PLC have been fined 20 million Australian dollars or about US$13 million, and A$5 million, respectively, for price-fixing activity relating to fuel surcharges across their freight operations between 2002 and 2006. The Australian Competition and Consumer Commission said in separate statements that the fines have been ordered by the Federal Court in Sydney for part of the global cartel activities both airlines have admitted they participated in alongside other international airlines. The regulator said the Federal Court also made orders restraining both airlines, which are in merger talks, from engaging in similar conduct for three years.

Big Yellow Group PLC

David Ross, the co-founder of **Carphone Warehouse Group** PLC, has resigned as a director of **Big Yellow Group** PLC, the self-storage company said Thursday. It was the third directorship Mr. Ross has given up during the past week, after his disclosure that he had pledged millions of shares in four companies as collateral for private loans without notifying fellow directors, as required by stock-exchange rules. He also has resigned from the board of the London Organizing Committee for the 2012 Olympic Games. Earlier, Mr. Ross left his post as nonexecutive deputy chairman of Carphone Warehouse and his chairmanship of **National Express Group** PLC. Mr. Ross, who wasn't available for comment, remains a director of **Cosalt** PLC, a marine-safety company.

Dell Inc.

European Union regulators said Thursday they would investigate Poland's €52.7 million ($68.7 million) subsidy to computer maker **Dell** Inc., because they doubt the U.S. company's new Polish plant needed a state subsidy. EU rules allow governments to give money to businesses operating in disadvantaged parts of Europe. The EU conceded that Lodz, Poland's third-largest city, has an abnormally low standard of living and high unemployment. But regulators said they would look carefully at the payment—which covers more than a quarter of the €189.58 million cost of the factory—to make sure it doesn't enrich Dell or help it make more of a product that isn't selling. The factory aims to employ 3,000 people turning out desktops, notebooks and servers, including Latitude and Inspiron models.

—Compiled from staff and wire service reports.

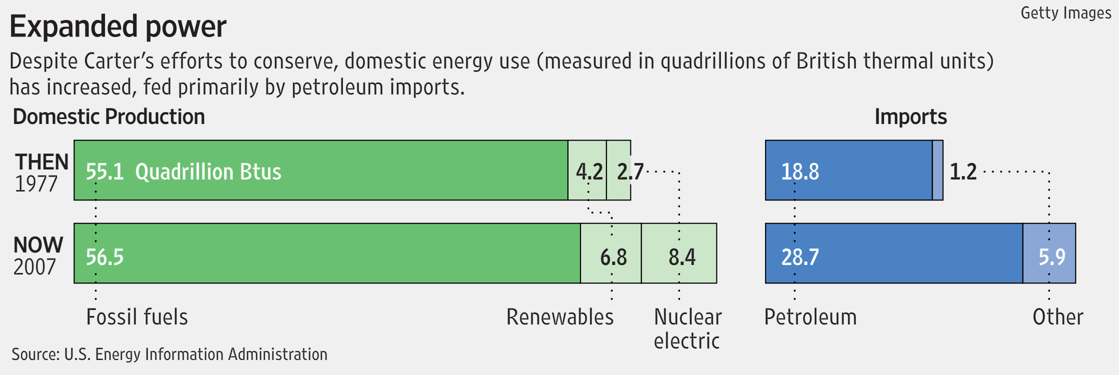
ECONOMY & POLITICS

Ex-president’s advice to Obama: act fast

Jimmy Carter says new administration needs to harness the benefits of a crisis mentality to tame energy policy

By Neil King Jr.


Getty Images



ATLANTA—Almost three decades later, Jimmy Carter recalls vividly what it was like trying to get Americans to turn down their thermostats and kick the oil habit.

“It was like gnawing on a rock,” the former president says.

Now President-elect Barack Obama is heading to Washington with a set of energy goals as ambitious as Mr. Carter’s back in 1976. He promises to free the country from “the tyranny of foreign oil” and to save “our planet for our children.” He’s calling for a “spirit of service and sacrifice,” and promoting hybrid cars and wind and solar power.

But Mr. Obama must now champion his $150 billion energy plans in the face of a sinking economy and oil prices that have fallen 70% since their record mid-summer high. Forces like these have killed at least four similar presidential efforts in the past. Already, falling energy prices and the credit crisis are laying waste to scores of alternative-energy projects, from huge wind farms in Texas to biodiesel plants in Mr. Carter’s home state of Georgia.

Mr. Carter offers Mr. Obama this advice: Try to inspire Americans to see the virtue in making energy sacrifices, a notoriously tough sell, especially in the face of falling prices. Get energy legislation to Congress quickly, during the presidential honeymoon. And stick with it.


Jimmy Carter

“I think he can prevail if he does it early and with a great deal of dedication and enthusiasm—and with tenacity,” Mr. Carter says in an interview.

History isn’t tilted in Mr. Obama’s favor. Presidents all the way back to Richard Nixon—whose “Project Independence” promised to make America independent from foreign oil by 1980—were thwarted by short attention spans, other urgent problems and gyrations in the energy market. President Gerald Ford set a similar target for 1985.

Today, as in the Carter era, Americans remain by far the world’s biggest per-capita consumers of oil. About 70% of it is imported, compared with just over a third in 1981.

“It’s a sad characteristic of our society that energy issues get no political attention until prices run up,” says James Schlesinger, Mr. Carter’s—in fact, America’s—first energy secretary and a veteran of multiple energy crises. Then, as soon as prices fall, everything “goes back to normal.”

Plunging oil prices are now sending gasoline to its cheapest level in decades, when adjusted for inflation. But Mr. Obama insists he will stick to his guns, telling “60 Minutes” in an interview soon after the election that he intends to break the pattern that has the country moving perpetually “from shock to trance” as prices soar and then tumble.

“That has to be broken,” he said. “Now is the time to break it.”

His allies in Congress also insist that this time will be different. It’s “now a top national-security and economic issue,” says Rep. Edward Markey, a Massachusetts Democrat who is chairman of the new select committee on energy independence and global warming. “I don’t think there will be any return to the old days.”

Mr. Carter says he had a key advantage over Mr. Obama—a national sense that something had to be done: “The energy crisis that I inherited was in many ways much more serious than it is now.”

When he took office in 1977, Americans were still traumatized from the gas lines and soaring prices of the 1973-74 Arab oil embargo, in which Saudi Arabia and other countries stopped selling crude oil to the U.S. in retaliation for U.S. support for Israel.

Then, Americans were hit with the second energy trauma of the decade, the 1979 Iranian revolution and ensuing regional violence, which sent oil prices to new highs.

Perhaps no other president staked more of his credibility on trying to wean the U.S. off foreign oil.

Just two weeks into his presidency, Mr. Carter gave his famous “fireside chat” on energy. Clad in a yellow cardigan that now hangs in his presidential museum, he called on Americans to save energy by lowering their thermostats to 65 degrees during the day. Two months later, he called the energy crisis “the moral equivalent of war.”

Later, in his most politically costly address dubbed by critics the “malaise speech,” Mr. Carter announced a massive program to boost solar power and make synthetic fuel from coal. He vowed the U.S. would never again import more oil than it did in 1977.

But in that 1979 speech, he also described a nation gripped by a “crisis of the American spirit.” Mr. Carter’s foes seized on the gloomy language and said the president was blaming Americans for his own travails.

Mr. Carter concedes that his battles over energy policy cost him political support. “It sapped away a substantial portion of my domestic influence to harp on this unpleasant subject for four solid years,” he says.

And yet, energy activists say that the Carter administration laid the groundwork for many of today’s efforts to slash consumption and to develop renewable fuels, from biodiesel to wind and solar.

Mr. Carter created the Energy Department, pushed through the first efficiency standards for appliances, and installed 32 solar-energy panels on the White House roof—predicting at the time that they would either blaze the way toward a new energy future, or become “a museum piece.” As part of roof repairs, President Reagan later removed the solar panels, two of which are indeed ensconced in the Carter museum.

The Carter administration poured $8.4 billion into energy research and development in 1979, twice as much, in inflation-adjusted dollars, as the $4.2 billion spent in 2007. The decades since the seventies weren’t kind to these efforts.

“We call the 1980s and 1990s the Valley of Death,” says Randy Swisher, president of the Washington-based American Wind Energy Association. “Investments weren’t made, technologies evolved slowly, and the government offered very little support.”

Economy, oil prices cloud agenda for Obama energy team

By Neil King Jr.
And Stephen Power

WASHINGTON—U.S. President-elect Barack Obama and his energy team could face the most inauspicious climate in years for pushing ahead with their plans to remake U.S. energy strategy.

Mr. Obama plans soon to introduce his new energy and environment team, which will include Nobel Prize-winning physicist Steven Chu as energy secretary and former Environmental Protection Agency administrator Carol Browner as White House energy adviser.

The team’s makeup shows that Mr. Obama plans to put a heavy emphasis on combating climate change and promoting technologies to wean the U.S. off imported oil.

But the next administration will face a range of obstacles on the energy front, from plummeting oil prices and a declining economy to potential rifts even among his own advisers.

No U.S. president has made significant headway altering America’s energy habits during a period of falling oil prices. After hitting an all-time peak this summer, U.S. gasoline prices have sunk to their lowest level in years. Experts predict prices will remain weak until the world economy begins to revive.

Falling prices and scarce credit already are putting the lid on hundreds of alternative-energy projects across the country, from wind farms to biofuel refineries.

“There’s no way we can create a better future without the price of energy going up,” said Jay Hakes, who headed the Energy Information Administration under President Bill Clinton. “But it’s tough for a politician to get up and say, ‘Your prices are going to have to go up.’ ”

Mr. Obama has dismissed the idea of boosting the federal gasoline tax, a move energy experts say could be the single most effective step to promote alternative energies and temper demand. Mr. Obama said Sunday that a heightened gas tax would be a “mistake” because it would put “additional burdens on American families right now.”

Few members of Congress support increasing the federal gasoline tax, and the last effort to impose a new energy tax—under Mr. Clinton in 1993—fell apart in Congress.

But one person who supports a revived effort is Mr. Chu, Mr. Obama’s expected nominee as energy secretary. In an interview with The Wall Street Journal in September, Mr. Chu, who directs the Lawrence Berkeley National Laboratory in California, said he favored gradually ramping up gasoline taxes over 15 years to coax consumers into buying more-efficient cars and living in neighborhoods closer to work.

The federal government also should impose higher efficiency standards for buildings and electronics, Mr. Chu said, adding that a big misconception is that “if you went to an energy-efficient economy, you will kill the economy. That is just demonstrably not true.”

Ms. Browner, meanwhile, has been a critic of proposals to loosen restrictions on oil and natural gas drilling in the outer continental shelf, arguing that such moves would do little to reduce U.S. dependence on foreign oil and risk damaging U.S. coastlines. Her views on that issue put her sharply to the left of Mr. Obama’s nominee for national-security adviser, retired Marine Corps Gen. James Jones, who supports expanded offshore drilling.

Ms. Browner’s background and public comments also indicate she will push energy policy in ways that stir opposition from auto makers, coal-fired utilities and other industries. She has called publicly for letting the EPA reconsider whether greenhouse gases “endanger” health or welfare—the legal trigger for regulating them under the Clean Air Act—and for completing rules that would attempt to measure the greenhouse-gas emissions of renewable fuels like corn ethanol. Both of those undertakings have engendered fierce opposition from major businesses.

The next administration also will have to wrestle with the government’s unwieldy energy bureaucracy, which critics say has stymied effective policies. Mr. Chu is poised to take over an agency that, despite its name, has little power to set energy strategy, and whose budget for research and development has become increasingly balkanized. The agency’s budget for research in renewable, fossil and nuclear energy has fallen sharply over the years—from a peak of about $6 billion during the Carter administration to $1.4 billion in 2008—and much of its funding is tied up in projects earmarked by members of Congress for their home states, according to a report published in September by Securing America’s Future Energy, a Washington-based nonprofit.

“Contrary to what everyone thinks, there’s very little the Department of Energy can do to affect the types of fuel the country uses or the amounts they use,” said Paul Portney, former president of Resources for the Future, a Washington think tank.

—Ian Talley contributed to this article.

Volcker on 'car czar' list

White House, Obama to coordinate on pick to oversee Big Three

By John D. McKinnon

WASHINGTON—White House officials will coordinate closely with the incoming Obama administration in choosing a new "car czar" to oversee the restructuring of the Big Three U.S. auto makers, if Congress passes a bailout plan.

The U.S. House of Representatives on Wednesday approved a rescue of the nation's Big Three auto makers, sending the plan to the Senate. But resistance from Republicans threatened the initiative.

Meanwhile, pressure grew in Congress for former Federal Reserve Chairman Paul Volcker to take the job. The president would appoint the czar under proposed legislation circulated by Democratic leaders Wednesday.

People close to the White House said discussions with the Obama camp on the post already are well under way, in perhaps the clearest sign of how the next administration is becoming involved with the daily management of government.

Given that President-elect Barack Obama will take office on Jan. 20, "we want to make sure that however we proceed, it's consistent with the president-elect's view on how that can be most effective," Joel Kaplan, the White House deputy chief of staff, told reporters. "It will be under their administration that this decision will ultimately get made."

Members of Congress have been increasingly looking to Mr. Volcker since House Speaker Nancy Pelosi floated his name recently. A spokesman for Speaker Pelosi said Mr. Volcker is someone "acceptable to both sides."

One person close to Mr. Volcker said that with enough persuasion Mr. Volcker would "probably do it," though so far he hasn't been contacted and would prefer not to take on such a role.


Paul Volcker

Mr. Volcker, 81 years old, has emerged as an important economic adviser to the president-elect and is already set to become an administration adviser.

The White House's Mr. Kaplan spoke favorably of Mr. Volcker when asked about his potential candidacy. "Obviously, Paul Volcker is a person of tremendous stature and gravitas," he said. "But I have no reason to believe that there's been any decisions about who the person would be."

Close coordination between the White House and the Obama transition team on the car-czar job likely will help strengthen the official's hand in restructuring the industry. Some observers had previously expected that a Bush-appointed czar would write the rules for restructuring, while an Obama appointee would implement them just weeks later—a scenario with the potential to create confusion.

The coordination between the Bush and Obama camps also appeared to encourage the White House to seek to strengthen criteria that the car companies would have to meet to qualify for federal help.

In many respects, the czar would function as a bankruptcy judge, hammering out a deal that spreads the pain of restructuring among the companies' managers, unions, retirees, suppliers, creditors and others. Under the proposed legislation, the czar would be able to use the threat of actual bankruptcy as one of several weapons to force the parties into reaching a deal.

The car czar would be required to submit to Congress his or her own plan for restructuring, which could include a formal trip to bankruptcy court, according to the proposed legislation.

The Big Three didn't voice any immediate opposition to a Volcker pick. A person familiar with the matter at **General Motors** Corp. said Mr. Volcker's name didn't raise any significant protest at GM.

Several industry experts said the car czar should have industry experience, given how quickly the Big Three must move to demonstrate their viability. Measures to evaluate the progress of the auto makers will be set by the car czar by Jan. 1, according to the proposed bill. The companies' progress would be evaluated after 45 days, and then they would be required to submit their own progress reports no later than March 31 to the car czar.

The need for experience could strengthen the chances of Mr. Volcker, who as Fed chairman was a principal government participant in the Chrysler Corp. bailout of the 1970s.

—Matthew Dolan contributed to this article.

Joy gives way to shame in Chicago

By Janet Adamy And Timothy W. Martin

CHICAGO—The pride that has been surging through this city since Barack Obama's presidential victory last month is showing signs of deflating now that political corruption has returned to center stage in Illinois.

To many residents, the arrest of Gov. Rod Blagojevich for, among other things, allegedly trying to sell the president-elect's vacated Senate seat marked an end to the political glow the city has been basking in.

"It was as if Chicago politics had turned a corner and this was a new day," said Sean Kennedy, former president of a student Democrat organization at Loyola University here. "All of a sudden, we get pulled back into reality, and realize nothing in Chicago has changed that much."

The popular comedy theater Second City is scrambling to rewrite a script anchored around celebratory Obama themes to include "darker material" about Gov. Blagojevich's arrest, said Second City Vice President Kelly Leonard. One of the city's street musicians, who typically chants about Chicago's sports teams, was instead shouting out his dislike for the governor as he performed on a bridge Tuesday.

Some residents are worried that the whiff of corruption coming from the state capital in Springfield could interfere with the city's bid for the 2016 Olympic Games, and slow the flow of accolades heaped on Chicago since joyous scenes from Grant Park on election night appeared on television screens around the world. A spokesman for Chicago's bid committee said the committee doesn't think the allegations will hurt.


Associated Press

The arrest of Illinois Gov. Rod Blagojevich has tarnished what had been Chicago's political glow after last month's election victory by Barack Obama.

"I think there was a sense that Chicago was in the process of becoming another kind of place," said Russell Lewis, chief historian for the Chicago History Museum. Now, "people feel embarrassed."

"You'd be hard pressed to find a state that has experienced the political highs and lows that Illinois has over the last four weeks," said State Rep. John Fritchey.

At Manny's Coffee Shop & Deli, where Mr. Obama recently visited and Gov. Blagojevich signed a minimum-wage bill in 2003, the recent buzz was replaced by sadness, said owner Ken Raskin. "It was just people shaking their head," he said.

"I thought a politician was supposed to be a respectful person," said Greg Martino, a 24-year-old construction worker while eating lunch at the Billy Goat Tavern just below Michigan Avenue. "But when his quotes are blankety-blank—that's how I talk."

Some residents say Chicago shouldn't be tarred by the mess because the state capital is 300 kilometers away in Springfield, even if Gov. Blagojevich spends a lot of time working from Chicago.

The world stage may not make the same distinction. A headline in the Times of London Wednesday proclaimed: "Graft rules 'kickback city.' "

—David Kesmodel and Scott Kilman contributed to this article.

CAPITAL JOURNAL ▪ Gerald F. Seib

Illinois scandal isn't the one that hits Obama closest to home

IT CERTAINLY didn't take long for scandal to rear its ugly head in the new era of Democratic control. Illinois Gov. Rod Blagojevich saw to that, and in spectacular fashion.

But while most attention is fixed on the Blagojevich scandal—coming as it does in President-elect Barack Obama's home state and replete as it is with enough tape-recorded talk of peddling a Senate seat, shaking down contributors and blackmailing journalists to make even FBI agents blush—it may not be the most troublesome one for the new president.

His more vexing problem could turn out to be that other, quieter scandal dogging Democrats. That's the one involving Rep. Charles Rangel, head of the House Ways and Means Committee.

Rep. Rangel is being investigated by the House Ethics Committee for failing to pay taxes on $75,000 in income on a vacation home in the Dominican Republic, for controlling multiple rent-controlled apartments in a New York apartment building, for using congressional stationery to raise money for a center named in his honor and, most recently and seriously, for helping a donor to his center win a tax loophole in return for a contribution.


Charles Rangel

Rep. Rangel has repeatedly and vociferously denied any wrongdoing, and he actually sought the Ethics Committee inquiry initially to clear his name.

Without doubt, the Blagojevich scandal is more audacious, and, because it involves the filling of Mr. Obama's own Senate seat, might seem more potentially damaging to the new president. More broadly, it's possibly a sign that Illinois could become to President Obama what Arkansas was to President Bill Clinton: a source of continuing political headaches back home.

YET IN MANY ways, the very fact that Gov. Blagojevich's behavior seems so over the top makes it easier for Mr. Obama to deal with it. He can simply ask, as he has, that the governor quit and go away. It helps the Obama cause enormously, of course, that Gov. Blagojevich is on tape cursing the president-elect's team for failing to go along with his pay-to-play scheme for filling the Senate seat, and that U.S. Attorney Patrick Fitzgerald virtually cleared the Obama team in his public remarks on the case.

More than that, whatever ties Gov. Blagojevich and his cohorts may have had to Mr. Obama in the past, they will have little to do with his future in Washington.

Not so Rep. Rangel. For Mr. Obama, the Blagojevich investigation and prosecution soon will be something going on back home. The Rangel drama will play out right in the president-elect's new front yard. And while Gov. Blagojevich has little to say about the fate of the Obama legislative agenda, Rep. Rangel has a lot to say about that as long as he runs the Ways and Means Committee, wellspring of both tax and health legislation.

"A huge amount of the high-priority agenda of the Obama administration will work its way through the Ways and Means Committee," says Thomas Mann, a congressional scholar at the Brookings Institution. "Not having a strong chairman is clearly a liability."

House Speaker Nancy Pelosi had hoped the Rangel inquiry could play out quickly, by Jan. 3. And the Ethics Committee seemed on course to do exactly that, until the latest allegations surfaced. Those regard the tax loophole worked out for a donor to the Charles B. Rangel Center for Public Service at the City College of New York.

When that issue arose in a report in the New York Times in recent days, the Democratic hope of an Ethics Committee resolution by the first week of the new year went up in smoke. Democratic aides now say the inquiry could last through January. At its conclusion, the Ethics Committee will report back to the full House on what it has found and make its recommendation, which could range from suggesting no action, to a censure of the congressman, to a call for expulsion.

MEANTIME, DEMOCRATS in the House sense that Republican blood lust is running high on the Rangel front. After enduring years of their own congressional scandal embarrassments, Republicans are delighted to see the shoe on the other foot.

In fact, Republicans seem to be trying to clear away their own scandal detritus as they prepare for this new era. Alaska Rep. Don Young, under investigation in a corruption probe in his home state, has been pushed out as the senior Republican on the Natural Resources Committee. Democrats note, though, that Republicans haven't taken a similar step with Rep. Jerry Lewis of California, the senior Republican on the House Appropriations Committee, who is under investigation for ties to a lobbyist whose clients have benefited from government contracts.

The betting among House Democrats is that Rep. Rangel will survive. Mr. Mann of Brookings agrees: Unless the Ethics Committee report is scathing, "since Rangel is widely liked and respected, he'd probably survive and carry on."

In any case, Mr. Mann notes, House leaders, including Speaker Pelosi, will have a big say in pushing the Obama legislative agenda regardless of who runs which committee. Still, Rep. Rangel figures to have a lot more to do with Mr. Obama's new life in Washington than will Gov. Blagojevich.

Belgians arrest fourteen

Police say they feared an imminent attack; radical Islamist ties

By John W. Miller

BRUSSELS—Belgian police, fearing an imminent terrorist attack, arrested 14 Islamist militants, some with links to radicals in Pakistan and Afghanistan, prosecutors alleged. One detainee is suspected of plotting a suicide attack.

The arrests, following months of surveillance, came hours before the start of a two-day European Union summit of the 27 leaders. They highlighted Europe's continued attractiveness as a shelter for radical Islamists, with authorities saying the group's behavior resembled that of others detained or being monitored in Europe.

Belgian police said the approach of the summit "left the investigating judges and the [Belgian] federal prosecutors no choice but to intervene today." Having learned a suicide attack was planned, but without knowing where, they said it "could have been an operation in Pakistan or Afghanistan, but it can't be ruled out that Belgium or Europe were the possible target." The alleged would-be suicide bomber, who wasn't named, had recorded a confessional goodbye video and told family members to leave Europe, police said.

The operation's 250 police officers found no bombs or guns during raids on 16 sites in Brussels and one in Liège, a city near the German border. A senior Belgian police official said that the absence of weapons suggested an attack on the summit was unlikely. But he said that Belgium wanted to make a strong gesture that it was tough on terrorism, noting that the timing of the arrests was "political, even if the threat was real."

Among those detained were Malika el Aroud, widow of one of the men believed to have assassinated Afghan Northern Alliance commander Ahmad Shah Massoud days before the Sept. 11, 2001, attacks on the U.S., and her current husband, Moez Garsallaoui. Police called him the ringleader of the suspected plot. Ms. Aroud, a Belgian of Moroccan origin, is a prominent blogger who supports radical Islam. She writes in French under the screen name "Oum Obeyda."

Three of the detainees allegedly trained and fought recently with Islamic militants in the tribal areas on the border of Afghanistan and Pakistan, according to a person familiar with the investigation. "We can't label who they were with," said the person. "We can say they were radicals and they were dangerous."

The other 11 detained Thursday were involved in booking plane trips, renting cars and making other arrangements, authorities said.

They said those arrested included some who were among a group briefly detained a year ago over an alleged plot to rescue alleged terrorist Nizar Trabelsi from prison. Mr. Trabelsi, a Tunisian who moved to Europe in 1989 to play professional football, was arrested two days after the Sept. 11 attacks and found guilty of planning a car-bomb attack on a U.S. military base in Belgium. He confessed to meeting Osama bin Laden in Afghanistan and volunteering as a suicide bomber, authorities said.

Prosecutors lacked the evidence to gain a conviction against the group and dropped the charges against them.

Belgium's separate Wallonian and Flemish administrative regimes and language groups and its lax immigration laws make the country difficult to police, and it has acquired a reputation among diplomats and terrorism experts as a haven for radicals. Belgian law makes it easy for foreigners to gain asylum and even to earn a monthly stipend.

An unusually high number of terror suspects have held Belgian passports. Two days before Sept. 11, Ms. Aroud's former husband and another man, posing as reporters for "Arab News International" blew themselves up in a suicide attack that killed Mr. Massoud—a fierce opponent of the Talibam regime in Kabul. They had traveled to Afghanistan on stolen Belgian passports.

Alleged "shoe-bomber" Richard Reid once bought a fake passport near the Brussels south station. Mr. Reid was convicted of trying to blow up a U.S.-bound airliner in 2001 with explosives hidden inside his shoe. In 2005, Muriel Degauque, a white convert to Islam from the Belgian city of Charleroi, blew herself up in Iraq in a plot orchestrated in Brussels.

However, Belgian police have cracked down in recent years, infiltrating groups and making numerous arrests, say analysts.

Nonetheless, the latest arrests highlight Europe's continuing struggle with Islamist extremism. "The threat to Europe is real every day," said Claude Moniquet, director of Brussels-based European Strategic Intelligence and Security Centre. More than 1,000 people with links to Islamist terrorism have been arrested in Europe since 2001, according to ESISC data. On Tuesday, Lebanese national Youssef Muhammad el-Hajdib was sentenced in Germany to life in prison for carrying two suitcase bombs aboard a train in Cologne, Germany, in 2006.

U.S., U.A.E. near nuclear accord

By Jay Solomon

WASHINGTON—The Bush administration plans to sign a nuclear-cooperation agreement with the United Arab Emirates within the next few weeks, according to a senior U.S. official, angering congressional critics who say the deal could fuel proliferation across the Middle East.

The move could place President-elect Barack Obama in a political tight spot with a key Middle East ally by forcing him to decide whether to push Congress to ratify the agreement. The president-elect has yet to take a formal position on the U.A.E. deal.

The Bush administration has championed the nuclear agreement with the U.A.E. as a model for promoting peaceful nuclear energy while guarding against weapons proliferation.

Rep. Ileana Ros-Lehtinen of Florida, the ranking Republican in the House Foreign Affairs Committee, introduced legislation this week that would make Congress's approval conditional on the next president certifying that the U.A.E. has taken extensive measures to cut off the flow of financing and sensitive technologies into Iran.

Iran is the U.A.E.'s largest trading partner, and Tehran has hundreds of billions of dollars of investments in Dubai, the Emirates' financial capital.

Rep. Brad Sherman of California, the Democratic chairman of a House committee on nonproliferation, said in a statement that the agreement "should not be submitted to Congress until, at a minimum, the U.A.E. has addressed the critical issues of transshipments and diversion of sensitive technologies to Iran."

The UAE says its nuclear-power program will have extensive safeguards to protect against nuclear materials being diverted. It has pledged to purchase nuclear fuel for its reactors on the open market, rather than developing the fuel domestically. It says it would store nuclear waste externally. Also, the U.A.E. has agreed to allow monitoring and snap inspections by the United Nations' International Atomic Energy Agency.

In recent months, the U.A.E. signed agreements with two American engineering companies—**Thorium Power** Ltd. of Virginia and **CH2M Hill** of Colorado—to oversee the development of its nuclear-power program. The U.A.E. has also hired a 30-year veteran of the U.S. Nuclear Regulatory Commission, William Travers, to help run the U.A.E.'s nuclear regulatory body.

The U.S. believes the U.A.E. deal could isolate Iran, which has clashed with U.N. inspectors and is attempting to create an indigenous nuclear-fuel program. U.S. and European officials believe Iran is intent on diverting nuclear fuel for military purposes, something Tehran denies.

"This is a real counterexample to what Iran is doing," said the senior U.S. official on Thursday about the U.A.E. deal. "We're seeking commitments from nations within the Middle East that they're going to rely on the markets for nuclear fuel."

The Bush administration is developing nuclear-cooperation agreements with the governments of Saudi Arabia, Jordan and Bahrain. These pacts require Washington to share nuclear fuel, technologies and know-how on the condition that the countries commit to abiding by the Nuclear Nonproliferation Treaty and IAEA safeguards.

The U.A.E. sits on some of the world's largest energy reserves, but its leaders say the country's natural-gas resources are inadequate to match skyrocketing energy demand. The U.A.E. says it needs to generate 40,000 megawatts of electricity by 2020, but has the gas for only 20,000-25,000 megawatts of power generation by that time.

"We have determined that nuclear energy is an option the U.A.E. cannot afford to ignore," said Hamad Ali Al Ka'abi, the head of the U.A.E.'s nuclear program, in an interview earlier this year.

—Margaret Coker in Abu Dhabi contributed to this article.

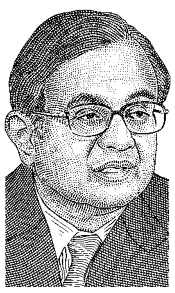
Pakistan arrests leaders of Lashkar parent group

Pakistan took sweeping action on Thursday against the Islamic charity linked to the militant group blamed for the Mumbai attacks, arresting the charity organization's leaders and closing its offices a day after the United Nations declared it a terror front.

Hours before Islamabad began moving against Jamaat-ud-Dawa, India's leaders stepped up their calls for action against the group, and Prime Minister Manmohan Singh described Pakistan as "the epicenter of terrorism."

*By **Matthew Rosenberg** and **Zahid Hussain** in Islamabad, Pakistan, and **Jackie Range** in New Delhi*

Apologizing to the people of India for not preventing the three-day siege of Mumbai, which left 171 people dead, Mr. Singh told Parliament that "India has exercised restraint so far, but we cannot be satisfied with mere assurances on [an] end to terror emanating from Pakistan."



Palaniappan Chidambaram

Under pressure from the U.S. and India, Pakistan began its crackdown Sunday, arresting at least 20 people in raids on camps run by Lashkar-e-Taiba, the group blamed by New Delhi and Washington for the attacks. But Thursday's effort to shut down Jamaat, widely considered to be Lashkar's parent organization, represented a marked escalation of the campaign. Pakistani officials said they feared the crackdown could provoke both a political backlash and violent protests.

"The risk, I tell you what it is: street power. Because the religious parties and the extremists are joining hands, we are already seeing that," said Interior Minister Rehman Malik in an interview on Thursday. "The risk is violence too."

Jamaat has a broad base of support in Punjab, Pakistan's most populous province, and it provides schooling and other social services in hundreds of destitute villages throughout the country. Its leader, Hafiz Mohammed Saeed, is a national figure; hundreds of thousands turn out to hear his speeches urging Muslims to take up jihad against India, the U.S. and other Western powers.

But Mr. Malik said his government would abide by Wednesday's U.N. Security Council decision to place financial sanctions on Jamaat and four members of Lashkar, including Mr. Saeed, one of its founders.

Mr. Malik and other officials said they, too, wanted to dismantle Lashkar—and by extension Jamaat. They link Lashkar to al Qaeda and the Taliban, which are fighting Pakistani forces along the country's western border with Afghanistan and have been blamed for deadly suicide bombings in Pakistan's major cities.

"We are with the international community, we are with India because India has suffered like we have suffered, we have a common enemy," Mr. Malik said.

Pakistani authorities moved in on Jamaat as dusk fell on Thursday, shutting down its offices in major cities and arresting at least four of its members, including Mr. Saeed, in Lahore, officials said. Pakistan's central bank ordered the group's assets frozen, the Associated Press reported. It was unclear what, if any, action had been taken against Jamaat's sprawling campus south of Lahore, where the group runs an Islamic university.

Earlier Thursday, Mr. Saeed denied that the charity had any links to terrorism. "If India or the U.S. has any proof against Jamaat-ud-Dawa, we are ready to stand in any court. We do not beg, we demand justice," he told reporters in Lahore.

The crackdown on Jamaat could also represent a step in the efforts of Pakistan's 11-month-old civilian government to gain control over the country's powerful military and intelligence establishment, which experts say was once Lashkar's main patron.

Lashkar rose to prominence in the 1990s, fighting Indian forces in divided Kashmir, the predominately Muslim Himalayan region at the center of India and Pakistan's rivalry. It has since begun targeting India's major cities.

It was banned in 2002 at Washington's behest, and Mr. Saeed was placed under house arrest. But Jamaat was founded shortly afterward, Mr. Saeed spent only a few months in detention, and Lashkar has continued to operate openly in some places, especially in Pakistan's part of Kashmir.

New Delhi is well aware of the history, and Indian officials have said in recent days that they will need proof it won't be repeated.

Still, Indian Foreign Minister Pranab Mukherjee told Parliament on Thursday that "attacking Pakistan [is] not a solution." Instead, India is working to build international pressure on Pakistan.

In addition to anger at Pakistan, the Mumbai attacks have created public pressure on Indian leaders to improve security. The country's new home minister, Palaniappan Chidambaram, told lawmakers that several bills would be introduced to strengthen legal provisions relating to the "prevention, investigation, prosecution and punishment of terrorist acts," including setting up a national investigation agency.

He also said India would create a coastal command to supervise maritime security. The nation has 7,500 kilometers of coastline; the Mumbai attackers came by sea.

India's intelligence gathering needs to become more effective, the home minister said. Commando units from India's armed forces are being stationed around the country, and counterinsurgency schools will be set up across India to train state police commando units, he said.

Much depends on the government's ability to follow through. "This needs to be quantified and needs to be implemented, only then are we going to see anything worthwhile," said Ajay Sahni of the South Asia Terrorism Portal, a New Delhi-based research group.

Also on Thursday, India's Commerce and Industry Minister Kamal Nath said the government will unveil next week more fiscal steps to stimulate the economy. On Sunday, the government said it will increase spending for the current fiscal year ending in March by $4.1 billion, bringing expenditures to a total of $60 billion for the four months ending in March.

—Vibhuti Agarwal in New Delhi contributed to this article.