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Siemens to pay huge fine in global bribery probe

More than $1 billion was allegedly spent paying off officials

BY MIKE ESTERL AND DAVID CRAWFORD

FRANKFURT—German engineering company **Siemens** AG and U.S. authorities are expected to settle a longstanding bribes-for-business investigation Monday with a record $800 million fine—almost 20 times higher than the largest previous penalty under the U.S. Foreign Corrupt Practices Act.

Documents filed with a U.S. court Friday by the U.S. Justice Department and the Securities and Exchange Commission allege widespread corruption reaching the top echelons of Siemens management. The conglomerate allegedly spent more than $1 billion bribing government officials around the globe—including former Argentine President Carlos Menem—to win infrastructure contracts in recent years.

The detailed claims of wrongdoing could trigger more fines and arrests in other parts of the world for Munich-based Siemens, people familiar with the matter said. Siemens, which makes everything from wind turbines to high-speed trains, is being investigated for corruption in at least 10 other countries. German authorities could announce a separate fine of several hundred million dollars as early as Monday in a parallel probe, said people familiar with the matter.

At the same time, the U.S. court documents state that Europe's largest engineering company by revenue took aggressive steps to ferret out corruption after the bribery scandal erupted in late 2006. The recent steps, which the Justice Department described as "extraordinary" in a court filing, factored into

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A $1.4 billion catalog

Alleged bribes paid to foreign officials by Siemens's employees between March 12, 2001 and Sept. 30, 2007, by business group

	Amount, in millions of dollars	No. of bribes
Communications	$813.90	2,505
Power Generation	208.7	353
Power Transmission	148.2	356
Medical Solutions	92.6	705
Transportation Systems	70	154
Other	44.8	121
Industrial Solutions	22.5	89

Source: U.S. Securities and Exchange Commission. Photo: Reuters.

What's News—

Business & Finance

Siemens and U.S. authorities are expected to settle a bribes-for-business investigation Monday with a record $800 million fine. Documents filed with a U.S. court Friday by the U.S. Justice Department and the SEC allege corruption reaching the top of the German engineering conglomerate. Page 1

■ **OPEC ministers meeting** in Algeria this week could cut as much as two million barrels a day from oil production. Page 1

■ **The European Central bank** is considering tools to get funds flowing through frozen euro-zone money markets. Page 2

■ **Merkel met** with German business and labor leaders to discuss the recession, in another step toward expanding the country's stimulus plan. Page 3

■ **HCL is expected** to conclude Monday its takeover of U.K.-based Axon. CEO Nayar is under pressure to make the deal work amid the global slowdown. Page 4

■ **Alcatel's chief outlined** a plan for the telecom-gear maker to post its first profit since the firm was created in a merger two years ago. Page 5

■ **A Russian official confirmed** the economy is entering a period of recession. Page 3

■ **The White House reversed** a previous stance, saying it would consider using the $700 billion financial-rescue plan to avert a bankruptcy of the Big Three auto makers. Page 6

■ **Novartis says** an experimental pill for the treatment of multiple sclerosis was shown to work better than an established injectable treatment. Page 4

■ **New potential victims** emerged of Madoff's alleged fraud, including international banks, hedge funds and wealthy investors. Pages 1, 16, 17, 19, 20

■ **The Fed is expected** to cut rates again, but investors are more interested in the timing and scope of other efforts to aid economic growth. Page 20

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8629.68	+64.59	+0.75
Nasdaq	1540.72	+32.84	+2.18
DJ Stoxx 600	198.22	-5.57	-2.73
FTSE 100	4280.35	-108.34	-2.47
DAX	4663.37	-103.83	-2.18
CAC 40	3213.60	-92.53	-2.80
Euro	$1.3363	+0.0134	+1.01
Nymex crude	$46.28	-1.70	-3.54

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World-Wide

Bush made a surprise trip to Baghdad to highlight a new security agreement intended to form the basis for a long-term U.S.-Iraq alliance. Meanwhile, a U.S. commander suggested that the timelines for American troop withdrawals from Iraq outlined by the pact could be less definitive than some officials had originally suggested. Page 12

■ **Russian police thwarted** an anti-Kremlin protest organized by Garry Kasparov's opposition group, detaining dozens, including the group's co-leader.

■ **Athens was calm** after eight days of riots sparked by the police killing of a teenager, but youths vowed to keep rallying until their concerns are addressed.

■ **EU leaders backed** a plan to cut the bloc's emissions by 20% in coming years, but gave substantial concessions to industry and coal-burning nations. Page 2

■ **Pakistan's Zardari sought** to defuse fresh trouble with India, after the two countries offered conflicting views on whether an Indian aircraft entered Pakistani airspace. Brown said the U.K. would help fight terror. Page 12

■ **Somalia's government** neared collapse as Islamic insurgents vowed never to negotiate with the administration, and the president fired the prime minister.

■ **Voters in Turkmenistan** cast ballots in the first parliamentary election since the death of autocrat Saparmurat Niyazov in 2006.

■ **Talks between** striking unions and Budapest Airport broke down, causing more delays and flight cancellations.

■ **Illinois Gov. Blagojevich** faced increasing pressure to resign amid assertions he is unfit for office, after his arrest on corruption charges. Page 10

■ **The WTO's Pascal Lamy** decided against calling trade ministers to Geneva this month to seek a breakthrough in the seven-year-old Doha round of talks.

■ **Gaza's militant Hamas rulers** marshaled some 300,000 supporters to an anniversary rally.

■ **Thaksin accused** Thailand's armed forces of again interfering in politics, ahead of a parliamentary vote expected to choose a new prime minister. Page 12

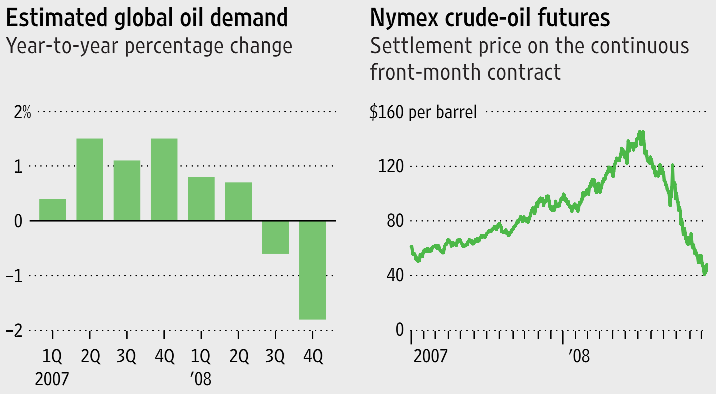
EDITORIAL & OPINION

Kiwi cutters

New Zealand shows the way to a real fiscal stimulus—by reducing tax rates. Page 13

Falling oil fundamentals

Oil prices have plunged 68% since July amid the deterioration in global economic activity and crude oil demand.



Sources: International Energy Agency; Thomson Reuters via WSJ Market Data Group

OPEC is in a desperate race against falling oil prices

BY NEIL KING JR. AND SPENCER SWARTZ

ORAN, Algeria—The world's big crude-oil exporters are caught in a downward race against falling demand as they scramble to keep prices from slipping still lower in the face of a weakening world economy.

At a pivotal summit in Algeria this week, ministers from the Organization of Petroleum Exporting Countries could move to cut as much as two million barrels a day from production, having already agreed to slice a similar amount since prices began to drop in late July. OPEC furnishes about 40% of the world's daily consumption of about 86 million barrels.

OPEC's moves to rein in production have been drowned out by a cascade of gloomy economic data from around the world. Oil stockpiles are building rapidly from China to the U.S. Gulf Coast as the global economic slowdown continues to eat

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A financial tsunami hits Palm Beach

BY PAULO PRADA

PALM BEACH, Fla.—John Sullivan was at a holiday pageant at a local school Thursday when a neighbor's cellphone interrupted the children's caroling.

Soon, three other people were on cellphones, too. "People were calling their accountants," says Mr. Sullivan, a regional-airline executive from Vermont who has a home in Palm Beach. The neighbor walked over and asked: "Did you invest with that guy?"

That guy was Bernard L. Madoff, the legendary Wall Street trader who allegedly told his two sons last week that his investment-advisory business was a Ponzi scheme.

While Mr. Madoff had clients from all over the world, the epicen-

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Ponzi tremors

LEADING THE NEWS

EU backs emissions cuts

Leaders support 20% reduction, grant concessions

By Charles Forelle and John W. Miller

BRUSSELS—European Union leaders on Friday backed landmark proposals to cut the bloc's greenhouse-gas emissions by 20% in coming years, but gave substantial concessions to industry and to coal-burning countries. The pact must be backed by the European Parliament assembly, which plans a vote Wednesday.

The tension over how much to pay to fight climate change reflects the strains the global downturn is putting on the EU's agenda, as Germany and the U.K. square off over the wisdom of running up debt to boost growth.

Leaders from the EU's 27 nations approved on Friday a coordinated call for fiscal-stimulus packages of around 1.5% of the bloc's gross domestic product, or about €200 billion ($267 billion).

Germany has proposed a stimulus package that would pump around €4 billion ($5.3 billion) into the economy over the next year. The U.K. plans about £20 billion ($30 billion) in stimulus by 2010, including short-term tax cuts. Friday's EU agreement won't force Germany to expand its stimulus package.

AFP

French President Nicolas Sarkozy, center, and other EU leaders reached agreement Friday on a deal to cut greenhouse-gas emissions by 20% in coming years.

The steel industry and other business lobbies welcomed Friday's climate-change deal, while it drew criticism from environmental groups. "Millions of poor people have been left in danger because EU leaders bowed to business-lobby pressure," said Elise Ford, head of the Brussels office of the Oxfam charity.

French President Nicolas Sarkozy hailed the agreement as historic. It would require the EU to cut emissions by at least 20% and raise use of renewable energy to 20% of the bloc's energy mix by 2020.

The European Commission had proposed that polluting power plants pay in auctions for permits to emit greenhouse gases. Under Friday's agreement, poorer EU countries that rely heavily on coal will be allowed to give a large number of permits to power plants for free.

In a concession to industry backed by Germany, polluters that might otherwise relocate their plants to avoid EU rules would get some free emissions permits.

—Joe Parkinson and Nicholas Winning contributed to this article.

ECB looks for ways to get money markets moving

By Joellen Perry

The European Central Bank is considering ways to get funds to flow through frozen euro-zone money markets.

One idea policy makers are examining is a clearinghouse to guarantee the short-term loans euro-zone banks make to one another.

How such a clearinghouse might work remains unclear, but a working group at Germany's central bank is studying whether the central bank itself or other authorities could guarantee such loans for terms of three months or less.

Another option: lowering the interest rate the ECB pays banks to deposit funds with it.

At present, the ECB pays 0.5 percentage point below its policy rate, or 2%. That is lower than the market rate for overnight loans in the interbank market, but banks still are parking huge sums at the ECB each night, willing to take the lower rate of return rather than lend to one another. Lowering the ECB's rate could make banks reconsider that calculus.

Other measures, such as purchasing government or corporate debt outright, also are possible. But they pose thorny problems in the euro zone, where the 15 countries work in 15 different ways.

Many French companies rely on commercial paper—essentially, corporate IOUs—for funding. But German firms depend more on bank loans.

So a program to purchase corporate debt would favor some euro-zone countries at the expense of some others.

The ECB could decide as early as this week what measures it will take. But it also may wait until early next year.

ECB policy makers, who cut the key rate by 0.75 percentage point last week to 2.5%, have been slower to cut rates than their U.S. counterparts.

One reason is that some ECB members fret that cuts won't feed through to the economy because banks remain wary of lending to one another.

That keeps the interest rates high on those loans, which are a benchmark for consumer and business loans across the bloc.

The ECB's main goal is to ensure that any measures taken to guarantee bank-to-bank loans don't vary by nation within the euro zone.

National programs could lure bank lending to countries with guarantees, throwing the euro-zone money market further out of whack.

CORRECTIONS & AMPLIFICATIONS

Dell's M109S and Optoma Technology's Pico PK-101 projectors, respectively, are rated at 50 and 11 lumens, a measure of the brightness of projectors. The Personal Technology column in some editions Thursday mistakenly reversed the lumens ratings for the two projectors.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

Germany looks at expanding stimulus plan

Merkel hosts summit but is still cautious on spending increase

By Marcus Walker

BERLIN—German Chancellor Angela Merkel took a step toward expanding a fiscal-stimulus program for Europe's biggest economy on Sunday, gathering leading figures from German business, finance, labor and politics to discuss the country's worsening recession.

No decisions were expected to result from the summit at the chancellery, but Ms. Merkel has said further fiscal measures could follow talks between the parties in her coalition government on Jan. 5.

Sunday's talks were the start of a concentrated effort at building "a consensus on how to proceed in the coming weeks," Ms. Merkel told German tabloid Bild am Sonntag.

Germany is also waiting until U.S. President-elect Barack Obama takes office and enacts his own stimulus program, according to a senior German official. A German program could then be presented as part of a coordinated international effort, the official said.

Germany is under international pressure to take bolder steps than it has so far to prop up its national economy—and that of its European Union trading partners. Germany is the biggest market for exporters from most countries in the 27-nation EU.

Portugal on Saturday outlined a €2.18 billion ($2.92 billion) stimulus package for 2009, representing about 1.25% of the country's economic output, its government said. EU leaders agreed last week to spend around €200 billion, or 1.5% of the bloc's gross domestic product, to bolster growth. But few governments have so far matched that goal with new spending or tax relief.

Although Germany announced a stimulus plan in November, critics including many economists and other EU policy makers say those measures don't involve enough new spending or tax relief to make much of a difference to growth.

Ms. Merkel, who has earned the nickname "Madam No" for her recent rejection of European calls for Germany to lead an EU-wide stimulus effort, has insisted she would wait to see how well the existing measures work before taking further steps.

But German officials now are drawing up a plan B, amid growing concerns that the recession could lead to widespread job losses next spring, unraveling years of efforts to cut German unemployment.

The chancellor told Bild am Sonntag that she and Germany's state governors would discuss later this week how to accelerate spending on public works such as infrastructure projects. Other ministers and lawmakers in her coalition have discussed ideas in recent weeks including cash handouts for consumers and tweaks to income-tax rules that would benefit lower and middle-income earners.

German banks' lending practices were also discussed at Sunday's meeting, following complaints from some businesses that banks are withholding credit despite the government's €480 billion bank-support plan, which includes €400 billion of guarantees and €80 billion of capital injections.

German officials including Ms. Merkel and Finance Minister Peer Steinbrück have defended their cautious fiscal stance by questioning whether deficit spending is effective in an international economy that has come unglued because of rampant consumption and borrowing in countries such as the U.S. and U.K.

But many economists say Germany is particularly well-positioned to enact a fiscal stimulus plan because it has relatively strong public finances and low consumer debt. The country has relied heavily on exports in the past decade while domestic demand has stagnated.

Because of slumping exports, the German economy has been contracting since the second quarter of this year. The central bank, the Bundesbank, expects output to contract 0.8% next year. Many other forecasters believe the contraction could be bigger still and that Germany faces the worst recession in its postwar history.

Russian economy is in recession, government says

By Lidia Kelly

MOSCOW—Russia is entering a period of recession, a senior government official said, confirming that the robust economic growth of the past few years has come to an abrupt end.

The comments, the government's most somber yet on the subject, came at the end of a particularly painful week for the country. Gross-domestic-product growth slowed to a three-year low in the third quarter, the country's massive oil wealth showed further hemorrhaging, and severe downward pressure on the ruble—which the Kremlin only months ago touted as a symbol of economic might—continued.

"Recession in Russia has already started, and I'm afraid it won't last just two quarters," Deputy Economy Minister Andrei Klepach said, according to Russian news agencies.

Prime Minister Vladimir Putin, who for months had boasted that Russia had enough financial buffers to remain resilient, has only recently begun preparing the nation for a prolonged and painful slowdown.

On Friday, Mr. Putin said GDP growth this year will be "about 6%," which is below earlier estimates of between 6.8% and 7% growth.

Third-quarter data showed the economy expanding at a still-robust rate of 6.2% due to strong growth from recent periods.

Many economists fear the economy already stagnated by year's end and that next year's 3% GDP growth forecast, frequently cited by international banks and organizations, is overly optimistic.

"The question is not so much how far growth could slow to next year, but whether the economy will grow at all," said Neil Shearing, an emerging Europe economist at Capital Economics in London.

CORPORATE NEWS

HCL banks on Axon purchase

Indian outsourcing company hopes to use acquisition to expand SAP consulting

By Niraj Sheth

NEW DELHI—In an industry reeling from the global economic slowdown, one Indian technology company is banking on a large—and possibly risky—acquisition to boost itself into the top echelon of outsourcers.

On Monday, **HCL Technologies** Ltd. is expected to officially conclude its $811 million takeover of U.K.-based **Axon Group** PLC. in the largest overseas investment an Indian outsourcing company has ever made.

The takeover is a defining moment for HCL and its chief executive, Vineet Nayar, who is under pressure to make the deal work.

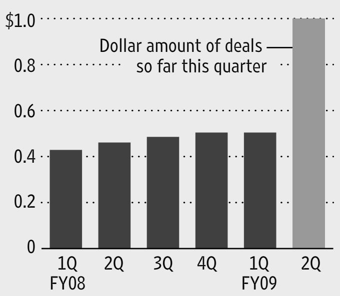
The timing of HCL's acquisition bid, announced in September, is inauspicious, some industry analysts suggest. As outsourcing customers in the U.S. and Europe cut budgets to survive a global slowdown, fewer tech outsourcing jobs are being sent to India, and the industry's once-skyrocketing expansion has come to a standstill.

Since the Axon deal was announced on Sept. 26, HCL's stock price has dropped 50% to close at 106.95 rupees ($2.21) on the Bombay Stock Exchange Friday.

"Making this acquisition work out financially in the next one to two years will be a big challenge," says Pankaj Kapoor, an analyst with ABN Amro. Even in better circumstances, other acquisitions by Indian tech companies "have not always been as successful as the initial benefit they thought they would have brought in," he adds.

HCL Technologies

Revenue in billions of dollars



Note: Fiscal years end June 30 of year shown
Source: the company

To offset such challenges, Mr. Nayar and HCL are pinning their hopes on Axon's consultancy expertise in SAP, a popular type of software that many large companies use to manage everything from supply chains to employee payrolls and accounts receivable.

The software is produced by German tech company **SAP** AG, but requires significant after-purchase work to implement and customize for each customer. A new, independent subsidiary called HCL Axon will be spun off after the takeover, HCL says. It will employ 4,500 consultants, mostly from Axon, who will advise companies on how to transition to SAP software.

The key to making the acquisition work will be holding on to Axon's consultants, who have deeper customer relationships in a wider range of industries than most Indian tech companies usually operate. Because few Indian outsourcing companies currently offer SAP consulting, HCL believes the potential market for SAP-related outsourcing to India is still large. Every year, SAP AG sells more than $10 billion in new software licenses to corporate customers, whom Mr. Nayar has targeted as potential clients for HCL's services.

The deal for Axon is the latest in a series of unorthodox moves by Mr. Nayar. Although HCL had been in talks to buy Axon for months, its larger Bangalore-based rival, **Infosys Technologies** Ltd., offered $753 million in cash for Axon a month before HCL went public with its bid in September.

While the Infosys bid initially appeared to threaten the deal for HCL, the move played right into the company's hands, Mr. Nayar says. Infosys' all-cash bid gave the deal the credibility HCL needed to get funding from banks that had been hesitant to support HCL amid the then-growing global credit crisis. "But the moment that [the Infosys bid] happened, we went to the market and got five [financiers] to compete" to lend HCL money, Mr. Nayar says.

When it made its $811 million offer for Axon, HCL said it would take out $735.5 million in loans to fund its bid and pay the rest in cash. The takeover is expected to be completed midday Monday in the U.K.

An Axon representative in the U.K. couldn't be reached for comment over the weekend.

Acquiring Axon is expected to change the face of HCL. Unlike larger outsourcing rivals such as **Tata Consultancy Services** Ltd. and **Wipro** Ltd., the Noida-based tech company doesn't have hordes of programmers writing customized software. That's why, Mr. Nayar says, the company looks for "blue oceans"—untapped markets where potential is high and the competition light.

Soon after the Axon deal is final, the company expects 30% of its revenue to come from SAP-related work. The impending deal has already brought in $1 billion in new contracts for SAP consulting this quarter, compared with $273 million in contracts HCL inked in the quarter ended Sept. 30, the company says.

HCL's interest in Axon goes back to early this year, when HCL hired a consulting firm that short-listed three SAP consultancies—Axon and two based in the U.S.—as its best acquisition targets. The company had been trying since 2005 to develop its own in-house experts in SAP, "but it can't be created," says Mr. Nayar. "It comes from experience."

At HCL, which he has headed since 2005, first as president and then CEO, Mr. Nayar has introduced a policy that makes managers accountable to employees. Performance evaluations for top managers are routinely posted on the company intranet, and employees can earn "miles" for quality work that they can redeem for rewards later. The management strategy, which the company calls "Employee First, Customer Second," is now the subject of a case study at Harvard Business School.

Elan investors push for changes in management

By Jeanne Whalen

Pressure is mounting on **Elan** Corp.'s chief executive and board as large shareholders voice dissatisfaction with the drug maker's performance.

In a letter to the board Thursday, one shareholder called for the ouster of Chief Executive Kelly Martin, saying he has botched the marketing of the company's most important drug—Tysabri for multiple sclerosis and Crohn's disease—and wasted money on private jets and an excessive number of company offices.

The shareholder, Jack Schuler, is a former president of **Abbott Laboratories** and owns about 1% of Elan. Other large shareholders, in interviews, also expressed frustration with Tysabri sales and said they want Elan to add seasoned pharmaceutical executives to its management and board.

Elan, based in Dublin, is known for Tysabri and an experimental Alzheimer's drug it is developing with **Wyeth**, though the company isn't profitable. The company's shares on the New York Stock Exchange fell by 70% over a few days in July to under $10 after disappointing news about the drugs, and have slumped to around $7 since.

In a reply to Mr. Schuler, Elan Chairman Kyran McLaughlin said, "We reject your assertions about our management team," according to a copy of the letter reviewed by The Wall Street Journal.

He wrote that the company is also "frustrated with our current stock price." But he called Tysabri a "success," noting that the drug is close to achieving annual global sales of $1 billion.

Mr. McLaughlin rejected the claim that Elan managers lack pharmaceutical marketing experience, and said that private-jet use accounts for "only 20% of total travel costs."

In a separate statement Friday, Elan said it would close two company offices, in New York and Tokyo, among other cost-cutting steps.

A spokeswoman said Messrs. Martin and McLaughlin were unavailable to comment Friday. Before joining Elan in 2003, Mr. Martin was an executive at Merrill Lynch & Co.

Mr. Schuler said Elan and its marketing partner, **Biogen Idec** Inc., have done a poor job selling Tysabri. Mr. Martin and other top managers lack a "basic understanding of the pharmaceutical business," Mr. Schuler wrote, according to a copy of the letter reviewed by the Journal.

A Biogen spokeswoman said the company is "incredibly committed" to Tysabri and aims to more than double the number of patients taking it to 100,000 by the end of 2010.

Another shareholder, Matt Strobeck, a partner at Westfield Capital Management Co., which owns about 4% of Elan, said Friday that there is a "frustrating" lack of pharmaceutical sales and marketing experience at Elan. He said he recommended to Elan in September to add two pharmaceutical veterans to its board.

Larry Feinberg, president of Oracle Investment Management Inc., which owns about 1% of Elan, said he has been telling Elan "for years" that it needs to improve its marketing effort.

L'Oréal to cut 500 jobs in U.S. by mid-2009

By Mimosa Spencer

PARIS—**L'Oréal** SA is cutting 500 positions in the U.S., or 4.7% of its work force in the country, between now and the middle of next year.

The French cosmetics giant said the job cuts won't affect its business in other markets. Earlier this year, the company announced restructuring plans for two plants in Europe.

Analysts said the U.S. job cuts weren't surprising given the slowdown in that market. "The company is adjusting to a new reality with sales from specialty stores and beauty-salon sales in decline," said ING analyst Marco Gulpers. Slowing travel has also weighed on perfume sales at duty-free shops, and weaker traffic in department stores has cut into cosmetic sales, Mr. Gulpers said.

L'Oréal in September said it would close its Sofamo site in Monaco in March 2011 and transfer activities to northern France. The plant produces Helena Rubinstein and Biotherm cosmetic products. Only a month later, it announced the sale of its Llantrisant site in Wales, which produces shampoo for the U.K. and Western Europe.

L'Oréal has lowered its full-year targets in recent months as the consumer slump hit Western Europe and North America. Rival consumer-products company **Procter & Gamble** Co. on Thursday reduced its second-quarter sales expectations.

Novartis touts study on MS pill

By Anita Greil

Novartis AG said Friday that one of its most important drugs in development, an experimental pill for the treatment of multiple sclerosis, was shown to work better than an established injectable treatment from rival **Biogen Idec** Inc.

The Switzerland-based company said it plans to submit the pill, code-named FTY720, for regulatory approval at the end of 2009, in line with earlier plans.

Patients with multiple sclerosis experience symptoms ranging from fatigue and blurred vision to poor muscle control with partial or complete paralysis. Affected people usually have periods of relatively good health, alternating with acute attacks of neurological dysfunction.

In early results from a study involving 1,292 patients, those taking Novartis's experimental pill experienced significantly fewer relapses than those treated with Biogen Idec's Avonex, an injectable drug.

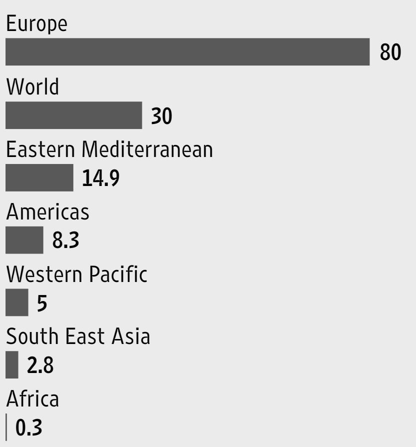
However, there were seven cases of skin cancer among patients that received the Novartis drug, compared with one in the group taking Avonex. That may complicate the path to gaining regulatory approval, analysts said.

"We reckon the U.S. Food and Drug Administration will want to discuss this at an advisory committee meeting," said Andrew Weiss, an analyst with Swiss private bank Vontobel in Zurich.

Promising trial

Novartis has completed a successful late-stage trial of a treatment for Multiple Sclerosis, which affects people across the world

Prevalence of MS per 100,000 population in WHO regions and the world



Source: World Health Organization

The study, the first late-stage trial that directly compared the oral pill against the current standard of care, met its main goal at both doses of FTY720 that were investigated, 0.5 milligrams and 1.25 milligrams.

"Importantly, the lower 0.5 mg dose appears to be more effective than the higher 1.25 mg dose, though these differences are not statistically significant," said Karl-Heinz Koch, a pharmaceutical analyst in Zurich with Swiss broker Helvea. The lower dose also appears to have fewer unwanted side effects, he said.

Patients who were given the lower dose experienced a 52% reduction in relapses compared to those who were taking Avonex, while those who were given the higher dose saw a 38% reduction in relapses.

Given that the low dose appears to be better than the high one, the Food and Drug Administration may want to know whether an even lower dose would be feasible, especially because it was also better tolerated, Michael Leuchten, an analyst at Deutsche Bank, wrote in a note to investors.

Judgment on the severity of side effects must await the outcome of longer-term studies, which are under way, to assess whether longer exposure to FTY720 may raise the likelihood of side effects, Mr. Leuchten added.

Novartis's drug could generate sales of around $480 million in 2012, Mr. Leuchten estimated. Biogen Idec's Avonex generated sales of close to $1.9 billion in 2007.

Novartis said it plans to publish full results of the study next year.

CORPORATE NEWS

Alcatel CEO sets strategy to turn a profit

New chief plans layoffs, R&D shift as market contracts

By Leila Abboud

Chief Executive Ben Verwaayen hopes to make **Alcatel-Lucent** profitable next year for the first time since it was created in a merger two years ago, despite the global recession depressing demand for its telecommunications gear.

Mr. Verwaayen on Friday released his "strategic plan" to turn around Alcatel-Lucent after three months on the job. He said he would trim €1 billion, or about $1.34 billion, from operating costs in each of 2009 and 2010, in part by laying off 1,000 managers and 5,000 contractors.

He also announced an overhaul of Alcatel-Lucent's research-and-development program that will shift spending from mature technologies into newer ones and will rely more on outside partnerships.

The announcement came as the economic slowdown is causing big telecommunications operators to pare spending on networks. Companies like **Sprint Nextel** Corp. and **Vodafone Group** PLC often delay or cancel spending on equipment during slowdowns because their customers are less likely to sign up for costly new services.

Mr. Verwaayen predicted that the global market for telecom gear would contract by 8% to 12% next year. That is a gloomier picture than competitor Nokia-Siemens Networks gave last week, when it forecast a 5% decrease.

The Alcatel-Lucent forecast sent its shares down 12% to €1.64 a share in Paris, compared with a 2.8% drop for the benchmark CAC-40 index. The equipment maker's European rivals also fell Friday, with **Telefon L.M. AB Ericsson** shares down 5.5%.

Mr. Verwaayen will also have to repair the damage since Paris-based Alcatel SA bought Lucent Technologies Corp., of Murray Hill, N.J., in 2006. Few promises of the merger—economies of scale, a stronger position to negotiate prices with customers and more R&D firepower—have panned out.

Agence France-Presse

CEO Ben Verwaayen plans to cut operating costs about $1.34 billion in each of 2009 and 2010 in an effort to post the company's first profit since its 2006 merger.

Instead, Alcatel-Lucent has racked up more than €4 billion in losses and has lost more than three-quarters of its market value since the deal. Competition in the telecom-equipment market has only intensified as low-cost manufacturers from Asia and bigger rivals like **Telefon AB L.M. Ericsson** have pushed prices down.

Confronted with such challenges, Mr. Verwaayen spent his first six weeks on the job meeting with customers around the world, as well as meeting with his own staff to hear their concerns. The plan announced Friday is intended to make the company more responsive.

"Our mission must be to help the big telecom operators that are our customers to generate new revenue streams," he said in an interview after a press conference in Paris. For example, Alcatel-Lucent could work with a company like **France Telecom** SA to set up a service allowing customers to shop online and share credit-card information with the telecommunications company and not with the online vendor. "That is an innovative service that provides an extra level of security for people, and they'll be willing to pay for it," said Mr. Verwaayen.

In a downturn, telecoms will buy only on equipment that helps them meet regulations, generate new revenue streams or keep costs down, Mr. Verwaayen said. As a result, Alcatel-Lucent had to get smarter about where it invested research dollars: "We made some tough choices about our R&D spending with this plan," he said. "We had intense debates over which technologies to prioritize. We didn't try to keep everyone happy this time."

—Jethro Mullen contributed to this article.

FOCUS ON AUTOMOBILES

Detroit moves closer to bailout funding

White House weighs access for auto firms to $700 billion plan

By John D. McKinnon, Deborah Solomon and Greg Hitt

WASHINGTON—Throwing a lifeline to Detroit's auto makers, the White House reversed course Friday and said it would consider using the $700 billion financial-rescue plan to avert a bankruptcy of the Big Three that could deepen the U.S. recession.

The announcement came hours after negotiations failed in Congress over a compromise bailout plan fiercely opposed by Senate Republicans. That package would have set up $14 billion in loans to the companies and a government-run restructuring process.

On Sunday, the White House said it doesn't expect to make an announcement by Monday about a possible plan to prevent the three auto makers' collapse.

The loans to be offered could be more limited than the $14 billion that Congress was contemplating—perhaps closer to $8 billion, a person familiar with the situation said. **General Motors** Corp. would be a recipient, this person said. GM is hoping President George W. Bush will come through with about $10 billion to keep the company going. It warned Congress it needed at least $4 billion by the end of the month.

It wasn't clear whether loans would be made available to **Chrysler** LLC, which is controlled by private-equity firm **Cerberus Capital Management**. Cerberus came in for heavy criticism during the recent debate for not bailing out its own company. **Ford Motor** Co. has said all along it doesn't need a short-term lifeline, but could need help if one of its peers keeled over.

The White House's intervention showed how heavily the question of the president's legacy is weighing over his last few weeks in office. White House officials worried that the collapse of one or more domestic auto company, perhaps the last crisis Mr. Bush will confront as president, could cause a surge in job losses, worsening the current recession.

As early as Wednesday, during a private meeting with senators, Vice President Dick Cheney told lawmakers the Republicans didn't want to be remembered for allowing a company such as GM to collapse, said people familiar with the matter.

By signaling that Treasury bailout funds could be an option, the White House made it easier for Republicans to walk away from negotiations, creating an environment in which they could push for deep concessions from the United Auto Workers union. That license contributed to the seesawing negotiations of the past week as Congress veered from agreement to disunity, with union concessions a major point of disagreement.

For now, the biggest question for the White House is whether it will be able to extract any of the cost-saving concessions it had been seeking from the car companies, their unions and other interested parties. The Bush administration is beginning the process of examining the companies' books to figure out how much money is needed and intends to obtain protections for taxpayers.

The Big Three directly employ almost 250,000, according to an administration estimate, and also support about one million retirees and their spouses, not counting the vast network of suppliers and dealers whose businesses are intertwined. In all, administration officials estimate that the failure of the U.S. auto makers would cost the economy more than one million jobs and would reduce economic output by more than 1%, significantly prolonging the downturn.

"We think that the current weakened state of the economy is such that it could not withstand a body blow like a disorderly bankruptcy in the auto industry," White House spokeswoman Dana Perino told reporters aboard Air Force One Friday. "We'll have to take another look at what they [the companies] might need and how we might be able to provide that as a short-term mechanism to help prevent a disorderly bankruptcy that we think could devastate further an already very weak economy."

GM recently started working with bankruptcy specialists to make contingency plans in case a filing becomes necessary under Chapter 11 of the U.S. Bankruptcy Code. It is also trying to cut costs. On Friday, GM said it will temporarily close 20 North American factories in reaction to declining auto sales.

On Friday, Chrysler Chief Executive Robert Nardelli implored employees to do all they can to save money to keep the company afloat while it lobbies the Bush administration for emergency loans.

In an email to workers, Mr. Nardelli hinted Chrysler is hoping for a better reception when President-elect Barack Obama is in office. "Key members of the incoming administration are aware of the importance of addressing the short-term and long-term viability of our industry and our company," he wrote.

The failure of Congress to act creates a mess for the administration. The White House must now wade into the muddy task of structuring an auto bailout, which will drain the Treasury's fast-dwindling supply of funds, while figuring out whether to ask Congress for the second half of the promised financial-rescue money. Congress has doled out the rescue funds in installments and would likely return to Washington to debate the matter.

The Treasury wants to avoid a political battle with an increasingly hostile Congress. Even the spectacle of a failed effort to block the next $350 billion could spook already fragile financial markets.

The administration said that in the wake of the legislation's collapse, it would consider "other options" for helping Detroit, including use of the Troubled Asset Relief Program as well as other unspecified possibilities. The White House decision reverses Treasury Secretary Henry Paulson's longstanding position that the funds be used to help only financial institutions. Treasury officials—and others in the administration—worry about opening TARP to an array of other nonfinancial companies seeking cash. The line of industries seeking federal funds is growing as state governments, transit agencies, insurers and others clamor for a piece of the pie.

Mr. Paulson could potentially circumvent the need to ask for the second installment by diverting some of the $250 billion slated for capital injections, of which Treasury has committed just $161 billion to 53 banks. Treasury has completed 80% of the loan applications it has received from the banks' primary regulators. While more applications are likely still pending at the regulators, those are unlikely to eat up a significant portion of the remaining $89 billion.

Democratic congressional leaders had suggested for weeks the White House use TARP money to aid the auto industry.

—Neal E. Boudette contributed to this article.

Downshift

Cumulative loss of U.S. manufacturing jobs in the motor vehicle and parts sector, monthly data

Source: U.S. Labor Department

Cindy Spisak, left, gets a hug from Douglas Yandura after her last shift as she was laid off at Chrysler Friday.

Wave of production cuts highlights global contraction

By Kate Linebaugh And Norihiko Shirouzu

DETROIT—**General Motors** Corp., **Honda Motor** Co. and **Mazda Motor** Corp. have announced substantial production cuts, highlighting how the auto industry faces a wave of downsizing and global consolidation stretching from China to Europe, regardless of any government rescue package.

A number of car makers around the world are struggling for survival amid the worst downturn in global vehicle sales in the past 50 years. Even with government loans, GM and **Chrysler** LLC would have to close or idle factories, sell off smaller divisions and lay off workers—moves **Ford Motor** Co. and many of their rivals around the world are also preparing for.

GM on Friday said it will idle about 30% of its North American assembly-plant volume and cut production by about 250,000 vehicles in the first quarter. Honda announced its fourth North American production cut this year, of 119,000 more units before the end of March. Mazda in Japan said it will lay off more people and reduce production by an additional 100,000 vehicles through March.

In China, which has a highly fragmented auto industry that until recently had been growing rapidly, a number of the country's 80 or so auto makers are likely to merge or go out of business as its economy slows.

In Europe, the chief executive of **Fiat** SpA said last week the company can no longer go it alone and is looking for a partner.

Governments from Canada to Sweden have offered financial assistance while Germany and China are considering such measures. Globally, auto sales are expected to fall 3% this year, according to consulting firm Booz & Co.

Global auto makers have a combined capacity of 92 million vehicles next year, according to CSM Worldwide, but only 60 million cars will be sold next year, a decline not all companies will be able to survive. CSM predicts that capacity utilization won't return to the 2007 rate of 80%—the level necessary for a factory to be profitable—until 2014.

Chrysler could be high on the list of potential casualties. The smallest of the U.S. manufacturers is owned by private-equity firm **Cerberus Capital Management** LP, and Cerberus has already talked to several companies—including GM, Nissan and Fiat—about selling or merging the auto maker.

In pleading for emergency loans before Congress, Chrysler Chief Executive Robert Nardelli said Cerberus is interested in finding a partner for Chrysler but said its primary goal is making Chrysler profitable.

Chrysler has some attractive assets that several potential buyers would be interested in purchasing—including its Jeep brand, its minivan line and its dealership network, said Michael Robinet, vice president for global vehicle forecasting at CSM Worldwide. Those assets could be put up for sale with the assistance and oversight of the "car czar" the White House may appoint to oversee Detroit's restructuring if a federal loan package gets passed.

Chrysler, GM and Ford all have production capacity to make far more cars in North America than they are selling now. Mr. Robinet estimated they will need only half their production capacity in 2009, which he says is "not sustainable for any industry."

Soon, he said, the Detroit auto makers will be overwhelmed by non-U.S.-based auto makers in terms of North American production. In 2014, 54% of all production in the U.S., Canada and Mexico will come from Japanese, European and other foreign car companies.

In China, auto sales fell 10% in November from a year earlier, according to the semiofficial China Association of Automobile Manufacturers. In 2009, J.D. Power expects sales to contract on an annual basis for the first time since 1989.

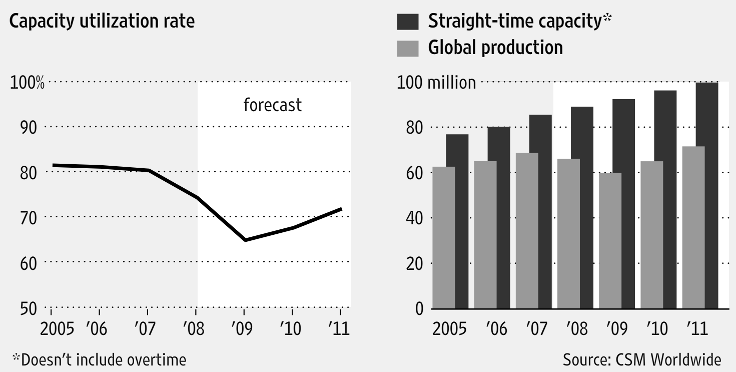
Two bad years—single-digit growth or worse—are considered by many analysts to be too lean for many of the smaller players in China's auto industry to be able to survive.

Among the companies that are vulnerable are **Zhongxing Automobile Manufacture** Co., **Shuanghuan Automobile** Co., and **Brilliance China Automotive Holdings** Ltd., said CSM's Shanghai-based analyst Yale Zhang.

—Matthew Dolan contributed to this article.

Gaping problem

Global auto makers are expected to build millions fewer vehicles than their factories are capable of producing in coming years.



*Doesn't include overtime

Source: CSM Worldwide

FOCUS ON AUTOMOBILES

BYD

The city of Shenzhen is expected to announce that it is buying 24 of BYD's new F3DM electric cars. The vehicle's batteries can be charged from a regular outlet.

BYD is set to introduce China's first electric car

By Norihiko Shirouzu

SHENZHEN, China—A Chinese auto maker plans to unveil the country's first homegrown electric vehicle for the mass market, at least a year ahead of similar efforts around the world to popularize such plug-in cars.

On Monday, **BYD** Co. plans to show reporters in this southern Chinese city the new F3DM, which runs off batteries that can be charged from a regular electrical outlet. BYD began marketing the F3DM this month to cab operators and other potential fleet customers, and plans to have it in showrooms by the end of this month, said Henry Li, a senior company executive. BYD plans to sell the car in the U.S. market as early as the second half of 2010.

BYD's effort is a big test of how quickly a country like China can bring into the mainstream a costly new automotive propulsion technology by prodding the private sector and the consumer. China's government intends to support the electric vehicle push through research-and-development subsidies for auto makers and tax breaks and other incentives for consumers, as well as with plans to build battery-charge stations and other public infrastructure.

Though essentially an electric car, the F3DM also has a small gasoline engine, but unlike the hybrid vehicles that have been popularized in recent years its engine is used to generate electricity only if the battery runs dry.

Some people question whether the leap to electric cars makes sense in China, in part because most of China's electricity comes from "dirty" coal-burning power plants. BYD and its electric-car rivals believe the car can nonetheless quickly become a credible alternative to gasoline cars here. BYD plans to sell as many as 10,000 F3DMs in 2009, according to Mr. Li. American investor Warren Buffett earlier this year invested $230 million through a company he majority-owns to take a 10% stake in BYD.

The F3DM underscores the potential challenge from new auto makers from China and India to established car companies in the developed world, just as they are struggling with sales declines. **General Motors** Corp. and **Toyota Motor** Corp. are both developing similar battery-powered cars. But Toyota won't launch its version until late 2009 and plans to sell it in the U.S. and Japan, not in China. GM is expected to launch its heavily promoted Chevy Volt in late 2010 in the U.S., but the American company's financial struggles have left the future of that effort unclear.

While neither Toyota nor GM has disclosed the selling price of their electric cars, officials at GM have said privately its car could sell for $40,000, or possibly more. The F3DM is to be priced at less than 150,000 yuan, or about $22,000. A BYD manager said it could be priced as low as 120,000 yuan, toward the low end of the price range for a typical midsize sedan in China.

Nissan Motor Co., which is weighing the launch of an electric car in China as early as 2012, believes that battery-powered cars could account for as much as 30% of all automobile sales in China by 2020, thanks mainly to government support for such vehicles, said Nissan's Beijing R&D general manager Tsunehiko Nakagawa in an interview.

BYD started out as a battery maker in 1995, and began making conventional cars in 2005. Chief Executive Wang Chuanfu said electric cars are already his company's "main strategic focus."

Other Chinese auto makers, including **Shanghai Automotive Industry** Corp., are also working on electric cars. But BYD was the earliest, and has emerged as China's poster child for new-energy vehicles. The city of Shenzhen, where BYD is headquartered, is expected to announce Monday that it is buying two dozen F3DMs initially, and possible more later.

The Chinese government's current five-year economic plan, issued in 2006, highlights the importance of investing in electric cars. It says that China needs to accelerate R&D "of our own intellectual-property rights in electric motors, batteries, electronics, assembly know-how, and other primary components." The government hasn't said how much it will spend.

Aside from government help and the car's relatively low price, the F3DM's fuel economy could make it attractive. The car can go roughly 49 to 61 miles, or 80 to 100 kilometers, on a single charge while using almost no gasoline. The Toyota Prius gasoline-electric hybrid, which uses an electric motor to assist its gasoline engine when accelerating, gets 40 to 45 miles per gallon of gas. It takes seven hours to fully charge the F3DM using a regular household electric outlet; it can be charged to 50% in 10 minutes at a dedicated quick-battery-charge station, according to the company.

The country currently has minimal infrastructure for cars that need to be plugged in. BYD said it is talking to third parties to invest in charge stations.

—Ellen Zhu in Shanghai and Gao Sen in Beijing contributed to this article.

Czech auto sector hurting

Detroit crisis spreads to nation where cars make up 10% of GDP

By Sean Carney

PRAGUE—The global automobile crisis that began in Detroit has hit at the economic heart of the Czech Republic.

The sharp slowdown in European demand has dried up automobile and auto-parts production, which accounts for a fifth of the country's total industrial output and 10% of gross domestic product.

The Czech government statistics office Friday reported that industrial production plunged 7.6% annually in October after expanding 8.9% in September, due to a sharp drop in automotive manufacturing.

Czech auto exports fell 15% in October, sending the country's external trade balance into deficit. The Czech current-account deficit nearly doubled in October to 21.99 billion koruna ($1.14 billion) from 12.10 billion koruna in September, largely on the decline in auto exports.

Soon after the 1989 fall of communist rule, German and other Western car makers rejuvenated the 100-year old Czech auto industry with huge investments that turned the country into a low-cost extended workbench for parts sourcing and assembly. From those foundations the industry grew into a motor for the whole Czech economy.

Autopal, a unit of U.S. company **Visteon** Corp., delivers lighting units mostly to American car makers including **Ford Motor** Co. and **General Motors** Corp.; the Czech unit of Germany's **Robert Bosch** GmbH produces compressors and air conditioning largely for **Volkswagen** AG; the Czech unit of U.S.-based **TRW Automotive Holdings** Corp. supplies German luxury makers such as **BMW** AG, VW and **Daimler** AG's Mercedes-Benz with small plastic components for door- and window-opening mechanisms.

"At issue is not just direct car industries like tires, cars and components, but indirect demand for energy, plastic, banking services," said Miroslav Plojhar, economist at J.P. Morgan Chase in London. "There's a strong multiplication effect, and if the auto sector falls it could pull the whole economy into recession."

Skoda Auto AS, the Czech unit of VW, which has announced that it is shutting down production for almost a month around the new year, said Thursday that in the first half of 2009 it will move to a four-day workweek. The head of the labor union at Skoda said the changes will reduce 2009 output from 700,000 units to 570,000, well below expected 2008 levels.

As a result, Skoda, one of VW's fastest-growing brands in Europe and Asia, is cutting staff pay levels to 75% of average monthly salaries in the first half of 2009, though the 110-year-old car maker isn't cutting its company-employed staff levels, a spokesman said.

"We're just adjusting the number of [outside] agency workers to demand," Jarda Cerny said.

Skoda employs more than 20,000 people.

"The fall in orders gets transmitted right across the chain from producers to tier-one supplier to tier-two suppliers," said John Wormald, director of U.K.-based auto consultancy Autopolis.

Brano Group AS, one of the largest Czech-owned parts manufacturers, with more than 2,300 employees, said Thursday that it is cutting production for several weeks over Christmas and will move to three-day workweeks for the rest of December.

The cuts weigh on leading U.S., Japanese and European companies that operate here, including Michigan-based wheel maker **Hayes Lemmerz International** Inc., **Toyota Motor** Corp. and Robert Bosch.

A drop-off in car buying has become evident, with the top range of cars getting hit badly, but the bottom end less so, Mr. Wormald said. "Sales of the bottom end could actually go up 10% or more next year," he said.

The shift helps **Hyundai Motor** Co., which just launched its first European plant in eastern Czech Republic, where it makes only small cars, as well as Toyota Peugeot Citroen Automobile, a small-car-making joint venture of Toyota and **Peugeot** SA.

CORPORATE NEWS

Declining demand squeezes chip makers

Powerchip, Elpida consider options for Rexchip venture

BY SE YOUNG LEE

SINGAPORE—Rapidly declining demand for semiconductors due to the global economic slowdown is squeezing Asian chip makers already bruised by a supply glut and losses, forcing them to scramble to stay afloat.

Powerchip Semiconductor Corp., Taiwan's biggest maker of dynamic random access memory chips by revenue, said Friday it is studying a plan to ask the Taiwan government to buy a stake in **Rexchip Electronics** Corp., a joint venture with Japan's **Elpida Memory** Inc.

Elpida, Japan's sole maker of DRAM chips, widely used in personal computers, separately said Friday it is considering various options for raising new funds, including a new share issuance by Rexchip. This came after the company was forced to redeem its entire 50 billion yen, or about $550 million, convertible bond because of its weak share price.

These announcements came as Singapore chip maker **Chartered Semiconductor Manufacturing** Ltd. said Friday it expects a wider net loss and lower revenue in the current fourth quarter due to deteriorating market conditions, comments that further eroded confidence in an already battered industry.

"As the quarter is progressing, we are seeing some of our customers postponing their deliveries due to, what we believe are, weaker market conditions and their intent to keep inventories low," said Chartered Chief Financial Officer George Thomas. Chartered eliminated 273 contract positions and will shut down some of its operations during the Christmas week. It has also instructed employees to clear their leave by year end.

In November, Chartered registered with the U.S. Securities and Exchange Commission to issue and sell up to $955 million of ordinary shares, preference shares, debt securities and warrants.

The Semiconductor Industry Association said last month fourth-quarter global semiconductor sales will drop 5.9% from the previous quarter, while 2009 sales will decline by 5.6% to $246.7 billion.

With no clear indication on when the global economy will recover, major industry players such as **Taiwan Semiconductor Manufacturing** Co., **United Microelectronics** Corp., **Samsung Electronics** Co. and **Hynix Semiconductor** Inc. have already announced measures to cut costs. Those include cutting production, capital spending, executive pay and implementing hiring freezes.

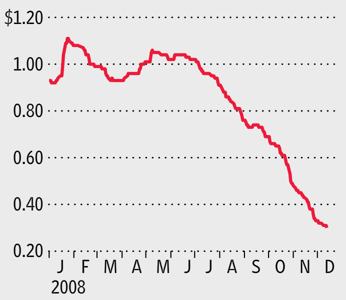
Woori Investment & Securities Analyst Park Young Ju said some chip makers may receive support from their governments, given their importance to the economy in terms of output as well as employment.

Taiwan's **ProMOS Technologies** Inc. recently sought government assistance to extend the payment of loans, and Taiwan's Ministry of Economic Affairs Industrial Development said the government may consider buying stakes in DRAM makers.

—Wei Yi Lim, Jessie Ho and Juro Osawa contributed to this article.

DRAM chip prices

512-megabit DDR2-667 chip, daily averages, in U.S. dollars



Source: DRAMeXchange

Sharp to curb LCD output, cut 380 workers amid slump

BY HIROYUKI KACHI

TOKYO—**Sharp** Corp. will shut down liquid-crystal-panel manufacturing lines at two of its plants in Japan and shed 380 temporary workers amid slumping global demand.

The Osaka, Japan, consumer-electronics maker, known for its Aquos brand of liquid-crystal-display television sets, said it will shut down aged lines at its Tenri and Mie No. 1 factories—both located in central Japan.

Since the 1990s, these lines have produced LCD panels for small and midsize TV sets. The company declined to comment on details, such as output capacity of the lines to be shut down.

The company will shift some of the production from its Tenri and Mie No. 1 plants, as well as from two factories in Mie, to the more advanced Kameyama No. 1 plant in central Japan. It will begin the planned reorganization in January.

The number of temporary workers to be cut represents 29% of the 1,300 temporary workers at Sharp's production bases in Japan, including LCD panel and other plants, as of the end of November.

In October, Sharp issued a profit warning for the current fiscal year ending March, blaming a slump in sales of mobile-phone handsets in Japan and weakness in LCD panel prices.

GLOBAL BUSINESS BRIEFS

Daimler AG

Stake in Russia's Kamaz to cost up to $300 million

Daimler AG will pay $250 million for a 10% stake in Russian truck maker **Kamaz** OAO as the German auto maker seeks to ramp up its presence in emerging markets. Daimler could pay a further $50 million for the stake, depending on Kamaz's sales and profit performance. At a news conference in Moscow on Friday, the companies said joint projects could begin early next year. Daimler and Kamaz also will consider potential strategic partnerships. Kamaz sold about 53,000 vehicles last year and posted revenue of $3.8 billion. Daimler's truck division, the world's largest truck maker by sales, last year sold 467,667 vehicles and posted €28.5 billion ($38.12 billion) in revenue.

Volkswagen AG

Volkswagen AG's sales dropped 17% last month from a year earlier, to 447,000 vehicles. Volkswagen's sales chief, Detlef Wittig, said the company weathered the economic storm well in the first three quarters. "In the fourth quarter the slump on the world market is testing us massively as well....But we could increase our market share amid declining sales," Mr. Wittig said. Volkswagen's sales decrease compares with a 25% slump in the global auto market. For January through November, Europe's largest auto maker by sales posted a 1% sales rise to 5.73 million vehicles, excluding sales of its Swedish truck unit Scania. Volkswagen is the only major auto maker that hasn't issued a profit warning or revised sales targets this year.

Grupo Ferrovial SA

Airport operator **BAA** Ltd. said Friday that the number of passengers going through its seven airports in the U.K. fell 8.9% in November, as demand fell amid the economic downturn and flight cancellations surged because of the closure of Bangkok's international airport and problems at Air France-KLM. The owner of London's three major airports, including Heathrow, said its airports handled a total of 9.8 million passengers last month, down from 10.8 million a year earlier. In the first 11 months of the year, the number of passengers served at BAA's airports fell 2.4% from a year earlier to 134.6 million. The operator, a unit of **Grupo Ferrovial** SA of Spain, said the fall was partly the result of airlines' reduced winter schedules amid the economic slump.

BBVA

Banco Bilbao Vizcaya Argentaria SA plans to issue between €500 million, or about $670 million, and €1 billion in preferred stock as Spanish banks come under increased pressure to boost solvency amid a worsening economic backdrop. BBVA said the issue is part of the company's annual issuance plan. Still, the move represents a change for Spain's second-largest bank by assets. As late as Nov. 10, a BBVA spokesman said the bank had "no need to go to the market for more capital." BBVA has taken a more cautious stance in the financial crisis than Banco Santander SA, its main rival. It hasn't conducted any acquisitions, focusing instead on integrating banks bought in the past few years in the southern U.S.

Bayer AG

Pharmaceutical and chemical company **Bayer** AG said it will increase its research-and-development spending above the current €2.8 billion ($3.7 billion) and called on the German government for R&D tax breaks. Bayer didn't specify how much more it will spend. "For a research-based company located in Germany, it is particularly important that this country's innovative capability will be further enhanced," said Chief Executive Werner Wenning. Leverkusen-based Bayer, one of the few remaining listed European companies that combines chemical and drug production, has stressed its reliance on its medicines division—so far unscathed by the economic crisis. Mr. Wenning said Bayer still plans to increase earnings before interest, taxes, depreciation and amortization, adjusted for items, next year.

Woolworths Group PLC

Woolworths Group PLC is cutting 700 jobs in the retail company's distribution division after it failed to find a buyer. Deloitte, which was appointed to run Woolworths after it filed for a form of bankruptcy protection last month, said it would now scale down efforts to sell Entertainment UK Ltd. as a functioning business. The administrator still will consider offers for the sale of the business, said Dan Butters, joint administrator and reorganization services partner at Deloitte. But the focus will now be "on realizing value from the company's assets," he said. Mr. Butters said that EUK, a wholesale supplier of music, DVDs and games, will continue operating with a reduced work force of 375 while the company is being wound down.

OAO Novolipetsk

OAO **Novolipetsk Iron & Steel Works** posted a 66% rise in net profit for the first nine months of the year but cut its full-year outlook as fourth-quarter demand weakened. Net profit jumped to $2.76 billion, thanks to high steel prices during the summer. Revenue rose 74% to $9.64 billion. However, demand for steel has slumped amid the global economic uncertainty, and the steel maker said it now expects full-year sales of around $11.6 billion and earnings before interest, taxation, depreciation and amortization of about $4.8 billion. The company, based in Lipetsk, Russia, lowered its full-year targets in October, saying that revenue would come in at $12.5 billion and Ebitda at $5 billion. Novolipetsk said it has slashed its capital-spending program as the global financial crisis damps growth prospects.

Autoliv Inc.

Sweden's **Autoliv** Inc., a global supplier of car airbags, Friday cut its fourth-quarter earnings forecast because of lower vehicle production in December and said it would ax an additional 1,000 jobs and close two plants. The company now anticipates consolidated sales to drop by more than 30% in the fourth quarter, resulting in an average decline for the year of almost 5%. In response to lower vehicle production, Autoliv said it is adding a further 1,000 job cuts to a cost-cutting program announced in July that was intended to reduce staff by 3,000 by the end of 2009. The plan aims to save $120 million in 2010 at a cost of $75 million. Autoliv, which employs 41,900 workers, said two plants are in the process of being closed and restructuring activities will continue into 2009.

Alitalia SpA

Italian investor group Compagnia Aerea Italiana, or CAI, Friday signed a deal to buy the flight assets of **Alitalia** SpA in a long-awaited move that sees the ailing carrier move into private hands. CAI Chairman Roberto Colaninno said he would propose the foreign carrier the group would prefer as a partner to the consortium's shareholders by the end of the year. He named **Air France-KLM**, **Deutsche Lufthansa** AG and **British Airways** PLC as potential partners, taking on a 20% to 25% stake. The revamped Alitalia, which will have a smaller staff with contracts more closely linked to performance, aims to break even operationally within two years, said CAI Chief Executive Rocco Sabelli. Last month, the airline said it expects to close 2008 with an operating loss of more than €1 billion ($1.33 billion). The CAI deal came after Alitalia's cabin crew unions signed up to the government-sponsored relaunch, leaving just pilot unions still opposing CAI's offer.

Pfizer Inc.

U.S. drug maker **Pfizer** Inc. said Friday it will cut 700 jobs in France out of its total French workforce of 3,000 as part of the its global reorganization. The world's largest pharmaceutical company, based in New York, said the cuts will be made on a voluntary basis and will concern both its sales force and headquarters staff. The pharmaceutical industry has been slashing its workforce amid growing generic competition, few new blockbusters, drug-safety concerns and pressure from insurers and government health programs to discount prices. Last month, GlaxoSmithKline PLC said it was reducing its U.S. sales force by 1,000 and in October, Novartis AG announced it will cut 550 sales jobs.

ArcelorMittal

ArcelorMittal plans to reduce the workforce at its operations in Ghent, Belgium, by 650 employees, mainly by not filling open positions, a company spokesman said Friday. The company, which employs 5,000 people in Ghent, is discussing the plan with trade unions. The cuts would come from the production and maintenance side of the plant and aren't related to ArcelorMittal's plans to reduce selling, general and administrative costs across the company by $1 billion through voluntary layoffs. In Ghent, the company has reduced steel production by 60% from its full 5 million metric ton a year capacity.

HSBC Holdings

HSBC Holdings PLC will lay off 193 employees in India as it restructures its business amid the global financial turmoil. All the jobs being cut are in the bank's consumer assets business. The reduction represents less than 1% of its staff in India. The lender has redeployed about 620 personnel from this unit to other positions and group entities. "In the past few months, we have engaged in an exercise to restructure our consumer assets business so that we can focus on reducing costs, devote resources to areas that offer the most potential for growth," said Naina Lal Kidwai, the bank's general manager and chief executive for the country. HSBC said it currently employs about 36,650 people in India.

—Compiled from staff and wire service reports.

Fed pushes for new ideas, decisive action

Central bank's Bernanke, mindful of history's lessons, encourages new thinking, even experimentation, to end crisis

By Jon Hilsenrath

THE OUTLOOK

While Ben Bernanke was teaching economics at Princeton University in late 1999, he admonished officials in Japan for doing too little to get their country out of its economic funk. Their model, he said, should be former U.S. President Franklin D. Roosevelt.

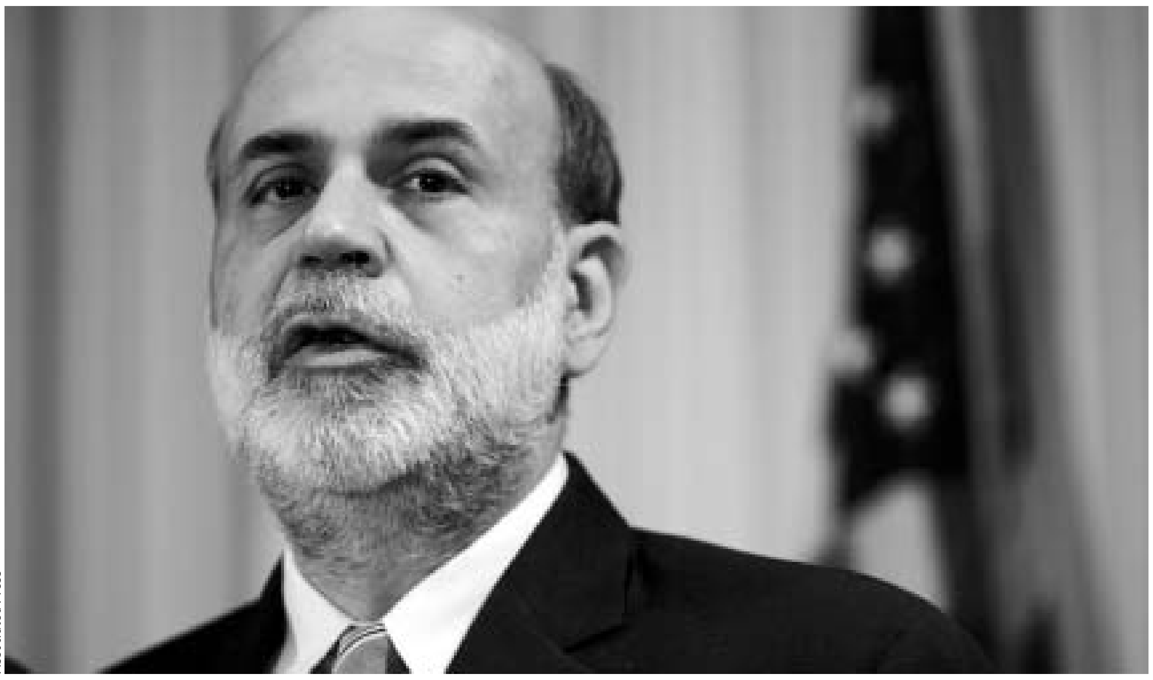
"Roosevelt's specific actions were, I think, less important than his willingness to be aggressive and to experiment—in short, to do whatever was necessary to get the country moving again," Mr. Bernanke said in a paper on Japan's paralysis.

Nearly a decade later, Mr. Bernanke, now the Federal Reserve chairman, is trying to follow his own advice.

Fed officials Monday begin two days of meetings to deliberate on the course of U.S. monetary policy at a critical juncture. The central bank's target interest rate, at 1%, is widely expected to be reduced, but doesn't have room to go much lower. That means Mr. Bernanke needs to use other options at his disposal—most notably his ability to lend and buy assets—to lift the economy and bolster damaged markets, something the Fed is likely to signal a willingness to do.

In many ways, Mr. Roosevelt is his model, because Mr. Bernanke is undertaking a bold and risky experiment with the nation's central bank to get the U.S. economy moving again. In the process, the Fed's reach is extending further into the financial system.

One of the key lessons Mr. Bernanke drew from years as an academic studying the Great Depression and Japan was that policy makers made matters worse by tarrying and by being constrained by convention. He sees them as mistakes he is determined not to repeat.



Associated Press

U.S. Federal Reserve Chairman Ben Bernanke can't lower the central bank's target interest rate—now at 1%—much lower, so he will need to use other options at his disposal, such as his ability to lend and buy assets, to lift the economy.

"Working together with the Treasury, the [Federal Deposit Insurance Corp.] and other agencies, we must take all steps necessary to minimize systemic risk," he said in a speech earlier this month, echoing his advice to Japan.

One buzz word inside the Fed these days is "blue sky," a term meant to encourage Fed economists and other staffers to come up with ideas beyond their normal boundaries.

At the New York Fed, where many of the central bank's programs are being implemented, the once-quiet markets desk has been divided into teams to get programs up and running.

"I call it the Great Experiment," said Vincent Reinhart, a former Fed staffer who co-wrote papers with Mr. Bernanke on how to manage policy when interest rates get near zero.

In normal times, central bankers live in a rules-bound world, seeking to confine themselves to narrow, easily defined goals far from political influence. For the most part, they set their eyes on a level of inflation, and seek to use one instrument—short-term interest rates—to keep near the goal. Some, like the Fed, also try to keep unemployment low.

But experimentation is now the order of the day. The Fed has rolled out nearly a dozen new programs aimed at rescuing failing institutions and specific troubled markets. Through its rescue of American International Group Inc., it is buying assets at the core of the financial meltdown—collateralized debt obligations—which AIG has promised to insure but can't afford to do.

The Fed's balance sheet has grown from less than $900 billion to more than $2 trillion, and because of its ability to print money to fund these programs, it could grow further still.

One of the Fed's next big projects is a program to backstop the asset-backed securities market, which finances auto, credit-card and student loans. It will be launched in February, and Fed officials see potential in it to be expanded to other asset classes, such as commercial real estate.

Mr. Bernanke's choices could damage several objectives that the Fed holds sacrosanct. Low interest rates and an exploding balance sheet could some day cause inflation. With so much slack in the economy and commodities prices tumbling, that looks like a far-fetched risk today. But the Fed's novel new lending programs could be difficult to unwind quickly if the economy turns around unexpectedly, potentially leaving the financial system with more stimulus than it needs—along with inflation.

Mr. Reinhart notes that Mr. Bernanke's approach also could open the Fed to political intrusion, something central bankers have fought for decades to avoid.

The recent debate about an auto-industry bailout was one example of the risk. Earlier this month, Sen. Christopher Dodd wrote to Mr. Bernanke asking whether the central bank could help Detroit. Mr. Bernanke responded that he wanted to stay out of industrial policy. But after Senate action failed, the Connecticut Democrat raised the prospect of Fed involvement again at a news conference Friday.

Moreover, Mr. Bernanke's activist approach could expose the central bank to losses on loans it has made. The loans are all secured in one way or another, and Fed officials said losses are unlikely. But in October, six months after taking on $29 billion from investment bank Bear Stearns Cos.' loan portfolio, the Fed decided to write down $2 billion of the holdings.

Then there's the biggest risk of all: The economy might not turn around. History was kind to Mr. Roosevelt because the economy got moving again on his watch, though of course it didn't really turn around until the U.S. became enmeshed in World War II. Mr. Bernanke will be a hero if the economy rebounds. But if it doesn't, the judgment is certain to be much tougher.

How U.S. rate cuts threaten Japanese investors

By Yuka Hayashi

TOKYO—As the Federal Reserve considers rate cuts Tuesday, U.S. interest rates are approaching those of Japan, the nation which for years boasted the most easy monetary policy among major economies. The shrinking rate gap could drive Japanese investors from the U.S., leading to a further weakening of the dollar.

Many economists expect the Fed to cut its policy rate by half a percentage point to 0.5% Tuesday, nearing the Bank of Japan's 0.3%.

The U.S. rate hasn't been lower than Japan's since 1993. Higher rates in the U.S. have lured many Japanese investors, including its giant insurance companies and pension funds, into dollar-based assets such as U.S. Treasurys. Japan held $573 billion of U.S. Treasury securities in September, according to Treasury Department data, making it the world's second largest investor after China.

Rate cuts in the U.S. could eventually push down returns on these assets and eliminate their appeal for Japanese investors.

The yield differential has already been reversed for government securities with short maturities. On Tuesday, the U.S. Treasury Department sold four-week bills in an auction at a yield of zero for the first time as investors poured into what they saw as the ultimate safe haven.

"It would be hard to imagine a more propitious environment for a buyers' strike of U.S. paper," said Peter Tasker, an analyst for Dresdner Kleinwort in Tokyo.

While few experts expect an immediate exodus of Japanese investors from Treasurys, there are some signs Japanese investors are beginning to reduce investments abroad. Between September and November, Japanese mutual funds sold medium-term and long-term foreign bonds worth 899 billion yen ($9.87 billion) on a net basis, compared with a net purchase of 593 billion yen during the same period a year earlier.

A move away from U.S. assets would push the dollar lower against the yen, which has already appreciated considerably in recent months. That would be bad news for Japan's exporters and its export-driven economy, which is in a recession. On Friday, the dollar temporarily fell to a 13-year low of 88.10 yen, before settling at 91.04 yen, down 18.3% this year. The benchmark Nikkei 225 Stock Average fell 5.6% amid worries that the yen's rise would clobber exporters such as Toyota Motor Corp.

In the first half of this decade, Japan's policy rate was at zero as it tried to lift the nation's economy from its long slump.

Bank of Japan Gov. Masaaki Shirakawa remains more cautious than other central bank chiefs in easing monetary policy to tackle the downturn. While the BOJ has adopted steps to ensure liquidity for banks and companies, Mr. Shirakawa has pointed to the negative effects of a rate cut when interest rates were already extremely low.

In late October, the BOJ cut rates for the first time during the current crisis by 0.2 percentage point, rather than the more conventional 0.25 percentage point. Economists speculated the BOJ wanted to leave room for one more cut before the rate reached zero.

"Under Mr. Shirakawa, the BOJ may go down to 0.1% but is unlikely to go back to the zero-rate policy," said Izuru Kato, chief economist at Tokyo Tanshi, a money-market brokerage firm.

Some economists say resistance to easing is in the central bank's nature. "It has to do with general mistrust between the BOJ and the Ministry of Finance," says Thomas Cargill, an economics professor at the University of Nevada, Reno.

In the past, longstanding tension between the central bank and the Ministry of Finance—and politicians standing behind the ministry—made it difficult for the BOJ to tighten policy even when the economy was recovering. Higher rates boost the cost of servicing the government's fiscal deficit and are unpopular among Japanese companies.

Meanwhile, the Fed is starting to take other steps that seem to resemble Japan's moves to shore up its economy while its policy rate remained at zero between 2001 and 2006. For example, the Fed is beginning to inject liquidity through the purchase of everything from Treasurys to mortgage-backed securities—which many economists see as quantitative easing.

"My honest impression is the steps the FRB has recently adopted are very similar to what the BOJ did in the past," central bank Gov. Shirakawa said earlier this month.

U.S. retail sales fell in November as job losses grew

By Sudeep Reddy

U.S. retail sales declined in November for the fifth straight month, as consumers faced growing pressure from job losses and financial-market turmoil. But resilience across key sectors—apart from the ailing auto industry—offered a sliver of hope for the overall economy.

The Commerce Department said retail sales fell 1.8% from October. Vehicle sales tumbled 2.8%, as consumers face higher hurdles for auto loans. Sales at gas stations fell almost 15%, after a sharp drop in fuel prices.

However, excluding those two sectors and the weak building-materials industry, retail sales would have increased 0.5% for the month. The November report revealed gains that may have been driven by retailers' deep discounts. Electronics sales rose 2.8%, as did the category including sporting goods, books and music stores. Clothing moved up 0.8%; furniture, food stores and restaurants also notched gains.

Pressure on governor rises

Illinois Republicans seek special election to fill Senate seat

BY DOUGLAS BELKIN
AND T.W. FARNAM

Embattled Illinois Gov. Rod Blagojevich faced increasing pressure to resign Sunday amid bipartisan assertions that the Democrat is unfit for office, while state Republicans pushed for a special election to fill the U.S. Senate seat vacated by President-elect Barack Obama.

A special election, which the Illinois Republican Party said could be held in conjunction with February municipal elections, could deprive Democrats of the chance to name their own candidate to the Senate seat. Democrats have said they support a special election, but Illinois Lt. Gov. Pat Quinn suggested Sunday that a temporary Senate appointment might be a viable compromise so that "we always have two senators from Illinois representing us in Washington."

The state Republicans will begin airing television commercials statewide on Monday in support of the election and have launched a Web site on Democrats associated with the alleged pay-to-play practices of Mr. Blagojevich. A special election could cost upward of $30 million.

If Mr. Blagojevich were to step down, Mr. Quinn would be authorized to name Mr. Obama's successor. But Republicans said Mr. Quinn was too close to the governor's alleged schemes to be trusted. "We must let the voters decide," said DuPage County state's attorney Joe Birkett.

Associated Press

Illinois Gov. Rod Blagojevich, right, with a member of his security detail Saturday in Chicago, was charged with corruption but has maintained his innocence.

Mr. Quinn, appearing on NBC's "Meet the Press," defended his record, saying he had led an effort to amend the state constitution so that voters could remove the governor if they desired.

On the same program, Illinois Attorney General Lisa Madigan said she had heard there is "a possibility" that Mr. Blagojevich will announce his resignation Monday. Mr. Blagojevich could also step aside temporarily, which would enable him to retain his salary.

In conversations taped by federal authorities and included in the criminal complaint lodged against Mr. Blagojevich last week, the governor is purported to have complained that he is in a perilous financial situation. Unpaid legal bills exceeding $500,000 and mortgages on homes in Chicago and Washington are contributing to those problems, The Wall Street Journal reported last week.

Mr. Blagojevich's spokesman Lucio Guerrero said he has "no knowledge" of an announcement of any kind and that the governor "has no plans of resigning Monday."

Ms. Madigan filed papers with the state Supreme Court Friday to try to get Mr. Blagojevich removed from office.

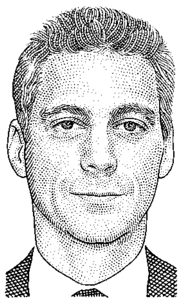
Mr. Blagojevich had brushed back calls for his resignation after the charges emerged and has maintained his innocence through his lawyer. He sought to project a business-as-usual image last week amid the turmoil, going to work every day and handling state business.

Obama reaches out to Republicans

BY JONATHAN WEISMAN
AND LAURA MECKLER

Two weeks after his selection as U.S. President-elect Barack Obama's White House chief of staff, Rahm Emanuel met with Senate Republican leaders, gave out his cellphone number and personal email address—and promised to return any communication within 24 hours.

Testing the pledge, Republican Sen. Jon Kyl called him within days to talk about a few potential cabinet nominees. Within 10 minutes, the two were talking. "They are getting off to a good start in terms of reaching out," said Sen. Kyl, of Arizona.



Rahm Emanuel

That conversation—and dozens more since Mr. Obama's election—are part of an extensive effort Mr. Obama has launched to woo Republicans. He hopes the effort will ease the way for an aggressive, decidedly liberal policy blitz after he takes office, and establish terrain for a good working relationship in areas where the parties can find common ground. First up will be a half-trillion-dollar stimulus plan he hopes will win Republican votes.

Other recent presidents have pledged to bridge the partisan divide in the early days after their elections, only to see their administrations consumed by partisan acrimony. George W. Bush called a bipartisan group to Texas before he took office to talk about education reform, and he teamed with two of the most liberal Democrats in Congress—Massachusetts Sen. Edward M. Kennedy and California Rep. George Miller—to forge his signature No Child Left Behind legislation. Bill Clinton promoted a political "third way" aimed at moving beyond the left-right fights. But both efforts quickly foundered.

As part of the Obama outreach strategy, some of his closest campaign advisers have had to settle for lesser posts in the new administration as more experienced picks, reassuring to Republicans and independents, grabbed the spotlight. The president-elect has proved willing to rebuff liberal campaigns on behalf of certain cabinet candidates, with most of his picks coming squarely from the ideological center.

The idea, Obama aides say, is to establish a political climate that gets beyond the trench warfare that mired White House efforts for well over a decade. Conservatives such as Sen. Kyl can't be expected to vote for much of Mr. Obama's legislative agenda, but in an atmosphere of goodwill, they may be less obstructionist and more willing to find areas of compromise.

"In this city there's always a tomorrow," said Sen. Kyl, "and there's always a time when I need something or they need something and you maintain relationships because of that."

Between them, Mr. Obama and his chief of staff have personally called more that two dozen congressional Republicans.

And National Economic Council director Lawrence Summers began a round of calls this week to prominent conservative economists, trying to drum up support for the massive economic-stimulus plan Mr. Obama hopes to sign into law as soon as he takes office Jan. 20.

As one adviser put it, transition efforts are "trying to expand the political space" for Mr. Obama to pursue his agenda. That will mean creating coalitions of liberal and conservative Democrats, moderate Republicans and some conservatives whose interests coincide with the White House's. With at least 58 Senate seats and a large majority in the House, Democrats have the numbers to move legislation on their own, Mr. Emanuel said. But at least at first, that isn't Mr. Obama's intent.

Monday, Mr. Obama called Rep. Peter Hoekstra, the ranking Republican on the House intelligence committee, to express his hope that the pair could work together on intelligence matters. A day later, the Michigan Republican called Mr. Emanuel to follow up, and he, too, got a call back within 10 minutes.

U.S. sets rules to keep a lid on credit-card interest rates

BY DAMIAN PALETTA

WASHINGTON—U.S. federal regulators are poised to adopt tough restrictions to make it harder for credit-card companies to raise interest rates on millions of existing customers, reversing decades of light regulation over the industry.

The new standards, which would represent the biggest changes to the industry in a generation, will apply to more than 16,000 companies, including major credit-card lenders **Citigroup** Inc., **Bank of America** Corp., **J.P. Morgan Chase** & Co. and **Capital One Financial** Corp.

The new standards come as the U.S. economy and consumers are caught in a deepening recession in which access to credit, from student and business loans to home-equity lines, has been constrained. For many, credit cards are considered the easiest type of short-term loan to obtain from a bank.

In lobbying to ease the new rules, lenders warned that the proposal could lead them to restrict credit to consumers, including low- and moderate-income Americans. Banks also said new credit-card customers could see higher introductory rates.

Consumer advocates countered that federal regulators are outlawing practices that many have considered unfair and deceptive for years.

The new rules will cover a lot of ground. The most controversial policy is expected to prohibit banks from raising interest rates on existing balances, as long as a customer doesn't fall more than 30 days behind on card payments. Industry officials have estimated that the new rules could cost banks $12 billion in annual revenue.

The Federal Reserve, Office of Thrift Supervision and National Credit Union Administration, which drafted the new rules, are also expected to require that banks give customers a "reasonable" amount of time to make payments and prevent banks from raising a customer's interest rate if the person has fallen behind paying other bills, among other things.

They new rules don't require congressional approval and are expected to take effect by mid-2010, a tighter time frame than banks had hoped for.

Credit cards are a huge source of income for banks and a major source of credit for consumers. The Fed said U.S. banks had $976.1 billion in revolving debt outstanding at the end of October, a number that comprises mostly credit-card debt.

These products are often controversial, and regulators hear thousands of complaints each year from consumers, typically related to late fees and interest-rate increases. The Fed said 4.9% of all credit cards were delinquent at the end of the third quarter, the highest level since the end of 2002.

"We think it's really going to mark the beginning of the new marketplace for credit cards," said Edward Yingling, chief executive of the American Bankers Association, the industry's biggest trade group. "It will in some fundamental ways change the product."

The Fed had never used its powers in this area to ban certain credit-card practices before and was under enormous pressure to act after years of running a hands-off approach to consumer regulation. Last December, it banned certain mortgage practices that many believe contributed to the financial crisis.

"With respect to your rulemaking authority—use it or lose it," House Financial Services Committee Chairman Barney Frank, a Massachusetts Democrat, told Fed governor Randall Kroszner at a hearing in June 2007.

Shortly after the warnings intensified from Capitol Hill, Fed officials began drawing up new rules. The Fed recently hired consumer advocate Allen Fishbein to serve as an adviser in its division of consumer and community affairs. Mr. Fishbein spent years working at the Consumer Federation of America arguing for tough consumer protection rules.

Credit-card companies in recent months have raised interest rates on certain cards to offset losses in other areas. Citigroup, which has 54 million active accounts, began notifying some customers recently that their interest rates were going up by an average of three percentage points. **American Express** Co. also announced plans to raise interest rates on some customers by two to three percentage points on an annual basis.

Depending on whether the increases apply to existing balances, such action could be limited or banned under the new rules.

The Fed received more than 60,000 comment letters on the proposal, a record number for any regulatory proposal. Most were from consumers complaining about their credit cards.

"PLEASE don't allow them to continue their immoral, predatory practices!" Linda Donaldson, a former urban planner from Olympia, Wash., wrote in a hand-written letter. In an interview, Ms. Donaldson said she has credit-card debt but wouldn't specify how much.

President-elect Barack Obama will have an instant opportunity to further push the Fed toward a more consumer-oriented bent, as he will be able to nominate three governors to the Fed's seven-member board.

The most significant change between the pending rules and a proposal in May was the government's decision not to enact specific rules related to fees customers are charged when they overdraw their bank account. Regulators want more time to study this issue, people familiar with the matter said.

Marketplace

The new hot color

More Washington lobbyists are signing up with green companies > **Page 29**