# THE WALL STREET JOURNAL.

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**Siemens pleaded guilty** to paying bribes to government officials in 10 countries for business contracts, and it agreed to pay $800 million in criminal and civil fines in the U.S. to settle the long-running case. Page 1

■ **Oil exporters are poised** to make steep production cuts as they try to keep pace with an expected decline in global demand in 2009. Page 1

■ **European banks and funds** revealed clients' exposure to Bernard Madoff's alleged Ponzi scheme totaling billions of euros. Nobel laureate Elie Wiesel's foundation is affected, as are clients of Spain's Banco Santander. Pages 1, 19

■ **Citigroup raised $8 billion** over the past year for Dubai, whose growth is threatened by the city-state's reliance on outside financing. Page 2

■ **The U.K. government moved** to ease the terms of its bank-bailout plan, saying it would lower the fees banks must pay to receive a government guarantee on their debt. Page 2

■ **U.S. manufacturing fell** as factories cut back amid a deepening recession. U.S. industrial output is on track for its worst performance since 1980. Page 9

■ **U.S. stocks declined** as market participants looked ahead to the interest-rate decision due from the Fed on Tuesday. European shares slipped. Page 20

■ **The highest court** in the U.S. allowed a suit against a federally regulated tobacco product to proceed in a state court. Page 7

■ **China's steel output fell** 12.4% in November from a year earlier, driving factory output to its worst performance yet. Page 12

■ **Volkswagen is pressuring** Fiat and GM with an expansion drive in South America as sales growth in emerging markets slips. Page 5

■ **Bank of America** laid off about 20 executives as part of its plan to integrate Merrill Lynch's operations. Page 6

### Markets 4 p.m. ET

| MARKET | CLOSE | NET CHG | PCT CHG |
|---|---|---|---|
| DJIA | 8564.53 | -65.15 | -0.75 |
| Nasdaq | 1508.34 | -32.38 | -2.10 |
| DJ Stoxx 600 | 197.51 | -0.71 | -0.36 |
| FTSE 100 | 4277.56 | -2.79 | -0.07 |
| DAX | 4654.82 | -8.55 | -0.18 |
| CAC 40 | 3185.66 | -27.94 | -0.87 |
| Euro | $1.3671 | +0.0308 | +2.30 |
| Nymex crude | $44.51 | -1.77 | -3.82 |

*Money & Investing* > Page 19

### World-Wide

**A top ECB policy maker** touted the formation of a clearinghouse that would guarantee loans that banks make to one another as a promising option to help thaw frozen money markets. The central bank official also said the risks that the euro-zone economy would suffer from the fallout of global financial-market turmoil had risen over the past six months. Page 3

■ **An Afghan-NATO operation** killed 40 militants in the south, including a Taliban leader, an official said. Britain said it sent 300 extra troops to Afghanistan.

■ **Thousands of Iraqis rallied** to demand the release of a reporter who threw his shoes at Bush in anger at U.S. policies, as support for the act flowed in from across the Arab world.

■ **Greek youths demonstrated** in Athens, in the second week of violent protests over the shooting death of a teenager.

■ **The candidate nominated** as prime minister in Romania's next government renounced the job and was succeeded by the head of the same centrist party.

■ **Thaksin opponents elected** Democrat Party leader Abhisit Vejjajiva prime minister of Thailand, loosening the ousted leader's grip on Parliament. Page 12

■ **Defectors from the ANC** are set to choose a leader of a new South African political party that supporters hope will challenge Mandela's party. Page 3

■ **Tribesmen kidnapped** a German aid worker and her parents in southern Yemen and demanded the government release imprisoned clan members.

■ **Zimbabwe's ruling party** renewed accusations its opponents are training in Botswana to overthrow Mugabe. The U.N. said the cholera death toll jumped to 978.

■ **Three African armies began** an offensive against Ugandan rebels based in eastern Congo in an attempt to end one of the continent's most brutal wars.

■ **Israel released** 224 Palestinian prisoners in a goodwill gesture to Palestinian leader Abbas.

■ **Taiwan and China began** daily direct flights and regularly scheduled shipping services, ending a long ban on regular links. Page 12

### EDITORIAL & OPINION

**No means no**

Dublin seems to want to vote on an EU treaty until it gets the "correct" results. Page 13

# Sprawling network sold Madoff to Europeans

*Social connections from Madrid to Milan provided the entry*

By Thomas Catan in Madrid and Cassell Bryan-Low in London

Bernard L. Madoff won client money in Europe by mining a sprawling network of funds and wealthy individuals from Geneva to Milan and Madrid. As in Palm Beach, Florida, many contacts were made by word of mouth.

Geneva is emerging as a hub of fund-of-funds—entities that invest in pools of hedge funds—targeted by Mr. Madoff. Swiss bank **Union Bancaire Privee**, one of the world's biggest fund-of-funds, said about 1% of its assets, or $1.25 billion, were exposed to the alleged Ponzi scheme run by the veteran New York money manager.

In Spain, wealthy families were brought into Mr. Madoff's plot through trusted members the country's financial aristocracy—including relatives of Spain's banking patriarch, chairman of **Banco Santander** Emilio Botín.

M&B Capital Advisers—which is run by Mr. Botín's son, Javier Botín-Sanz, and his son-in-law, Guillermo Morenés—marketed funds that

*Please turn to page 31*

### Detailing deception

European banks and financial institutions with clients exposed to Madoff:

| Most exposed: | Amount |
|---|---|
| Santander/Spain | €2.33 billion |
| HSBC/U.K. | 0.75* |
| Natixis/France | 0.45 |
| RBS/U.K. | 0.45* |
| BNP Paribas/France | 0.35 |
| BBVA/Spain | 0.30 |
| MAN Group/U.K. | 0.27* |
| Dexia/Belgium | 0.24 |
| AXA/France | 0.10 (or less) |
| Unicredit/Italy | 0.08 |

Bernard L. Madoff

Associated Press/The New York Times

| Minimum or no exposure: | |
|---|---|
| Société Générale/France | Below €10 million |
| Crédit Agricole/France | Below €10 million |
| Groupama/France | Below €10 million |
| Credit Suisse/Switzerland | Not directly, but bank is checking on client funds |
| UBS/Switzerland | Limited and insignificant counterparty exposure |
| Barclays/U.K. | Minimal exposure through BarCap |
| Lloyds TSB/U.K. | No exposure |

*Converted at current rate

Source: Dow Jones Newswires Research

# Oil exporters brace for cuts in production

By Neil King Jr.

ORAN, Algeria—Top oil exporters appear poised to agree to steep production cuts, as they try to keep pace with an expected drop in world crude demand next year.

Gathering here for a pivotal session on Wednesday, officials from the Organization of Petroleum Exporting Countries said that the world was already awash in excess oil and that serious cuts in output were needed to soak up excess supply.

In a bid to firm up falling oil prices, OPEC could agree to lower its output quotas by as much as two million barrels a day, analysts predict. OPEC ministers also are calling on Russia and other big exporters outside the cartel to curtail production by as much as 300,000 barrels a day. Nonmembers Russia, Azerbaijan, Syria and Oman are all sending large delegations to the meeting.

After a prolonged bull run in oil prices, OPEC ministers are grappling with the bleakest oil market in years. Some forecasters are predicting that crude prices could fall to $30 a barrel or even lower early

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# Cooperation by Siemens likely helped curtail fines

By David Crawford And Mike Esterl

A record $800 million in fines for bribery levied against German engineering and industrial conglomerate **Siemens** AG on Monday could have been much higher if the company hadn't used a private law firm to assist prosecutors, officials and lawyers say.

A Washington, D.C., federal court on Monday ratified a settlement in which Siemens agreed to pay fines of $450 million and $350 million to end litigation claims by the U.S. Justice Department and Securities and Exchange Commission, respectively. It was by far the largest penalty ever imposed under the U.S. Foreign Corrupt Practices Act.

In addition, Europe's largest engineering company by revenue said it would pay another €395 million ($528 million) in Germany to settle criminal investigations there. The fines are in addition to a €201 million fine levied by a Munich court last year in connection with allegations the company paid more than $1 billion in bribes to gain contracts over a decade.

But authorities say the probes could have lasted much longer and the fines could have been more than

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THE WALL STREET JOURNAL.

## LEADING THE NEWS

# U.K. lowers banks' fees

### *Move eases terms of bailout program after complaints*

By Sara Schaefer Muñoz

LONDON—The U.K. government made a significant move to ease the terms of its bank-bailout plan, saying it would lower the fees banks must pay to receive a government guarantee on their debt.

Amid complaints from bankers that the bailout program is proving too expensive, the government said it would use a new, more lenient formula to calculate the fees, and would extend the guarantee program to 2014, two years longer than originally planned. It will also allow banks to use the guarantees to borrow in some currencies other than pounds, dollars and euros, such as Japanese yen and Swiss francs.

The credit-guarantee program was announced in October as part of an ambitious bailout plan aimed at jump-starting bank lending. The program covers up to £250 billion ($374 million) in bank-issued debt instruments, including certificates of deposit and commercial paper issued to parties anywhere in the world, with maturities of up to three years. By the end of the year, £100 billion worth of debt will have been guaranteed under the scheme, according to the Treasury.

The government said it would now base the fees on the cost of banks' default insurance from the 12 months ending July 2008, instead of the 12 months to October, plus half a percentage point.

This avoids months during which the cost of credit default insurance soared, resulting in a reduction of the fee for banks to use the guarantee, according to a person familiar with the scheme.

The new price structure is expected to go into effect in several days, once it gets approval from the European Union, a Treasury spokesman said.

The change in the credit guarantee program is one of several concessions to banks that the government is considering, according to people close to the matter. One is an extension of its special liquidity scheme, a mechanism created in April that allows banks to put up hard-to-sell securities as collateral for loans of government bonds. The government could announce as early as this week that it will extend the program, which is scheduled to end in January, change the amount it will lend against certain securities and expand the types of securities it will accept, according to a person familiar with the matter.

The U.K. government could also change the way it invests in banks, with some portion of the £9 billion in preferred shares the government plans to purchase in three banks made into convertible securities instead, according to another person familiar with the matter. These would be less expensive for the banks than paying the 12% coupon on the preferred shares.

The moves are part of a carrot-and-stick approach the government is taking as it tries to get banks to lend more.

One of the goals of the government's rescue package was to keep credit flowing to businesses and consumers, but banks have been wary of lending as the UK economy has headed toward a sharp downturn.

## CORRECTIONS & AMPLIFICATIONS

**Skoda Auto** AS is moving to a four-day workweek for the first half of 2009, and the Czech car maker is cutting staff pay levels to 75% of average salaries for the days employees are forced to take off. An article in the Focus on Automobiles section Monday failed to specify that the salary cut would be applied only to the days employees don't work.

**Swiss Reinsurance** Co. disclosed the market value of its credit-derivative positions in 2007 and earlier, but has sharply increased the amount of information it provides on those positions since November 2007. Swiss Re also classifies a large portion of its investments as "available for sale," meaning it doesn't reflect any losses on its income statement until these investments are sold or deemed permanently impaired. A page-one article on Dec. 1 incorrectly said that Swiss Re didn't disclose its credit-derivative positions until November 2007 and that the company has classified a large portion of its investments as "held to maturity."

# Citigroup raised $8 billion for Dubai over past year

By Margaret Coker

MANAMA, Bahrain—Amid questions about Dubai's looming debt obligations, **Citigroup** Inc. said Monday that it had raised $8 billion for the Persian Gulf city-state over the course of the past year and still had a positive outlook on its economy.

Citigroup Chairman Win Bischoff was quoted in the bank's statement as saying Citigroup continues to see Dubai as among its "most significant markets."

"This is in line with our commitment to the [United Arab Emirates] market in general, and reflects our positive outlook on Dubai in particular," the statement quoted Mr. Bischoff as saying.

Dubai's transformation from a sleepy backwater port to a booming financial and shipping hub has come thanks to large infrastructure projects undertaken by state-owned companies such as Emaar and Dubai World. Dubai's growth is now under threat because, unlike its oil-rich neighbors, the emirate has had to rely almost entirely on outside financing to fund these projects, and project finance and foreign credit lines have shrunk because of the global credit crunch and failing oil prices.

Citigroup, which enjoys a long-standing banking relationship with the emirate, voiced its confidence at a time when Dubai has attempted to reassure investors and its creditors that it is capable of servicing the $80 billion of debt that the city-state and its companies have outstanding. More urgently, Dubai has $12 billion of nonbank debt coming due in 2009, according to Fitch Ratings.

Analysts and bankers in Dubai question where that cash is going to come from next year, especially since two pillars of Dubai's economy—real estate and banking—are feeling the pinch. The statement from Citibank did little to address those concerns.

A bank official said most of the financing Citigroup had secured for Dubai had come before the fourth quarter of 2008, when the global crisis made its biggest impact on the city.

The Citigroup statement didn't disclose which Dubai companies received funds from the $8 billion in loans. The statement said only that the funds had been arranged for "public sector entities."

A Citigroup official said the $8 billion in loan financing for Dubai had been syndicated from other sources, but that an undisclosed amount had come from the bank's own balance sheet. Mr. Bischoff, who visited Dubai in November, said at the time that the bank had "lots of billions" of dollars of exposure to Dubai debt.

In November 2007, the Abu Dhabi Investment Authority, the sovereign-wealth fund owned by the capital of the United Arab Emirates, injected $7.6 billion into Citigroup.

## 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.



## 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**






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## LEADING THE NEWS

# ECB mulls ways to thaw lending

### *Official promotes loan clearinghouse as one possibility*

By Joellen Perry
And Monica Houston-Waesch

FRANKFURT—A top European Central Bank policy maker touted the formation of a clearinghouse that would guarantee the loans that banks make to one another as a promising option to help thaw frozen money markets.

"This is a concept worth considering," ECB Vice President Lucas Papademos said. Speaking at the launch of the central bank's semiannual financial stability review on Monday, Mr. Papademos also said the risks that the euro-zone economy would suffer from the fallout of global financial-market turmoil had risen over the past six months.

Central bankers in the U.S. and euro zone alike are fretting that banks' continuing reluctance to lend to one another for longer periods of time is reducing the effect of central bank rate cuts. Banks' wariness to lend among each other is keeping interest rates high on those loans, which are an important benchmark for many consumer and business loans across the 15-nation euro zone.

The ECB's report noted that the welter of central bank and government actions aimed at spurring banks' lending and bolstering their balance sheets has been only moderately helpful so far. Governments across the bloc have debuted financial-sector bailout packages, including recapitalization plans. The ECB's efforts have included offering banks unlimited short-term cash at fixed interest rates and lowering the central bank's key rate by 1.75 percentage points since October, to its current 2.5%.

European money-market rates dropped sharply on the back of such measures this month. But the recovery remains "modest," Mr. Papademos said, in part because government plans "have been implemented very gradually." Any ECB effort to kick-start interbank lending markets, he stressed, would be implemented across the bloc, as opposed to nationally. Some euro-zone governments have indicated interest in an interbank clearinghouse to guarantee interbank loans.

The ECB's report also stressed that the bloc's financial system remains vulnerable to a potentially toxic cocktail of risks. "These include the possibility of a further deterioration of the U.S. and euro area housing markets, the risk of a deeper and more prolonged slowdown in economic activity, which could exacerbate the credit cycle, and financial market risks related to hedge funds," the ECB said.

Mr. Papademos highlighted market indicators that suggest U.S. housing prices could halve again and are only likely to hit bottom in 2010. That could hurt the profits of euro-zone banks still holding U.S. housing-related assets. Further hits to profit, Mr. Papademos said, could come from losses on falling commercial property prices throughout the euro zone.

Other risks include the potential, still judged high by markets, that several large banks could default simultaneously. That could test the resilience of the euro-zone and global financial systems, in part because of a surge in trading tools that allow investors to bet on defaults. Trading in the credit-default swaps market—where investors buy and sell derivatives that pay off when a debt issuer defaults—has surged, so banks with big exposures could be hit hard if a number of banks defaulted at the same time.

# Illinois panel to mull possibility of impeachment

By Douglas Belkin

SPRINGFIELD, Ill.—State House Speaker Michael Madigan took the first step toward the impeachment of Illinois Gov. Rod Blagojevich, setting up a bipartisan committee to explore the possibility.

The committee will be made up of 12 Democrats and nine Republicans. If the plan wins passage by the state House later Monday, the committee would begin work Tuesday.

"We're going to proceed with all due speed, but we're going to make sure that what we do is done correctly," the Chicago Democrat said.

Once the committee makes a recommendation, the full state House will decide whether to file impeachment charges against the governor.

The state Senate ultimately would rule on them.

Mr. Madigan, a longtime political rival of the governor who nonetheless served as chairman of Mr. Blagojevich's 2006 re-election committee, said he wasn't surprised when he learned of the arrest of Mr. Blagojevich, a Democrat. Last week, federal agents presented a 76-page criminal complaint, charging the governor, among other things, with attempting to sell the Senate seat vacated by President-elect Barack Obama. "I've had an opportunity to get to know Mr. Blagojevich over six years, so I was not surprised," Mr. Madigan said.

Republican state House leader Tom Cross said he supports the impeachment move, saying he wants the process to be "swift and fair."

*—The Associated Press contributed to this article.*

# South African political challenger

By Nicolas Brulliard

BLOEMFONTEIN, South Africa—Defectors from South Africa's dominant African National Congress are set to choose a leader of a new political party that supporters hope will pose the biggest challenge to the party of Nelson Mandela since it gained power 14 years ago.

The new party is forming at a time of political and economic turmoil for South Africa. The mineral-rich country has boomed in recent years due to rising global demand for its resources. Now that global commodity prices are dropping, there is less revenue to invest in infrastructure, particularly in the weak power sector, and alleviate growing discontent among the country's poorest.

South Africa also is trying to maintain a reputation as a regional leader. Recently ousted President Thabo Mbeki took the lead on negotiating a political solution to the crisis in Zimbabwe. Although he has been blasted for being too soft on that country's dictatorial leader, few other African leaders have dared to criticize the mediation process.

The Congress of the People, or COPE, planned to choose a new leader by the end of its conference Tuesday, and expects to field candidates in parliamentary elections in March and in a presidential election by the legislature that must be held next year.

COPE, which was formed after the forced resignation of Mr. Mbeki in September, is the product of a rift within the ruling party that culminated in December 2007 when rival Jacob Zuma unseated Mr. Mbeki as the ANC leader.

Associated Press

Former South African Defense Minister Mosiuoa Lekota is a top contender to lead a new party of defectors from the dominant African National Congress.

The party hopes to lure voters who have been alienated by the ANC's increasingly populist rhetoric and what critics say is its low tolerance for dissent, as well as the character of Mr. Zuma, who has been dogged by corruption allegations.

Brian Sokutu, an ANC spokesman, said that ANC leaders have long had a tradition of "robust and engaging" discourse.

It may be difficult for COPE to distinguish itself from the ANC to pose as a credible alternative. Most members cut their teeth in the ranks of the ANC and retain its revolutionary rhetoric, calling each other "comrade." COPE chose to hold its launch in Bloemfontein, where the ANC was formed nearly a century ago.

Interim Chairman Mosiuoa Lekota, 60 years old, a veteran of the liberation movement and former defense minister in the ANC-led government, is one of the top candidates to lead COPE, along with Mbhazima Shilowa, the former premier for the province that includes Johannesburg.

The ANC has long been dominant, has an established political structure, and retains most of the country's prominent leadership figures, making a COPE presidential election victory unlikely.

Still, it's seen as an important step in the transformation of South Africa's young democracy into a truly multiparty system. There are 16 political parties represented in parliament, but the ANC has dominated each election since the end of apartheid and claims a majority of seats, giving it the power to elect the president.

# Turkey's GDP grew 0.5% in quarter

By Christopher Emsden

Turkey's economy slowed to a near halt in the third quarter, raising the risk of a recession as the government gets ready for fresh loan talks with the International Monetary Fund.

Turkish gross domestic product expanded by 0.5% in the third quarter from the year-earlier period, the slowest rate in six years, the statistical office said. That rate came after a 2.3% annual expansion in the second quarter and 6.7% annual growth in the first three months of the year.

The agency also said the unemployment rate rose to 10.3% in the three-month period of August-October, from 9.8% in July-September.

The slowing growth makes it likely that the central bank will cut its 16.25% policy interest rate, the highest inflation-adjusted real rate of any major economy, when its monetary-policy committee meets Thursday. The inability of small and medium-size enterprises to take out loans is leading to job cuts and lower exports, the State Planning Organization said last week.

Trends in the fourth quarter point to a further deterioration, with industrial production down 8.5% in October from a year ago and exports sinking fast. Tax receipts are declining, while public spending increases. The Turkish economy could post a negative number for the full year in 2009, said Timothy Ash, head of emerging-market research at the Royal Bank of Scotland.

This "obviously raises big question marks over official budget projections for 2009 and adds weight to calls for the government to quickly sign up to a new funding agreement with the IMF," he said.

The IMF has required tough fiscal measures in exchange for emergency loans it has extended recently to Iceland, Ukraine, Hungary and Latvia.

Turkish Treasury figures showed budget spending rose 23% on the year in November, while revenues fell 5% from Novemer 2007. The figures cast doubt on the government's spending plans for next year, which assume 4% GDP growth and a 16% jump in tax revenue.

# CORPORATE NEWS

# GE power unit looms large in outlook

*Energy business is bright spot in troubled times, but recession and plunging oil prices could curtail future gains*

By Paul Glader

In a tough year for **General Electric** Co., its energy-infrastructure unit has been a bright spot. Through September, revenue at the unit, which makes power-generation equipment, was up 28% from a year earlier, and operating profit was up 35%.

But the recession, credit crisis and the plunging price of oil threaten that success. That will put the energy unit in the spotlight Tuesday when GE Chairman and Chief Executive Jeffrey Immelt takes to the stage used by "Saturday Night Live" at NBC headquarters in New York to brief investors on GE's outlook for 2009.

Most of GE's recent troubles are rooted in its finance unit, which is winding down some businesses and relying in part on government loan-guarantee programs and commercial paper, or short-term loans, to maintain liquidity. But the industrial parts of the company are beginning to show signs of strain: aircraft sales are slowing, hurting GE's lucrative jet-engine business; medical-imaging equipment sales are falling, squeezing its health-care unit; and advertising sales are shrinking, damping GE's NBC Universal entertainment unit, which had a strong third quarter, partly because of its Olympics broadcasts.

The Fairfield, Conn., conglomerate is counting on earnings from its industrial and media businesses to make up for an expected profit decline from its finance unit, and to allow the company to maintain its dividend of $1.24 annually. The dividend represents a 7% yield on GE stock and costs the company about $12 billion a year, analysts say.

The energy unit, led by John Krenicki, is expected to generate more than $5 billion of profit this year, and the company has said its

**Growth in energy**

General Electric's operating profit by business segment for the first three quarters of 2008

| Segment | Op. profit, in billions | Change from year earlier |
|---|---|---|
| **Energy Infrastructure** (nuclear power, power turbines, alternative energy etc.) | $4.1 | 35% |
| **Technology Infrastructure** (health care, transportation, aviation) | 5.7 | 4.6 |
| **NBC Universal** (TV network, cable channels, film company) | 2.3 | 3.8 |
| **Capital Finance** (GE Capital, financial services, GE Money) | 7.6 | –16 |
| **Consumer & Industrial** (appliances, lighting businesses) | 0.3 | –58 |

Source: the company


Bloomberg News/Landov

A General Electric technician assembles a jet engine.

backlogs are healthy. But the recession and credit crisis are curbing demand for big power projects, as well as GE's power-generation turbines, the unit's biggest sellers in dollar volume, prompting some industry watchers to wonder if its backlogs will diminish.

"Everything's frozen," says Barry Worthington, executive director of the U.S. Energy Association, a Washington trade group whose members include GE's power-systems business. **Duke Energy** Corp., for example, is delaying construction by a year on two gas-fired power plants in North Carolina that will use four GE 7FA gas turbines; Duke is still paying for and taking delivery of the turbines, but the delay will postpone any future orders.

Nicholas Heymann, a GE analyst at Sterne Agee in New York, predicts as much as 10% of the company's current orders for power-generation and transmission equipment could be delayed or canceled in the next five years. Mr. Heymann, a former GE employee, expects Mr. Immelt to outline layoffs and other cost-saving measures Tuesday. "He has to shake things up," Mr. Heyman says. "He's got to surprise people."

GE's energy-infrastructure business includes dozens of products and services, including power transformers, steam turbines, nuclear reactors, wind turbines, solar-power modules and oil-and-gas equipment. The unit reported third-quarter revenue of $9.77 billion, up 32% from a year earlier. Together with the technology-infrastructure unit, which makes jet engines, locomotives and medical equipment, it forms GE's industrial backbone. The two units account for nearly half of the company's revenue and more than half of its profits.

While addressing the finance unit's woes, GE executives haven't said much about the industrial units in recent weeks. But John Rice, president and CEO of GE's technology-infrastructure unit, said last week that backlogs in the group are still strong. "We still see pockets of strength in infrastructure," Mr. Immelt said in October on a conference call with analysts.

"We have a strong energy business with solid major orders and services backlog," says Russell Wilkerson, a GE spokesman. He says GE expects to generate $2 billion to $3 billion more in cash in 2009 than it needs to pay its dividend. He adds that Mr. Immelt will address GE's industrial outlook and cash position on Tuesday.

When Mr. Immelt spoke in October, oil was trading for about $85 a barrel, after topping $140 over the summer. Friday, oil settled at $46.28 a barrel on the New York Mercantile Exchange. Lower oil prices have dented demand for GE's alternative-energy offerings, such as its wind turbines, which have become big sellers for the company.

Deane Dray, a veteran Wall Street analyst, says lower oil prices also curb demand for GE's other more environmentally friendly products, such as energy-efficient locomotives and aircraft engines. Rapidly falling oil prices are "a net negative" for GE, Mr. Dray says.

Texas oil man T. Boone Pickens has put on hold development of a planned $1.5 billion wind-power farm in Texas, which is expected to use hundreds of GE wind turbines. The smaller **Noble Environmental Power** in Essex, Conn., which uses GE wind turbines exclusively, recently scaled back developing new wind-energy projects and has delayed an initial public offering of stock until market conditions improve.

Lower oil prices also crimp GE's oil-and-gas services business, which offers pipeline inspections, monitoring software and spare-parts services. That group reported a 37% increase in profit for the year through September, on a 14% increase in revenue, to $5.3 billion.

But tougher times may be ahead. The world's largest oil-field services firm by market capitalization, **Schlumberger** Ltd., which competes with GE in some areas, said on Dec. 3 that its 2008 earnings would miss analyst estimates as oil exploration slows and drill-rig counts fall.

"It is growing more certain that energy is not a safe place to hide, and we expect weakness to accelerate," said Steve Tusa, a J.P. Morgan analyst, in a recent research note about the industry. He and other analysts suggest that order backlogs that looked healthy in the third quarter could weaken in coming quarters.

# Middelhoff says Arcandor on track

By Cecilie Rohwedder

As he prepares to leave the helm of German retail travel group **Arcandor** AG, Thomas Middelhoff said he put the company on the right track, even as it reported a loss for its fiscal year and a sales decline.

Mr. Middelhoff, one of Europe's most prominent corporate leaders, said in an interview Monday that when he took over "in 2004, Arcandor was a few days away from bankruptcy. Now, two of its three businesses are doing well."

Its Thomas Cook travel division and Primondo home shopping unit are both doing well, he said. Only its German department-store chain Karstadt is still a cause for concern within Arcandor, Mr. Middelhoff said.

Mr. Middelhoff's pending departure from Arcandor, which was announced earlier this month and takes effect on Feb. 28, marks the second time he is leaving a top-level corporate job in Europe. A former chief executive of media group **Bertelsmann** AG, Mr. Middelhoff is well known in American corporate and financial circles for his high-profile deals and bold promises. **Deutsche Telekom**'s chief financial officer, Karl-Gerhard Eick, has been named to succeed him.

After his departure, Mr. Middelhoff said he would continue to advise Arcandor's biggest shareholder, German bank **Sal. Oppenheim jr.** & Cie., about the company. The 55-year-old said he would also re-enter the investment and private-equity business but declined to specify how. Between leaving Bertelsmann and joining Arcandor, Mr. Middelhoff worked for Investcorp, an alternative assets manager listed in London and Bahrain.

Mr. Middelhoff said, in a rare admission, that he had made a mistake at Arcandor: keeping top management at Karstadt in place even after he realized that executives were spending money on marketing and discounts rather than cutting costs. When the problem became apparent in the fall of 2007, he said, Arcandor was in talks with British department-store operator Debenhams PLC about merging the two businesses, and he decided against a boardroom shuffle. The merger never went through.

"We should have changed horses," he said. He put in new management and launched an efficiency program in August.

Mr. Middelhoff said the public wrongly associated Arcandor mostly with Karstadt, although Thomas Cook now accounts for 60% of the group's sales and 90% of its operating profit. It is Europe's second-biggest tourism company after **TUI Travel**. Until Mr. Middelhoff changed the group name to Arcandor, its name was a composite of its long-standing retail units, KarstadtQuelle.

As the global economic downturn hurts retailers, Mr. Middelhoff said he expected consolidation among German and other European department stores, with Karstadt playing an important role in the shrunken market.

On Monday, Arcandor reported results. In its fiscal year ended Sept. 30, Arcandor posted a net loss of €745.7 million ($997.3 million), which the company blamed on expenses such as restructuring costs. Arcandor switched its fiscal year so the prior period was only nine months long. In that period, Arcandor reported a net profit of €26.5 million.

In the latest fiscal year, sales fell slightly to €19.8 billion on a pro-forma basis, from €20 billion the year before.

Arcandor shares fell 3.9% to €2.45 Monday on the Frankfurt stock exchange.

# ArcelorMittal ends battle to control Dillinger Hütte

By Alex MacDonald

After an 18-month battle for control of a German steel-plate producer, **ArcelorMittal** changed tack Monday, and said it is reducing its stake in the company, pocketing about $1 billion in the process.

The Luxembourg-based steelmaker is no longer pursuing a controlling share in Dillinger Hütte, which produces heavy steel plates and sells the bulk of its production to customers in the energy sector.

Instead, ArcelorMittal said it is selling an equity stake in the company, which is based in the German state of Saarland and has about 5,230 employees, to reduce its economic and voting interest on par with its ability to exert influence over Dillinger Hütte's operations.

Steel analyst Hermann Reith of BHF Bank in Germany said he was slightly surprised by the timing of the sale, noting that ArcelorMittal may be selling the shares too cheaply, given the recent economic downturn and subsequent drop in steel company valuations.

Mr. Reith, however, said the sale made sense because Dillinger Hütte's complicated shareholding structure prevents ArcelorMittal, the world's largest steelmaker, from exerting a commanding influence over the company's operations.

ArcelorMittal said it is reducing its voting interest in the company to 33.4% from 51.25% by selling equity stakes to the two existing stakeholders: **Struktur-Holding-Stahl** GmbH—a unit of the Foundation Montan-Stiftung-Saar, itself a holding vehicle of the local Saarland government—and Dillinger Hütte Saarstahl AG. SHS now will be the largest shareholder in the German steelmaker's capital structure, while ArcelorMittal will have a 30.08% stake.

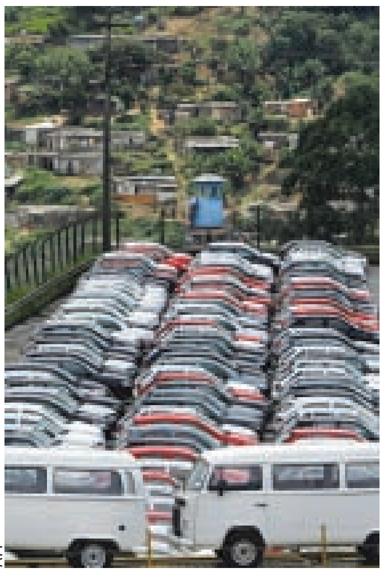
ArcelorMittal will have a gain of €777 million ($1.04 billion) from the sale, which includes a proposed dividend for 2008. The sale price gives the German steel mill an enterprise value of $2.6 billion.

An ArcelorMittal spokesman said the transaction will close shortly. He declined to say what ArcelorMittal plans to do with the proceeds. ArcelorMittal has said it intends to reduce net debt by $10 billion by the end of 2009 and cut costs by $5 billion over a five-year period.

# VW targets Brazil market

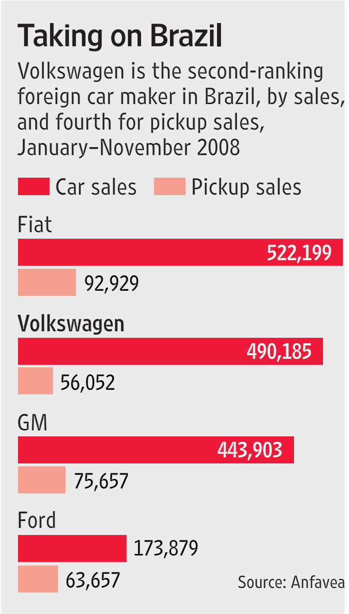
## *Amid global slump, auto maker sees potential in region*

BY CHRISTOPH RAUWALD



AFP

VW parking lot at Anchieta plant, Brazil




BUENOS AIRES—As growth in car sales in emerging markets grinds to a halt, **Volkswagen** AG's drive to expand in South America is increasing the pressure on market leaders **Fiat** SpA and **General Motors** Corp.

The German company, Europe's biggest car maker by sales, is rescheduling several projects in response to the economic downturn, but it is sticking to its investment plans and is looking to overtake troubled U.S. giant GM as the best-selling auto maker in South America within 10 years.

"We want to extend the strength of our brands to countries where we aren't producing locally [and] become the No. 1 in South America," Volkswagen's chief representative in South America, Viktor Klima, said in an interview.

Volkswagen said last month that it was sticking to its growth targets through 2018 despite the battering the industry is taking from eroding demand and large-scale production cutbacks. The financial crisis has sparked a slew of profit warnings and sales targets revisions from rival car makers and auto-parts providers in recent months.

South America has been one of the last safe havens for auto makers after sales deflated in key markets in North America and Western Europe. But in recent weeks, demand in Argentina and Brazil, the continent's largest markets, has started to deteriorate as credit conditions have tightened.

Availability of credit is crucial, especially for Brazil's auto market, where about 65% of sales are financed. The Brazilian government recently pumped more than 8 billion reals ($3.33 billion) into the auto-loan market through government banks in order to improve liquidity. Argentina announced a program including about 3.2 billion pesos ($935 million) in inexpensive credits for the auto sector as well as broader consumer credits of 3.5 billion pesos.

Auto sales in South America are expected to hit another record this year despite the sharp downturn in recent weeks, but executives are reluctant to make forecasts for next year because of the jittery markets.

The Brazilian Motor Vehicle Manufacturers Association, Anfavea, expects the domestic market to grow 14% this year compared with 2007 to around 2.82 million vehicles.

Volkswagen's hopes in South America are carried largely by the Gol, a hatchback tailored for the South American market (and not to be confused with the VW Golf). The Gol has been the best-selling car in Brazil for more than two decades. VW launched a revamped Gol in April and added a sedan version to its lineup three months ago.

Thomas Schmall, chief executive of Volkswagen's Brazilian unit, expects the company to cope with the downturn better than its rivals thanks to the Gol and a more flexible organizational structure following a wide-ranging restructuring several years ago. "We won't be affected as much by the current market downturn as our competitors," he says.

Volkswagen's expansion plan puts pressure on GM, as the current market leader in South America, as well as Italy's Fiat. Both auto makers generate a large chunk of their earnings in the region.

For GM, which burned through billions of dollars in North America and now is requesting federal support to avoid bankruptcy, the company's Latin America, Africa and the Middle East division has been its most profitable in recent years. Maureen Kempston-Darkes, president of the division, says the region will continue to play an important role for GM, adding that its investment plans in the region remain in place despite the woes embroiling the company.

"We've got a long history in Latin America, and we are here to stay," she said. She says that the company's large local production facilities are an advantage in coping with volatile markets. Most vehicles in South America are produced locally because of an import tax of 35% in the continent's key markets.

Fiat's reliance on earnings in South America is even bigger than GM's. Deutsche Bank said in a recent note that Fiat posted an operating margin of 12% in South America for the first half of the year, which is "probably equivalent to the entire profit achieved by Fiat Auto." Fiat didn't return phone calls or emails seeking comment.

In Brazil, Fiat is the best-selling auto maker, ahead of Volkswagen, GM and **Ford Motor** Co. Together, those companies dominate about 75% of the Brazilian market.

Industry executives say that despite the current slump, the mid- and long-term growth potential in South America remains strong thanks to a relatively young population and a low car-per-capita ratio along with a more stable political environment enabling further economic growth.

*—Kenneth Rapoza in Sao Paulo contributed to this article.*

# MAN expands in Brazil via VW

BY CHRISTOPH RAUWALD

FRANKFURT—**MAN** AG said it will acquire the Brazilian truck and bus operations of its biggest shareholder, **Volkswagen** AG, for about €1.18 billion ($1.58 billion), the first major step in the companies' plan to forge a European truck alliance.

Analysts say that the German truck maker is paying Volkswagen a high price, but Volkswagen could in turn use the proceeds to boost its stake in MAN.

Volkswagen—which holds a 29% stake in MAN, making it the company's biggest shareholder, and also owns a stake of about 69% in Swedish truck maker **Scania** AB—has been pushing for a three-way alliance of the companies' truck operations.

"This move is most likely just the first step of Volkswagen's plans in the truck sector," said Roman Mathyssek, an analyst at research firm IHS Global Insight. "It could indicate that Volkswagen will increase its stake in MAN further, and also foster the integration of Scania as part of the alliance," he said.

Ferdinand Piech, supervisory-board chairman at both VW and MAN, earlier this year said that the possible synergies of a tie-up between Volkswagen, MAN and Scania might prove to be twice as high as the initial estimate of €500 million.

Daimler's Mercedes-Benz unit and VW are the market leaders in Brazil in terms of truck sales, with market shares of around 30% each.

"Having concentrated on our core business units, MAN is now focusing on expansion in all business areas," MAN Chief Executive Hakan Samuelsson said. "The acquisition of VW Truck & Bus in Brazil marks another milestone in our international growth."

Brazil, along with Europe and the Middle East, has been a lucrative source of earnings for global truck makers in recent quarters amid weak demand in Japan and North America.

Mr. Samuelsson told reporters in Sao Paulo that MAN would consider launching its own truck brand in Brazil as part of a dual-brand strategy in combination with VW.

VW's Brazilian truck and bus unit employed about 5,000 staff and produced around 47,000 medium- and heavy-duty trucks as well as urban buses and long-distance coaches last year.

*—Kenneth Rapoza in Sao Paulo contributed to this article.*

# White House sizes up rescue plan for Big Three

*By John D. McKinnon, Deborah Solomon and Jeffrey McCracken*

WASHINGTON—In weighing a much larger rescue effort for U.S. auto makers than originally envisioned, the Bush administration faces a complex set of decisions over what terms to seek—including whether to push the companies to file for bankruptcy—and how to raise necessary funds.

The administration is trying to determine how much money it will take to help the car companies, and is discussing a rescue totaling $10 billion to $40 billion or more.

One possible source of funding is the Treasury Department's $700 billion fund set up to rescue the financial industry. Only about $15 billion remains uncommitted from the first tranche of $350 billion, so the Bush administration could be forced to request the second half to cover the car companies' needs, people familiar with the situation said.

That likely would compel the administration to outline its plans for a range of other needs, including foreclosure prevention for struggling homeowners and possibly aid for state and local governments. That could spark another confrontation with lawmakers, who are increasingly divided over industry bailouts. Senate Republicans blocked a proposed bailout for the auto makers last week.

With Detroit's car makers facing bleak short-term prospects due to a collapse in consumer demand for vehicles, the Bush administration was rushing to determine the extent of the companies' financial problems.

Late last week, some officials thought the government might be able to provide as little as $8 billion to tide the companies over until early next year. On Sunday, a person familiar with the situation said the companies' collective needs could range from $10 billion to more than $30 billion. The administration spent the weekend poring over the auto makers' books to assess their financial needs.

The Bush administration must also figure out whether, and how, to try to wring concessions from affected parties, including factory workers, dealers and holders of the companies' debt. Without such concessions, the companies are likely to need cash infusions long into the future, congressional critics say.

The Bush administration can try to demand concessions upfront as a condition for making initial rescue loans. But it is unlikely Treasury can extract concessions from all the affected parties as part of a loan deal.

A more effective way to gain those concessions likely would be for the government to put together some sort of prearranged bankruptcy agreement for one or more of the companies. Going to bankruptcy court would give the companies, and the government, more leverage, because creditors' legal and contractual rights are generally subject to being rewritten in bankruptcy.

"The one thing that concerns us is a disorderly bankruptcy," a senior administration official said Sunday. "Every other option is open."

**General Motors** Corp. officials expressed optimism during the weekend that they could obtain some sort of bridge financing, and said there was no indication that the White House or Treasury would require a prepackaged bankruptcy.

**Chrysler** LLC officials, meanwhile, were asking dealers, former executives, suppliers and employees to bombard the White House with emails urging government support.

Forcing one or more of the companies to seek bankruptcy protection could tarnish the companies' reputations and discourage consumers from buying cars, some analysts say.

As a result, the administration might simply provide the financing necessary to get the companies into the new year, while obtaining whatever concessions it can. That would leave it to the incoming Obama administration and new Congress to decide the next moves.

One possibility under consideration is to break the money into two or three short-term loans "sized on need and duration," said one bankruptcy professional familiar with the talks.

Two people familiar with the situation said the government is also considering requiring any auto makers seeking aid to file for bankruptcy. Under such a scenario, the money would be used as so-called debtor-in-possession financing. Outside experts said such financing could require $50 billion or more for GM and Chrysler combined.

A prepackaged bankruptcy technically requires approval by all constituents that are making concessions in the bankruptcy, making that a less likely option. A more likely outcome, if the White House decides it will lend the money only on condition of a bankruptcy, is what bankruptcy experts call a prearranged bankruptcy filing.

Under that scenario, the filing company negotiates with its stakeholders beforehand and may get one or two groups to sign off on their concessions before filing. The company then hashes out the remaining concessions in bankruptcy.

One advantage of the continuing public debate and congressional talks, people familiar with the matter said, is that Chrysler and GM appear to be preparing for the possibility of a filing, with both recently bringing in bankruptcy advisersin the last several weeks.

"The key concern is the supply base. The fear is they and their lenders start to demand tighter terms, cash on delivery even, that could bring it all down quickly," said another bankruptcy adviser familiar with the matter.

*—Matthew Dolan and John D. Stoll contributed to this article.*

**Career Journal**

**Making connections**

*How laid-off workers can energize a stale networking circle* > Page 30

## CORPORATE NEWS

# BofA lays off executives

### *'Band 1' managers are cut as U.S. bank integrates Merrill*

BY DAN FITZPATRICK

**Bank of America** Corp., grappling with the slowing economy and preparing to integrate newly acquired **Merrill Lynch** & Co., purged about 20 high-ranking executives last week, including some longtime loyalists of Chief Executive Kenneth Lewis.

The cuts were the first among 30,000 to 35,000 expected over the next three years at the North Carolina bank and underscore how widespread reductions will be as Bank of America looks to weather the financial crisis. The cuts also are another demonstration of how careers are being ravaged for thousands of once fast-rising finance professionals, even at institutions like Bank of America that appear to be more successfully navigating the crisis than others.

*Kenneth Lewis*

The departing executives, at least some of whom were asked to vacate their offices by the end of the day they were notified, were taken from the bank's "band 1" layer of management, one rung below Mr. Lewis. Some were longtime managers at Bank of America, a few dating to the days when the company, then called North Carolina National Bank, began its aggressive campaign of acquisitions that formed the nation's first and largest coast-to-coast retail bank.

Bank of America's belt-tightening follows similar moves at other U.S. firms ravaged by the financial crisis; a total of 92,260 job cuts have been announced at major banks since October, including 52,000 jobs at **Citigroup** Inc., or 15% of its work force, by early 2009. San Francisco-based **Wells Fargo** & Co. also is expected to make sizable cuts once it completes its acquisition of **Wachovia** Corp., which employs about 20,000 people in its headquarters city of Charlotte, N.C.

Among those asked to leave at Bank of America, according to people familiar with the situation and internal bank communications, were deputy general counsel David Onorato; Helga Houston, a compliance and risk-management executive for global consumer and small-business banking; Lance Drummond, a senior e-commerce executive in charge of the Web site bankofamerica.com; Brad Dinsmore, head of consumer banking on the West Coast; Mark Ricci, a sales, service and integration executive; and Chris Swecker, hired in 2006 from the Federal Bureau of Investigation to run the bank's corporate-security organization. Another was general counsel Tim Mayopoulos, who was succeeded by Brian Moynihan, most recently head of corporate and investment banking.

Bank of America disclosed Mr. Mayopoulos's exit last week but didn't signal that it was part of a larger high-level blood-letting. A spokesman declined to comment on the other departures. "We only announce personnel changes when it involves the very top people in the company," said spokesman Scott Silvestri. "We don't believe it is appropriate to publicize other such decisions due to the privacy concerns of our associates."

Former Bank of America executives said the ousters amounted to one of the largest purges of longtime executives during Mr. Lewis's seven-year leadership of the company. Ms. Houston, for example, joined the bank in 1986, when it was still known as North Carolina National Bank, or NCNB. Mr. Drummond was often touted as one of the firm's highest-ranking African-American executives. Mr. Dinsmore, said people familiar with the company, was a close confidant of Liam McGee, the president of Bank of America's consumer and small business bank. Mr. Ricci, these people said, was close to Barbara Desoer, the woman tapped this year to run the company's mortgage operations following its acquisition of Countrywide Financial Corp.

"They were very loyal soldiers," said a person familiar with the situation. "This was a real shock and a major blow."

The 30,000 to 35,000 reductions planned by Bank of America represent about 10% to 11% of the company's total work force after it completes the acquisition of Merrill, a deal expected to close by Jan. 1. The cuts reflect both redundancies created by the Merrill acquisition and the "current recessionary environment," Bank of America said last week.

Spokesman Robert Stickler acknowledged last week that some reductions relating to the current crisis have started already, without specifying where the cuts were made. He said the layoff notices so far were "relatively immaterial" in number.

Top executives from Bank of America and Merrill are meeting this week to discuss more cuts, according to a person familiar with the matter.

*—Susanne Craig and Evan Perez contributed to this article.*

# Recession cuts in on H&M's sales

BY OLA KINNANDER

STOCKHOLM—Fashion retailer **Hennes & Mauritz** AB, which for months has said its low-price profile is helping it keep—and even win over—increasingly cost-conscious consumers, posted November sales figures that indicate it, too, is being hurt by the global slowdown.

H&M, Europe's second-largest fashion retailer by revenue after Spain's **Inditex** SA, the owner of the Zara chain, reported a 7% rise in November sales compared with a year earlier, missing analyst expectations. The Stockholm-based company said same-store sales, or sales from stores open longer than a year, fell 4%. It was H&M's fourth consecutive month of falling same-store sales.

A poll of five analysts had forecast a sales rise of 9.4%, with same-store sales falling 2.1%. In October, H&M's sales grew 9% and fell 2% on a like-for-like basis.

Evli Bank analyst Anders Wiklund noted that Germany, H&M's biggest market, has experienced declining apparel sales for months. In November, clothing sales in the country fell 3%, according to industry journal Textilwirtschaft.

In H&M's home market, Sweden, November clothing sales fell 7.5%, according to the Swedish Retail Institute.

Retailers around the world have cut forecasts and reduced growth plans in recent months as the worst economic downturn in decades has curbed demand.


Associated Press

Even retailer H&M, with its inexpensive but trendy clothes, is being hurt by the global slowdown. Above, pedestrians look into H&M's first Japan store in Tokyo.

Inditex appeared to buck the weakening trend for European retailers by last Thursday posting higher profit and sales for the first nine months of its fiscal year and saying it plans to maintain growth next year. Still, Inditex's third-quarter net profit was virtually unchanged from a year earlier, edging up to €437 million ($584.4 million) from €432 million.

H&M said it plans to stick to its long-held strategy of expanding its number of stores globally by between 10% and 15% annually. The company this year has entered new markets such as Japan, Egypt and Saudi Arabia.

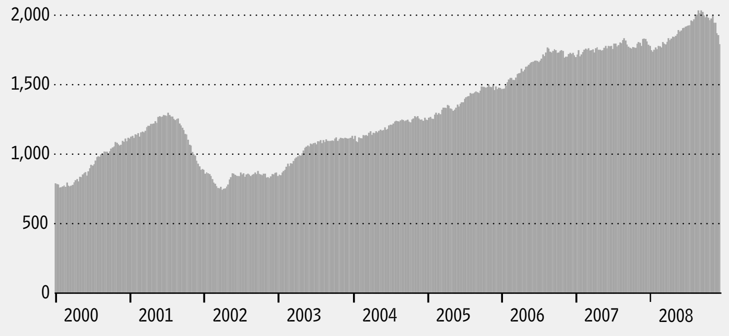
However, most of its new stores are still being opened in mature markets such as the U.K., France, Germany, Italy, Spain and the U.S., said Nils Vinge, head of investor relations, in November.

H&M had 1,738 stores as of Nov. 30, up 14% from 1,522 a year earlier.

*—Dominic Chopping contributed to this article.*

**Drilling down**

After rising steadily in response to surging oil and gas prices, the number of drilling rigs running in the U.S. has begun to drop.




Source: Baker Hughes

# U.S. drilling rigs fall idle as oil and gas prices drop

BY BEN CASSELMAN

As oil and gas prices fall, drilling activity in the U.S. is slowing more than expected, battering shares of drilling companies, hurting economies in energy-producing states and sowing the seeds for supply shortages when the economy recovers.

In its weekly accounting, **Baker Hughes** Inc. reported Friday that the number of drilling rigs working in the U.S. had fallen to 1,790, off 12% from the September peak and down 2% from the same time last year. It was just the second time the weekly report showed a year-over-year decline in the past five years.

Most industry analysts now expect hundreds more rigs to fall idle by the middle of next year. Some industry experts suggest a drop of as many as 1,000 rigs, which would represent a 50% decline from the peak set in September. That would leave fewer rigs running than at any time since 2003. (Please see related article on OPEC cuts, page C1.)

The slowdown is being driven by the collapse in energy prices, which has made many higher-cost oil and gas fields uneconomic while companies have less cash to pursue even those wells that are still worth drilling. At the same time, the credit crisis has made it harder for companies to borrow money, further constraining spending.

"This whole thing is happening more at videogame speed than real life," said Bob Simpson, chairman of oil and gas producer **XTO Energy** Inc.

The worsening crisis has meant that many producers that began cutting their drilling budgets in September or October, when prices began falling, have been forced to cut again, in some cases multiple times. **Chesapeake Energy** Corp., the largest U.S. gas producer, has reduced its drilling budget four times since September, and has said it will do so again if necessary.

"These things take time to play out, and we have been reacting for the last four months to worsening credit conditions," Chesapeake Chief Executive Aubrey McClendon said.

The sudden slowdown is sending shock waves through economies in Texas, Oklahoma and other states that had been until recently relatively insulated from the national economic slowdown by their strong energy sectors. An onshore drilling rig directly employs around 20 workers, and creates dozens more jobs for everyone from equipment manufacturers and truck drivers to geologists, engineers and accountants.

"Those are high-paying jobs and that's high-impact activity," said Karr Ingham, a petroleum economist based in Amarillo, Texas. "It's had a lot to do with economic growth in Texas. ...Now the tables are going to be turned a little bit."

The drop-off in activity is also bad news for oilfield service providers, especially drilling companies such as **Patterson-UTI Energy** Inc. and **Nabors Industries** Ltd.

Not everywhere will be equally affected. Oil prices have fallen faster than natural-gas prices, and oil projects tend to be more expensive, so most analysts expect them to be canceled first. Older, less-productive fields in Oklahoma, West Texas and elsewhere will see activity decline faster than newer, less-expensive fields.

**'This whole thing is happening more at videogame speed than real life.'**

If prices remain at current levels or fall further, though, the effects will be felt across the U.S. industry. Oil prices of "$40 to $60, that pretty much doesn't work in the U.S.," said Bill Herbert, an analyst with energy-focused investment bank **Simmons & Co.**

Most production in the U.S. is natural gas, not oil, and industry analysts are counting on the drilling slowdown to ease a gas glut that has helped drive down prices. That hasn't happened yet, as the slowing economy has cut into demand for electricity and for the products from diapers to fertilizer that are made using natural gas. At the same time, recently discovered gas fields are producing at an unprecedented rate.

"We are asking Santa for fewer drilling rigs, less supply and a bit more demand," investment bank **Tudor Pickering Holt** & Co. wrote in a research note Friday.

Industry executives, however, warn that restoring production takes longer than cutting it. That means the drop-off in drilling activity could lead to supply shortages—and rapidly rising prices—when the economy recovers.

"This sets up, I kind of think, the mother of all price recoveries," Chesapeake's Mr. McClendon said.

## CORPORATE NEWS

# Nintendo's new Wii Music waits for fans

*Game lags behind others, but creator remains confident*

By Yukari Iwatani Kane

After years of explosive growth, **Nintendo** Co. is under pressure to keep up its momentum. That puts the company's creative chief, Shigeru Miyamoto, in the hot seat again.

The legendary game guru, who was the brains behind Nintendo's Wii console and the creator of Donkey Kong, Mario and Zelda, is facing a disappointment this holiday season. His new Wii Music game, in which players shake the Wii's controller the way an instrument would be played, has been greeted with skepticism, even from loyal fans.

"It could be Nintendo's first flop for Wii," said Benjamin Schachter, an analyst with UBS Investment Research.

In an interview, the famously private Mr. Miyamoto said he isn't bothered by how Wii Music is performing so far. "I don't expect Wii Music to be an immediate hit," said the boyish-looking 56-year-old, who joined Nintendo in 1977 and now runs its game development. "It will be a steady long-running seller that will spread gradually by word-of-mouth."

Unlike the blockbuster music games Guitar Hero and Rock Band, which have sold millions of copies, letting players act like rock stars, Mr. Miyamoto made Wii Music an improvisation game that doesn't keep track of scores.

Mr. Miyamoto said his goal is to make games more than just a form of entertainment. Wii Music, he said, has educational value as a tool to teach music theory. In the game, players choose from 60 instruments to improvise and record songs like "Yankee Doodle" and "La Cucaracha."

Getty Images

Nintendo game designer Shigeru Miyamoto, shown demonstrating Wii Music, says he isn't expecting it to be an immediate hit.

Consumers have been slow to seize on the idea, though. The Wii console, which has sold more than 36 million units world-wide since its release two years ago, continues to outsell other game machines by wide margins. But initial sales of Wii Music, which hit U.S. stores in October, have lagged rival music games as well as older Wii titles. Wii Music sold 297,000 copies in U.S. stores in November—half as many copies as two Nintendo games, Wii Play and Wii Fit, that have long been on the market, according to research firm NPD Group Inc.

Meanwhile, **Activision Blizzard** Inc.'s latest music game for the Wii, Guitar Hero World Tour, which was also released in October, sold 475,000 copies in November, said NPD, which tracks U.S. retail sales.

Nintendo could use a new hit. Nintendo President Satoru Iwata said in an interview earlier this year that his company has realized all of the ideas it had when it first conceived of the Wii. Nintendo's stock, which more than doubled in 2007, has plunged roughly 50% so far this year.

It took Nintendo several years to develop Wii Music. Like many of Mr. Miyamoto's games, it was inspired by one of his hobbies. He is a folk music fan and amateur guitarist. He began playing the ukulele in junior high school and bought his first guitar in college.

Other ideas have sprung from Mr. Miyamoto's personal life. The Nintendogs game for the portable DS player, for example, came from his love of dogs, especially his Shetland sheepdog Pick. Wii Fit was born out of his interest in fitness.

Mr. Iwata has asked Mr. Miyamoto to not discuss his hobbies since they can reveal future games, but Mr. Miyamoto let slip in a recent interview that he likes to swim and does laps in a pool once or twice a week.

Despite his low-key demeanor, Mr. Miyamoto's work has made him a global celebrity. Fans scramble for his autograph at public appearances and have set up Web sites and Facebook pages that honor him or his games. In 2006, he was awarded a knighthood for his contribution to the arts by the French government.

"He's one of the most innovative and intelligent people involved in gaming," said David Hinkle, a 25-year-old admirer who runs NintendoWiiFanboy.com from his home in the Philadelphia suburbs. Without Mr. Miyamoto's games, "I wouldn't have been so inspired and in love with gaming."

Still, Mr. Hinkle said he has been underwhelmed by Wii Music. "I know what Miyamoto was doing with the game, the demographic that it was targeting, and that the game was designed to introduce folks to music, but as a real musician myself, I found the game to be a little too basic for me," he said.

Mr. Miyamoto lives with his wife and two children in Kyoto, the ancient capital of Japan and home to Nintendo's white headquarters. He biked to work everyday until a few years ago when Nintendo asked him to drive for security reasons.

Nintendo declined to comment on Mr. Miyamoto's compensation. As of June, his stake in Nintendo totaled 100 shares. He and 12 other senior executives shared bonuses totaling one billion yen, or nearly $11 million, for its fiscal year ended in March, according to an annual filing to shareholders. Mr. Miyamoto said one of his biggest worries is how gaps in pay between senior and junior developers could hurt morale.

Katsumoto Tatsukawa, who has developed games for **Sony** Corp. and **Sega** Corp., considers Mr. Miyamoto a god-like figure in the industry but said he doesn't necessarily agree with his approach. "His games are very high in quality and easy to play, but they also seem relatively easy to lose interest in because they tend to be shorter," Mr. Tatsukawa said.

Though multiple players can form an ensemble to play music in the Wii Music game, Mr. Miyamoto said the more interesting aspect for him is the ability for a player to record six separate parts to a song with different instruments and combine them to form an original recording.

"Traditional music games are fun as games, but I wanted to relay the joy of music itself," said Mr. Miyamoto, adding that he hopes the game will help spawn future musicians.

Mr. Miyamoto has proven critics wrong before. More than two years ago when Nintendo unveiled the relatively low-tech Wii, the industry was dubious about the console's prospects because it flouted the conventional wisdom that consoles had to be faster and more powerful than previous machines. Many industry observers predicted the Wii would be a short-lived fad.

Mr. Miyamoto said at the time that he found it an interesting challenge to return to the basics and come up with simple, high-quality games for the Wii that don't rely on fancy graphics or licensing of well-known athletes. "It's a good test of one's abilities as a developer," he said.

# For Tysabri, another case of PML

By Keith J. Winstein

A German multiple-sclerosis patient taking the drug Tysabri contracted a serious brain infection, marking the seventh such case for the potent medicine, which was earlier withdrawn because of the same side effect.

The announcement, the fourth in recent months, may dim commercial prospects for Tysabri, which is seeing a reduction in some marketing efforts and may face competition from a more-convenient pill in coming years.

**Biogen Idec** Inc., which makes Tysabri, said it notified drug regulators on Thursday of the infection, called progressive multifocal leukoencephalopathy, or PML. The patient is hospitalized in Germany.

Biogen, of Cambridge, Mass., and its marketing partner, Ireland's **Elan** Corp., withdrew Tysabri in 2005 after three patients contracted PML, two of whom died. The drug was reintroduced in 2006 under a monitoring program that tries to reduce the risk.

Since then, four patients have contracted the infection—two in Germany, one in Sweden, and one in Florida. None of the four have died, suggesting that monitoring and quick treatment may reduce the infection's severity.

The companies said the new case was in line with expectations. Tysabri's label now warns that PML is a known side effect. About 35,500 patients were taking Tysabri at the end of September, and about 9,500 have taken the drug, delivered as a monthly injection, for at least 18 months.

**Many doctors believe Tysabri's benefits are worth the risks.**

Elan's depositary receipts fell 26 cents, or 3.6%, to $6.93 in early afternoon trading on the New York Stock Exchange. Biogen's shares fell 31 cents, or 0.7%, to $46.69.

Many doctors believe Tysabri's benefits are worth the risks. In relapsing-remitting multiple sclerosis—the kind Tysabri treats—the body's immune system begins to attack nerves in the brain, causing bouts of numbness and tingling. Eventually, the disease progresses to a severe disability and patients are bedridden. In a two-year clinical trial, 17% of Tysabri patients became markedly more disabled—compared with 29% given a dummy injection.

Last week, Elan, which markets Tysabri for the digestive condition Crohn's disease, said it would cut back on pitching the drug to doctors. The company is under pressure from a major shareholder to fire its chief executive and cut costs. "We just can't afford the cost structure for a full-fledged sales force," said Mary Stutts, a spokeswoman. The company will continue to sponsor educational seminars, she said.

Tysabri also may face competition from an experimental MS pill, called FTY720 or fingolimod, from Swiss drugmaker **Novartis** AG. Last week, Novartis said its pill beat an older Biogen drug in a test in MS patients. If approved, Novartis's pill could be strong competition, since it would be the first pill—as opposed to an injection—for the condition. Biogen is also testing its own pill.

*—Jeanne Whalen contributed to this article.*

# Suit over 'light' cigarettes allowed by top U.S. court

By Jess Bravin And Brent Kendall

WASHINGTON—The U.S. Supreme Court dealt the business world a setback, ruling that consumers can sue a tobacco company under state unfair-trade laws even though cigarette labeling is regulated by the Federal Trade Commission.

The 5-4 ruling means that a group of Maine consumers can proceed with their state lawsuit against **Altria Group** Inc.'s Philip Morris unit over the advertising of "light" and "low-tar" cigarettes, which they allege was deceptive.

More broadly, the decision undercuts a legal theory that the business community has employed in an effort to insulate itself from consumer lawsuits filed in state court. With increasing success, companies have been arguing that federal regulation of their products implicitly barred state action, whether by consumers or state government itself, to hold them liable for injury.

Monday's ruling affirms a decision of the federal appeals court in Boston, which had sided with consumers. The smokers allege that Philip Morris used the "light" description of Marlboro Lights and other cigarettes to suggest that those brands were less harmful than regular versions, even though it knew that smokers would receive the same levels of tar and nicotine from both.

Philip Morris argued that federal regulation of tobacco advertising should bar consumer product-liability lawsuits against the company in state courts. It also noted that the FTC repeatedly endorsed tobacco-company use of "light" and "low-tar" descriptions.

Last month, the FTC rescinded a 40-year-old rule that allowed cigarette advertisers to claim that their tar and nicotine ratings were endorsed by the commission.

The lawsuit is similar to several state law class-actions that deal with the advertising of light cigarettes.

The Bush administration had supported the plaintiffs in the case, saying that nothing in federal law should bar them from suing Philip Morris over its advertising.

# GLOBAL BUSINESS BRIEFS

## DSM NV

### Chemicals maker issues profit warning, cuts jobs

Dutch chemicals maker **DSM** NV said Monday it is cutting 1,000 jobs, or 5% of its work force, to help it weather the financial storm. The company also issued a profit warning saying operating profit for 2008 before exceptional items will be €900 million ($1.2 billion). In October, DSM had forecast full-year profit to come in at €1 billion. The staff cuts are aimed at saving €100 million a year by 2010, the company said. DSM makes a range of industrial chemicals and high-performance materials, as well as base chemicals for pharmaceutical companies and vitamin makers. The company has been hit by slumping demand in the auto and construction industries.

## Electrolux AB

Swedish appliance maker **Electrolux** AB Monday said it will lay off more than 3,000 staff, or about 5% of its global work force, because of a slump in the market. Demand in both Europe and North America has been declining for some time and fell sharply in November and December, said a company spokesman. As a result, Electrolux won't reach its previously forecast full-year operating profit of between 3.3 billion Swedish kronor ($411 million) and 3.9 billion kronor. Operating profit had reached 2.7 billion kronor by the end of November and could be negative in December, the company warned. Layoffs will begin in the fourth quarter. Electrolux said it expects to save 1.1 billion kronor a year from 2010 because of the measures.

## Premier Foods PLC

**Premier Foods** PLC Monday said it is in talks with investors and other parties about a cash injection to help cut its £1.8 billion ($2.69 billion) debt ahead of bank covenant tests in March. The company, which makes branded food products such as Hovis bread and Branston pickle, said it has held preliminary discussions with "a number of its investors and certain other parties," but added that no decision regarding the size or structure of a potential investment has been made. It declined to name any of the interested parties. Shares in Premier have dropped 87% over the past year and its market capitalization is now below £230 million amid fears regarding the company's £1.8 billion debt. The debt was built up in 2006 and 2007 through the acquisitions of rivals RHM and the U.K. business of Campbell Soup Co.

## Inchcape PLC

British automotive retailer **Inchcape** PLC warned that the downturn in the global auto market would hurt earnings next year, possibly forcing it to adjust its financing arrangements. Monday's announcement pummeled the company's shares, which fell 28% to 50.75 pence (76 U.S. cents). Inchcape still expects its 2008 results to meet management expectations, but the "unprecedented and rapid" downturn in the global car industry will hurt its 2009 results. In most of its markets, the company now expects sales to fall further than previously estimated because of the global recession and significant reduction in credit availability. Inchcape said it is in compliance with its financing arrangements, but it is talking to its lenders to ensure these arrangements are appropriate for next year.

## MTN Group Ltd.

**MTN Group** Ltd., Africa's largest mobile-phone operator, said it will offer as much as 6% of its stock to black investors and employees in South Africa as part of its effort to comply with the country's positive-discrimination laws. The new plan will replace the current black shareholding structure, whereby the Newshelf 664 company, owned by a trust for senior management and staff, holds a 13.1% stake in MTN. MTN said that, subject to "appropriate financial market conditions," it will launch a public offer to black South Africans in the first half of 2009. It will also introduce an employee share ownership plan for workers not already in an employee incentive program. South Africa's government is pushing companies to sell equity stakes to groups disadvantaged under the country's former apartheid regime.

## OAO Gazprom

OAO Gazprom Neft, the oil arm of Russian gas monopoly OAO **Gazprom**, said Monday its third-quarter net profit rose 67%, propelled by the favorable price environment and growth in the refining segment. Net profit soared to $1.59 billion from $957 million a year earlier, while revenue was up 77% to $9.64 billion. Last week, Gazprom Neft said it now expects crude production this year to reach 30.8 million metric tons, or 619,000 barrels a day, down from an earlier forecast of 32.7 million tons. Before that, the company had already said it would cut its capital spending program by 20% next year, which analysts say puts its ability to revert crude production at doubt.

## MGM Mirage

Cash-strapped casino operator **MGM Mirage** has agreed to sell its Treasure Island Hotel & Casino in Las Vegas for $500 million in cash and $275 million in secured notes, a move expected to relieve pressure and increase liquidity at the gambling company. The sale agreement with Phil Ruffin, former owner of the New Frontier casino in Las Vegas, comes after MGM Mirage has been quietly discussing the sale of some of its properties to potential investors for months. MGM Mirage officials said those discussions had fallen apart after buyers refused to meet MGM Mirage's price. MGM Mirage has struggled, along with the entire gambling industry amid a recession. The deal is expected to close in the second quarter of 2009.

## Honeywell International

**Honeywell International** Inc. said 2009 profit would drop as much as 16% amid an extremely difficult economy, mirroring the recent views of other big manufacturers and industrial companies. "We're clearly planning for a tough economic environment in '09, with negative growth in the U.S. and Europe and moderating growth in key emerging regions," Chief Financial Officer Dave Anderson said Monday during the company's 2009 outlook conference call. The Morris Township, N.J. diversified manufacturer pegged its 2009 profit in a range of $3.20 to $3.55 a share, on $33.6 billion to $35.3 billion in revenue. Analysts surveyed by Thomson Reuters had been expecting 2009 earnings of $3.37 a share on revenue of $35.92 billion.

*—Compiled from staff and wire service reports.*

# ECONOMY & POLITICS

## Obama leans on 'czars'

*White House posts put focus on issues but can breed confusion*

By Laura Meckler


Associated Press

Former Sen. Tom Daschle, right, is President-elect Barack Obama's nominee for secretary of the Department of Health and Human Services.

WASHINGTON—When a president wants to signal that an issue really matters, there is nothing like a czar. U.S. President-elect Barack Obama is making clear that many issues matter to him.

The idea is to have someone in the White House with the president's ear to coordinate policy and give the topic the weight it deserves. Those who have seen the number of czar-like officials climb in recent days say there are decided advantages and downsides to the approach. Such a post gives an issue prominence, allows for coordination among agencies and streamlines decision making. At the same time, however, these arrangements can breed confusion and create conflict with the mammoth agencies that are working on the same issues.

Either way, Mr. Obama appears sold on the concept.

On Monday, Mr. Obama was expected to name former Environmental Protection Agency chief Carol Browner as a White House energy czar, along with other officials to head the Energy Department and EPA. Over the weekend, he announced New York City housing commissioner Shaun Donovan as his secretary of Housing and Urban Development, and he is also planning to name an urban-affairs czar to work out of the White House, likely Adolfo Carrion, borough president of the Bronx, N.Y.

He has already named an economic czar, former Federal Reserve Board chairman Paul Volcker, to look at big-picture economic issues—while he also has a Council of Economic Advisers, a National Economic Council and a large Treasury Department right next door.

He has made former Sen. Tom Daschle a health czar of sorts, in addition to making him secretary of the Department of Health and Human Services. Congress came close to creating a car czar, and even though that legislation died, the idea could return. And public-interest groups are lobbying for a consumer czar.

Of course none of these people will have actual "czar" titles. And given the fate of the last Russian czar—Nicholas II—it may be just as well. He was imprisoned and then executed after the Russian Revolution of 1917.

For some, it is a fitting analogy.

"There've been so many czars over last 50 years, and they've all been failures," said Paul Light, an expert on government at New York University. "Nobody takes them seriously anymore." He pointed to officials placed in charge of homeland security and drug policy.

The problem is that "czars" are meant to be all-powerful people who can rise above the problems that plague the federal agencies, he said, but in the end, they can't.

"We only create them because departments don't work or don't talk to each other," Mr. Light said, adding that creation of a White House post doesn't usually change that. "It's a symbolic gesture of the priority assigned to an issue, and I emphasize the word symbolic. When in doubt, create a czar."

The rise of the czar can be traced to the rising concentration of power in the White House, said Leon Panetta, a former chief of staff to President Bill Clinton. He said that is partly because the number and size of government agencies have grown so large that they are almost unwieldy. "In a very complex bureaucracy that makes up the federal government, the simplest way to cut through it is to do it at the White House level," he said. As chief of staff, Mr. Panetta established a White House coordinator to handle the aftermath of the bombing of the federal courthouse in Oklahoma City, a situation that touched many different agencies. It worked well, he said.

For Mr. Obama, the goal is to give special attention to the issues he cares most about, said a transition official, speaking on condition of anonymity to discuss personnel announcements that have not yet been made. The transition team is currently reviewing campaign promises and options as officials figure out how many more of these jobs are needed.

The official said naming a White Office-level aide to shepherd a policy makes it very clear who is in charge and accountable for results. "That way there's no questions about turf," he said.

But turf battles don't disappear with White House czars and may get worse, say some veterans.

If a czar appears to be dictating policy rather than coordinating it, cabinet secretaries may resent it, said Andrew Card, longtime chief of staff to President George W. Bush. "It will I think have a tendency to cause cabinet members to feel as if they're subordinate," Mr. Card says. "Is he building an inner court that will cause more people to be on the outside...who legitimately expect to be on the inside?"

Jay Hakes, a historian of U.S. energy policy, said he thinks Ms. Browner is ideally suited for the White House energy position, but notes the potential for fallout, having studied the administrations of Presidents Franklin Roosevelt, Richard Nixon and Jimmy Carter, who all had energy "czars" of one kind or another. "A lot of cabinet secretaries end up getting frustrated because aides at the White House wind up telling them what to do," he said.

*—John D. McKinnon and Stephen Power contributed to this article.*

## Immigration will test Hispanic voters' loyalties

By Gerald F. Seib

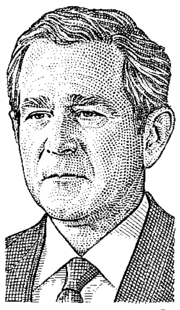
CAPITAL JOURNAL

One of the big bonuses Democrats enjoyed this year was a surge of support among Hispanic voters, a surge larger than the party would have dared to dream of just a couple of years ago.

Now, one of the biggest questions Democrats face is whether hardening attitudes toward immigration, aggravated by hard economic times and rising unemployment, will push the party down paths that could undercut that Hispanic support, much as hardening rhetoric undermined Hispanic support for Republicans in the past two years.

The larger Democratic majority's real test with Hispanics, in other words, is at the beginning rather than at the end.

For those who have forgotten recent history, just four short years ago President George W. Bush seemed to be making big inroads among Hispanic voters for the Republican Party. The share of Hispanics pulling the Republican lever for president rose between 2000 and 2004 to the point where winning a majority of Hispanic voters seemed possible. Mr. Bush and his political seer, Karl Rove, saw rising Hispanic backing as a cornerstone of an enduring Republican majority.



*George W. Bush*

Then came the immigration debate of the past two years, when Mr. Bush pushed an immigration-reform plan that included a path toward citizenship for illegal immigrants already working in this country. His own party in Congress—along with some Democrats, to be sure—rose up to kill that kind of reform, in favor of doing more to secure borders and expel illegal immigrants from the workplace.

That approach surely was in keeping with the popular mood. But the immigrant-unfriendly rhetoric surrounding it dealt a blow to Republicans' hope of making further inroads with Hispanics.

Then came this year's voting. The surge in Hispanic support for Barack Obama was one of the most striking results of the 2008 election—and one with big potential long-term implications. Two-thirds of Hispanics voted Democratic in the presidential election, up from 53% in 2004, exit polling indicates, while the Republican share fell to 32% from 44%.

Do the math, and that translates to a swing of almost three million votes for Democrats this year. More important, the surge helped Mr. Obama turn the key states of Colorado, New Mexico, Nevada and Florida.

Republican nominee John McCain lamented over that very turn of events this weekend. In an appearance on ABC's "This Week With George Stephanopoulos," he told his own party: "Very frankly, one of the issues that we're going to address very seriously is Hispanic participation in the Republican Party....We Republicans are going to have to recruit and elect Hispanic candidates to offices, and do a lot of other things, because that's a growing part of our population."

Which brings us to today. Now the burden of handling the immigration-reform question falls on Democrats rather than Republicans. In calmer times, the party could be expected to push precisely the kind of immigration reform that Mr. Bush tried to get through Congress early this year—a reform that would include a larger legal immigrant work force and a path toward citizenship for some illegal immigrants.

But that was before the economy went into the tank and unemployment started rising. Pushing any kind of immigration reform, particularly one that includes a path toward legalization, is a lot harder in an environment in which Americans are losing jobs.

That mood was captured late last week by Republican Rep. Steve King of Iowa, who wrote a column in the Des Moines Register pushing a bill he has written to bolster the Internal Revenue Service's ability to ferret out illegal immigrants in the workplace.

"The economic crisis has placed too many families in peril," Rep. King wrote. "According to the U.S. Department of Labor, 9.5 million Americans are out of work and looking for jobs. It's a staggering figure, and is particularly infuriating when you consider that the Pew Hispanic Center estimates 7 million jobs in this country are held by illegal immigrants."

Expect to hear more of that kind of rhetoric if the idea of immigration reform reappears on the political horizon. For that reason, some Democratic leaders in Congress consider the whole idea of immigration reform to be radioactive. Privately, they say they simply want to stay away from it.

Yet those who push immigration reform still expect action. Mr. Obama "himself promised he was going to push on immigration reform in the first year," says Frank Sharry, executive director of America's Voice, a nonpartisan advocacy group backing immigration reform.

Mr. Sharry says he is encouraged by Mr. Obama's decision to appoint New Mexico Gov. Bill Richardson and Arizona Gov. Janet Napolitano to key cabinet posts; both, he says, are "border-state governors with a strong history of support for immigration reform." Failure to act quickly, he argues, could suppress the Hispanic vote for Democrats in the crucial 2010 congressional elections.

Immigration reform is hardly the only issue of importance to Hispanic voters, of course, but it surely is near the top of the list. Right now, Mr. Obama is riding a huge high with Hispanics. In a Wall Street Journal/NBC News poll last week, he got a positive rating from 82% of the Hispanics surveyed.

The trick will be keeping that sentiment intact in an environment in which bad economics could translate into anti-immigrant sentiment within his own party.

## U.S. industrial output tumbles

By Sudeep Reddy

Manufacturing continues to tumble across the U.S. as factories cut back amid a deepening recession.

Total industrial production, which includes manufacturing and energy output, declined 0.6% in November from a month earlier and was off 5.5% from a year earlier, the Federal Reserve said Monday. The Fed said month-over-month output would have declined almost one percentage point more if not for a recovery from a September hurricane, which hit oil and gas production, and the end of a strike at Boeing Co.

Industrial output is on track for its worst quarter since 1980, with little improvement expected in coming months.

"Production is now being slashed pretty much across the board in response to weak domestic and overseas demand," said IHS Global Insight economist Brian Bethune. "Businesses are also taking precautions to keep inventories from piling up, as unwanted inventories present a very dangerous situation for industries that face deflationary conditions in their final end-use markets."

Manufacturing output fell 1.4% in November from October, as weakness in most major sectors—including chemicals, metals and furniture—added to declines in the auto sector. That was offset in part by a 2.5% gain in mining output, which includes oil and gas firms, and a 1.6% improvement in utility production.

# Families torn as U.S. troops fight two wars

## *Strains intensify on military clans; planning a wedding*

By Yochi J. Dreazen


Yochi J. Dreazen/The Wall Street Journal

Claudia and Eric Donahue, at their wedding in September. The couple may face much of the next two years apart.

FAYETTEVILLE, N.C.—In the weeks before his wedding, Lt. Eric Donahue kept running through a mental checklist of all the things that could go wrong.

His father, Rock, a stocky Army colonel, could get stuck in Baghdad. His fiancée, Claudia Keen, a 24-year-old Army helicopter pilot, could get a last-minute assignment. The groomsmen and bridesmaids, all Army officers, could fail to get time off. Eric, 23, could get called back to his infantry unit.

"There are a lot of moving parts," he said a few days before the late September ceremony, nervously tearing a napkin into neat piles of shredded paper. "You just hope they all somehow fall into place."

Life for military families used to be simpler. Fathers went off to war and left children behind. Children typically didn't go to war until after their parents retired from the armed forces. There were hardly any female troops.

Today, that calculus is being changed by wars in Iraq and Afghanistan, two of the lengthiest conflicts in American history, and the growing numbers of female military personnel. Military families now have parents, children and other close relatives serving in Iraq and Afghanistan simultaneously. The armed forces have growing numbers of married couples deployed to war zones at the same time.

Exact statistics are hard to come by because the military doesn't track families that have multiple generations serving at once. In one indication, the Pentagon says the number of dual-military marriages has increased to 33,055 in 2007 from 23,413 in 2001, when the war in Afghanistan started. Female soldiers make up 13.7% of the Army, compared with 2.6% in 1973, when the military became an all-volunteer force.

And at West Point, the proportion of students with military parents, either active or retired, has climbed almost five percentage points between the classes of 2008 and 2012, hitting 41.1%.

But while military families such as the Donahues say they take pride in serving their country together, they also worry that the job of fighting the nation's wars is falling disproportionately on them. Young couples must decide which spouse will leave the military, and when, to start raising children. Many top generals have to adjust to having military children the same age as the troops they command.

These stresses show no sign of abating. U.S. commanders hope to withdraw tens of thousands of troops from Iraq next year, but those reductions will be offset by an expansion in Afghanistan. The U.S. military presence there is expected to grow to more than 54,000 troops, a rise of 20,000, by mid-2009. Soldiers are likely to face multiple deployments to one of two war zones into the indefinite future, say Pentagon officials.

A daughter of Lt. Gen. David Rodriguez, the senior military assistant to Defense Secretary Robert Gates, attended West Point with Eric Donahue and later married one of his best friends, who is also in the military. Gen. James Conway, the commandant of the Marine Corps, has two sons in the military; one served as a junior officer in the unit Gen. Conway led in Iraq in 2003 and 2004.

Gen. Raymond Odierno, the top American commander in Iraq, had a son lose an arm in a rocket attack near Baghdad in 2004, which ended the younger man's military career. In a recent interview on CBS's "60 Minutes," Gen. Odierno said it was "a tough time" for the entire family. "You're a parent then, you know?" he said.

Maj. Gen. Mark Hertling, who recently completed a tour as the top U.S. commander in northern Iraq, says his wife simultaneously felt "a great sense of pride" and a "huge dose of anxiety" about their two sons and one daughter-in-law who have served in Iraq. All three are still on active duty and slated to deploy out to Iraq or Afghanistan in the next year or so.

"It's a good thing, because it does show a family character of selfless service and patriotism," says Maj. Gen. Hertling, referring to families with multiple relatives serving in the armed forces. "But it may be a bad thing because it's also fostering a society where a small group of citizens do most of the tough work."

Nancy Donahue, Eric's mother, says she has agonized about her son's imminent departure for Iraq more than any of her husband's overseas tours.

"It was easier when I only had a husband to think about," she says.

Rock and Nancy Donahue met in Massachusetts in the summer of 1981 after his sophomore year at Virginia Military Institute. Eric Donahue's earliest memories involve the military. As a child, he watched his father and other paratroopers jump out of airplanes above Fort Bragg whenever they returned to the base from tours abroad. Eric's sister Jenna, 21, didn't have the same early military aspirations, but she is now following in her brother's footsteps. She and her boyfriend are enrolled in an ROTC program and plan to become Army nurses when they finish. Eric's two other younger sisters are 14-year-old twins.

The family moved 17 times as Rock ascended the military hierarchy, including several years in Korea. The Donahues were living at Fort Drum, in upstate New York, during the Sept. 11, 2001, terrorist attacks. Eric, 16 at the time, wanted to get into the fight against al Qaeda and thought seriously about enlisting in the Army. The only college he applied to was West Point, where he enrolled in 2003. Eric's parents say they weren't particularly worried for his safety—back then, Afghanistan appeared stable, and Iraq had fallen to U.S. forces quickly and with relatively little bloodshed. Both wars appeared to be winding down.

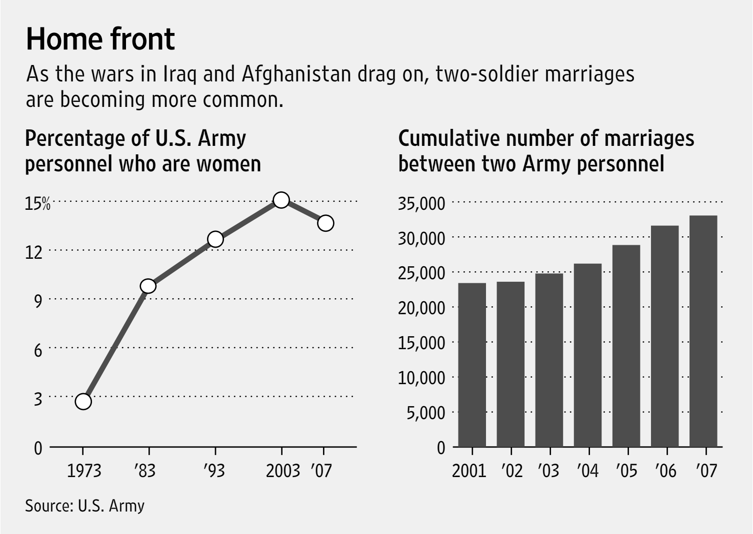
Today, Eric is an athletic young man who addresses strangers as "sir" or "ma'am." He's also a rabid Red Sox fan. He wears Red Sox hats and T-shirts when not in uniform and has a small dog named Fenway, after the Boston stadium. He and Claudia are stationed at Fort Bragg, N.C., and live in a small apartment near the base.

Eric met Claudia the summer after his freshman year. Unlike Eric, Claudia didn't come from a military background. Her father, Tim, works in computers, and her mother, Valerie, is a retired elementary-school teacher. A star athlete in high school, she was drawn to West Point by the chance to play Division 1 football and to receive a free education. "I didn't know a lot about the military, but it seemed like it would be good for me," she says.

Eric says he knew he wanted to marry Claudia almost immediately: "I'm not a poetic guy, but there was just something there."

Eric and Claudia spent last Christmas with her family in Ohio. On Dec. 31, Eric took Claudia to a beach in Wrightsville, N.C., got down on one knee in the sand, and proposed to her during the New Year's Eve fireworks show.

It wasn't solely a romantic gesture. The Army tries to keep married couples within 160 kilometers of each other but offers no similar perks to couples who are dating or engaged. Eric and Claudia serve in different types of units—he's an infantry officer, she's a helicopter pilot—and they knew being married was their only chance of one day being deployed to roughly the same parts of the world.




They wanted to get married before Eric deployed to Iraq in the fall of 2008, which left only a small window. Claudia is likely to deploy to Afghanistan in late 2009. The demands of Rock's job in Baghdad, where he oversees the military's reconstruction efforts across Iraq, meant he couldn't come back to the U.S. until a month or two before Eric was set to leave.

The couple's first thought was to do a small wedding with close friends and a few family members, but Eric wanted his father there.

One option: Eric's unit was slated to get "block leave," effectively a multiweek vacation from the military, in September. That would also be the halfway point of his father's tour in Iraq, which meant that Rock would probably be able to come back to the U.S. for the ceremony. Eric and Claudia settled on the weekend of Sept. 27, a date that also fell within days of the birthdays of all three of Eric's younger siblings.

In the days before the wedding, Baghdad was walloped by sandstorms that grounded all flights out of the country for almost a week. It wasn't clear whether Rock would make it out in time. "We were watching it really closely with our fingers crossed," Nancy says. The sandstorms cleared just before Rock was scheduled to fly.

On Friday, Sept. 26, the Donahues and Keens drove to Fort Bragg, the home of the Army's Delta Force, to rehearse the ceremony at the base's small chapel. Inside the whitewashed building, a large American flag hung over the altar. A stained-glass window depicted an eagle with its wings spread out.

Barbara Kelley, Nancy Donahue's 67-year-old mother, noted that Eric was the first of her 10 grandchildren to get engaged. With luck, she said, she might soon have a great-grandchild, as well.

Her husband, Dave, shook his head. "With him being deployed and her being deployed, it may be a while," he said.

On Saturday, Eric and the groomsmen—many of them classmates from West Point—wore their dress uniforms, dark blue with gold trim. The reverend asked the guests to bow their heads. "We pray that you will defend them from every evil. We bless them in your name. And we entrust them to your care," he said. "With great joy, I now present to you, Lieutenants Eric and Claudia Donahue."

Outside the chapel, the groomsmen raised ceremonial sabers, forming a steel canopy for the couple to walk beneath. "Present sabers," said Andrew Robinson, a West Point classmate. "Arch sabers."

At the reception in an antebellum mansion in downtown Fayetteville, talk quickly turned to the wars in Iraq and Afghanistan. "Here's to the soldiers in Iraq and Afghanistan," said the best man in a toast. "Here's to us and those like us. Damn few left."

Eric lifted his glass. He was wearing a black metal bracelet emblazoned with the name of a West Point classmate, Timothy Cunningham, who was killed in Iraq this spring. Lt. Cunningham had been friends of both Eric and Claudia. Another mutual friend, Nick Dewhirst, was killed in Afghanistan over the summer.

Eric is largely following in his father's footsteps, completing the same paratrooper and Ranger training. He is hoping to join the Special Forces or another elite unit trained to undertake some of the nation's most dangerous missions.

At nightfall, the party moved to Rock and Nancy's house in a gated golf community here. The honeymoon, a weeklong cruise, started early the following morning.

The couple didn't have time to waste. Eric was set to leave for Iraq after Thanksgiving; he shipped out to the Middle East earlier this month and was expected to reach Iraq in the next day or two. Claudia is scheduled to deploy next fall, shortly after her new husband returns to the U.S. In the next two years, they will likely spend only a few months together.