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Danish business scandal ensnared banks, auditors

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World-Wide

The U.S. Federal Reserve cut its target fed-funds interest rate to a range between zero and 0.25% and said it would move ahead with unconventional measures to combat the recession, which has deepened in the past few weeks. **Page 1**

U.S. stocks surged after the Federal Reserve announced an aggressive interest-rate cut. European shares rose. **Page 20**

Goldman Sachs reported a quarterly loss after the financial crisis hit revenue. **Page 1**

Walter Noel's Fairfield Greenwich Group is trying to figure out how to explain to friends and investors its intertwined role with Bernard Madoff. **Page 1**

The Saudi oil minister called for OPEC to slash output by at least another two million barrels a day to keep in line with slowing demand. **Page 3**

Oil refiners are putting assets up for sale, delaying expansion and scrambling for ways to cut costs and lift profits in the face of the weak economy. **Page 19**

France fined 11 companies, including ArcelorMittal, a record \$788.8 million for running a price-fixing cartel. **Page 4**

New-car registrations shrank for the seventh straight month in Europe, falling 26% in November as weak consumer sentiment kept a lid on demand. **Page 6**

PCCW holders were advised to reject a buyout offer by Richard Li, citing a low price and a lack of "compelling strategic rationale for the deal." **Page 23**

Toshiba will cut production of memory chips used in products such as digital cameras and iPods by 30% as demand wanes. **Page 7**

Retailer LVMH canceled plans to open a new flagship store in Tokyo, a sign that Japan's love of luxury brands may be waning. **Page 6**

AB Inbev is likely to appeal an EU court's ruling upholding a Czech brewer's rights to the trademark "Bud." **Page 6**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8924.14	+359.61	+4.20
Nasdaq	1589.89	+81.55	+5.41
DJ Stoxx 600	199.01	+1.50	+0.76
FTSE 100	4309.08	+31.52	+0.74
DAX	4729.91	+75.09	+1.61
CAC 40	3251.66	+66.00	+2.07
Euro	\$1.3759	+0.0088	+0.64
Nymex crude	\$43.60	-0.91	-2.04

Money & Investing > **Page 19**

France is unlikely to dodge a recession, and the first half of 2009 will be "extremely difficult," Finance Minister Lagarde said. The nation was one of the few big economies to grow in the third quarter of this year, due in part to deregulation. Some economists, however, are skeptical about the depth of structural change. **Page 2**

A British-Iraqi doctor who claimed he wanted only to scare people was convicted of conspiracy to murder with car bombs in London and Scotland in 2007. A co-defendant was acquitted on the same charges.

Police found dynamite in a Paris department store, and a group demanding that France withdraw from Afghanistan claimed responsibility. **Page 9**

Protesters forced their way into Greece's state television studio and interrupted a broadcast featuring the prime minister, urging viewers to join antigovernment demonstrations.

Two people died in a suspected U.S. missile strike in Pakistan near the Afghan border, as two U.S. senators visited Islamabad amid flaring tensions over the attacks in Mumbai.

Israeli troops killed a wanted Islamic Jihad militant in the West Bank, and the group retaliated by firing rockets into Israel.

Hundreds of Iraqis protested for a second day to demand the release of a reporter who threw shoes at Bush, as the man was handed over to Iraq's judiciary.

Somalia's government was crumbling as the president ignored a Parliament vote to keep the prime minister, and Kenya announced sanctions.

Zimbabwe's air force chief was injured in an assassination attempt, state media reported.

Italian police staged sweeping raids in Sicily, arresting about 90 suspected mobsters.

Somali pirates seized a tugboat operated by French oil company Total and a Turkish cargo ship, as a U.N. agency called for a special maritime police force.

A bus carrying Russian tour guides crashed in southern Israel, killing at least 26 people.

EDITORIAL & OPINION

Standard practice Without U.S. leadership, the Siemens bribery case may have never come to light. **Page 13**

Fed slashes interest rates to historic low range

Central bank sets interbank lending at 0% to 0.25%

BY JON HILSEN RATH

The U.S. Federal Reserve slashed its target interest rate to just above zero and promised to march ahead with unconventional measures to combat a recession that has deepened in the past few weeks.

The Fed said its target interest rate—an overnight bank-lending rate called the federal funds rate—would be between zero and 0.25%; it was cut to 1% in October. The cut was more than many economists had expected and marked the latest signal by the Fed and its chairman, Ben Bernanke, that the central bank was prepared to take aggressive steps to revive the economy and financial markets.

"The Federal Reserve will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability," the Fed said in a statement. It added that it expected interest rates to remain low "for some time," and that it was studying other measures, such as purchasing U.S. Treasury securities, to lift the economy.

In the latest example of the deepening recession, the Commerce Department reported that new-home

Please turn to page 31

Goldman posts its first loss as public firm

BY JESSICA PAPINI

NEW YORK—The widening financial crisis, which has left few unscathed, finally drew blood from Goldman Sachs Group Inc.

The 139-year-old investment bank reported its first quarterly loss since becoming a public company 10 years ago. For the period ended Nov. 30, Goldman reported a fiscal fourth-quarter net loss of \$2.12 billion, or \$4.97 a share, compared with net income of \$3.22 billion, or \$7.01 a share, a year earlier.

Plunging markets caused Goldman Sachs to lose \$3.71 billion in its fixed-income, currency and commodities business, including noninvestment-grade credit origination, and residential and commercial mortgage loans and securities. Principal investments had a loss of \$3.86 billion.

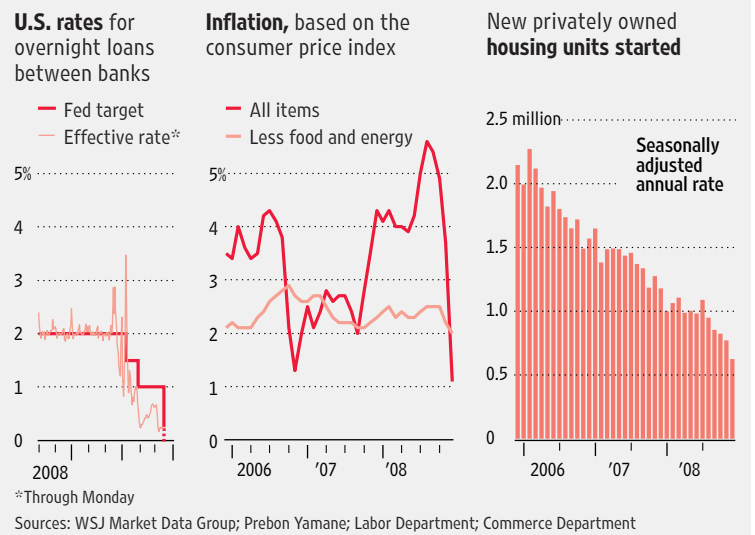
Meanwhile, revenue in Goldman's investment-banking business declined 48%, as the financial crisis and recession put the brakes on companies' plans to go public, sell debt or merge with others.

Goldman Sachs largely sidestepped the subprime crisis, which set off the global financial crisis more than a year and a half ago. It

Please turn to page 31

Bottoming out

With inflation less of a concern because of collapsing oil prices and the housing market continuing to weaken, the U.S. Federal Reserve lowered its rate target to a range between 0% and 0.25%.



Fairfield's connections gave Madoff global reach

Walter Noel built the perfect global marketing machine for Bernard Madoff: Four sons-in-law with connections among the wealthy in Rio de Janeiro, Madrid, Milan, London and Geneva, who brought socialite flair and few demanding questions for Mr. Madoff.

For 19 years, the pairing worked. Mr. Noel's firm, Fairfield Green-

By Carrick Mollenkamp, Cassell Bryan-Low, and Thomas Catan

wich Group, raked in assets from clients clamoring for access to Mr. Madoff. Fairfield, in turn, handed over that money to Mr. Madoff.

Now, the Noel clan is facing the reality that years of face-to-face meetings with Mr. Madoff as well as

daily confirmation reports helped Mr. Madoff allegedly carry out a global fraud. In recent days, the Noel family has converged in New York to figure out how to explain its role to friends and investors, people familiar with the matter say.

In a sign of the intertwined relations between Fairfield and Mr. Madoff, when several private-equity firms were discussing taking a large investment in Mr. Noel's firm during the summer of 2007, Mr. Madoff ended any potential deal by refusing to grant the potential investors access for due diligence. That may also have been one of the many missed warnings signs of the alleged fraud.

Fairfield and its flagship Sentry Please turn to page 31



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LEADING THE NEWS

France credits reforms

Moves helped avoid recession—so far, finance minister says

BY SEBASTIAN MOFFETT AND DAVID GAUTHIER-VILLARS

PARIS—France was one of the few big economies to grow in the third quarter of this year, partly thanks to recent deregulation. But the country is unlikely to dodge recession, and the first half of 2009 will be “extremely difficult,” Finance Minister Christine Lagarde said in an interview.

France’s economy grew a tiny 0.1% in the third quarter, avoiding a recession as defined by two straight quarters of contracting output. The economies of France’s big neighbors, including Germany and the U.K., all shrank in the third quarter.

“The whole euro zone is in recession,” said Ms. Lagarde, speaking in her spacious office with a zebra-striped carpet in the Ministry of Finance. “For the moment my country has managed to escape because of structural reform that we started much earlier.”

France has long been criticized for over-regulating its economy. However, when French President Nicolas Sarkozy was elected in May 2007, he promised to revitalize the country’s businesses and labor market—largely by urging people to work and spend more.

Mr. Sarkozy named Ms. Lagarde finance minister in June 2007. Since then, the government has pushed through a range of measures, including loosening a 1998 law restricting most salaried employees to 35 hours of work a week. Under the new rules, companies and workers now have more leeway—and tax incentives—to agree to longer hours, though the law itself remains.

Another measure due to kick in next year will make it easier for big retailers to open new stores in France, thereby encouraging both investment and spending. Now retailers need to go through years of applications to open a new space, but as of January that procedure will be streamlined.

Some economists, however, are skeptical about the depth of structural changes in France. “For the moment, it’s a lot of bluster, we haven’t seen anything fundamental,” said Sylvain Broyer, an economist with French bank Natixis SA.

One danger is that future moves to free up business will be put on hold now that France is focused on how to survive the world economic slowdown. Recently, Mr. Sarkozy has said his government would step in to help protect key sectors, such as the banking and auto industries in order to alleviate the downturn.

This month, the government unveiled a €26 billion stimulus package that is mainly focused on infrastructure projects and investments by state-controlled firms.

The French government has also encouraged its European neighbors to take bold measures, fearing that economic slowdowns in France’s trading partners could eat into exports. A German stimulus package adopted in November met with widespread criticism for being too small.

But on Tuesday Chancellor An-

gela Merkel said Germany would decide on a second fiscal-stimulus plan in January, focusing on public works such as investments in infrastructure and broadband networks. Major tax cuts for consumers aren’t expected, unlike in the U.K., which has cut sales taxes in the hope of propping up consumer spending.

“The government will act again in January,” Ms. Merkel said in a speech at the ZEW economics institute in Mannheim. “I think it will involve quite a few billions” of euros, she said.

In the interview, Ms. Lagarde criticized U.S. authorities for having missed the scheme run by investment advisor Bernard L. Madoff, which has resulted in \$50 billion in losses for investors. “Clearly, the Securities and Exchange Commission did not do its job,” she said.

Nonetheless, fallout from the financial crisis could lead to a new business culture in which people will ask “the hard-core truth about the business and the value of a busi-



Finance Minister Christine Lagarde said the first half of 2009 will be ‘extremely difficult.’

Associated Press

ness, she said: ‘Do my products, services and business model make sense?’”

Now the euro zone is experiencing almost daily bad news. On Tuesday, European statistics agency Eurostat said the number of people employed in the euro zone fell by 0.1% of the work force, or 80,000 people, in the third quarter from the previous quarter. It was the first quar-

terly drop since Eurostat records began in 1995.

The preliminary Purchasing Managers Index for the 15-nation euro zone’s manufacturing sector fell to a new record low of 34.5 in December, compared to 35.6 in November, according to Markit Economics, which produces the index.

—Marcus Walker in Berlin contributed to this article.

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LEADING THE NEWS

Saudis urge OPEC cuts

Minister says group should lower output as demand wanes

BY NEIL KING JR.
AND SPENCER SWARTZ

ORAN, Algeria—Saudi Arabia opened the door for OPEC's most dramatic output reduction since the 1970s, calling for the group to slash world oil supplies by at least another two million barrels a day to keep abreast of faltering demand.

Saudi Oil Minister Ali Naimi, arriving for a summit here of the Organization of Petroleum Exporting Countries, said a cut of that size was the only way for OPEC, which supplies more than 40% of the world's oil, "to bring things into balance."

Combined with an earlier reduction, the cuts would total nearly four million barrels a day in four months—the cartel's largest yet in such a short time. But implementing another round of deep cuts could prove difficult for OPEC,

which is already feeling the financial squeeze from falling prices and diminished oil exports.

Traders on the New York Mercantile Exchange seemed unimpressed by the Saudi show of resolve. The price of U.S. benchmark crude for January delivery, already down more than 70% from its record high this summer, fell 2%, or 91 cents, to \$43.60.

OPEC has trimmed output by around 1.7 million barrels a day since August, when oil prices began to plummet on the heels of the global financial crisis and sharply weaker energy demand. Together, the cuts would represent 4.3% of current world demand of 85.8 million barrels a day.

As always, much of the burden of another cut would fall on Saudi Arabia, the world's largest oil exporter. Mr. Naimi, normally tight-lipped in advance of big OPEC summits, clearly wanted to send a signal to the oil market that Saudi Arabia was serious about curtailing excess supply and buttressing prices. But his announcement came on a day when the U.S. released another round of

grim economic data, including a steep drop in housing starts, illustrating how difficult it will be for the cartel to impress a market captivated by pessimistic economic tidings on all sides.

OPEC, which meets officially on Wednesday, is eager to win support for production cuts among big non-OPEC producers such as Russia and Azerbaijan, both of which have sent delegations to this week's summit.

Russian officials are expected to show solidarity with OPEC, but the country's oil fields are already declining amid limited investment and aging infrastructure. Few analysts believe Moscow will offer cuts beyond the 300,000 barrels a day Russia is expected to lose in pumping capacity next year.

Arriving at the airport, Russia's top energy official, Deputy Prime Minister Igor Sechin, said Russia last month cut its output by 1.5 million tons. A monthly cut of that size would be the equivalent of around 300,000 barrels a day. Mr. Sechin said later that Russia would be willing to cut further if market conditions warranted. OPEC officials say



Ali Naimi, Saudi Arabia's oil minister, arrived in Oran, Algeria on Tuesday. The Saudis have called for OPEC to slash output targets at its Wednesday meeting.

they are looking for non-OPEC countries, possibly including Kazakhstan, to offer cuts of up to 600,000 barrels a day.

Demand has gone so slack that many oil traders, as well as big oil companies such as Royal Dutch Shell PLC and BP PLC, are simply stashing supply in supertankers. The amount of oil in floating storage off Texas, West Africa, Iran and other big producing regions has more than dou-

bled in the last two months to at least 40 million barrels, oil analysts say.

OPEC's challenge now will be to cut swiftly enough to soak up that excess supply and perhaps even drive prices back above \$50 or \$60 a barrel. That could prove difficult until world demand begins to rebound, which few analysts predict will happen until later next year.

—Hassan Hafidh
contributed to this article.

Special Advertising Feature

Factories' environmental push mirrors Singapore's green plan

GlaxoSmithKline Pte Ltd (GSK) is serious about going green. The company recently installed one of the largest solar panel arrays in Singapore; it also uses infrared technology, which shows hot spots, to check the insulation at the two drug manufacturing plants it operates here. GSK has even installed a computerized system that monitors energy consumption in every part of each building.

"If I were to leave my air-conditioning on in my office when I went home for the weekend, they can tell me I've done that," says Chris Dobson, GSK's Vice-President of Global Manufacturing and Supply.

These are just a few of over 160 energy-saving initiatives the company put in place over a four-year period — and it's paid off. Despite a 40% increase in output at the two drug manufacturing plants GSK operates in



Mr. Chris Dobson—Vice President, Global Manufacturing & Supply, GlaxoSmithKline
Professor S Jayakumar—Guest-of-Honour & Deputy Prime Minister and Coordinating Minister for National Security

Singapore, the company's energy consumption has hardly increased at all.

Those efforts put GSK in the top spot in the environmental management category at MAXA, Singapore's manufacturing excellence awards. MAXA, which is run in partnership by the Singapore Economic Development Board, McKinsey & Company and the Singapore-MIT Alliance, was put together three years ago to spotlight the high standards in manufacturing innovation and excellence set by companies in Singapore. This year's overall MAXA winner was Keppel FELS Ltd., the world leader in designing and building jack-up and submersible oil rigs.

Encouraging companies to go green is part of Singapore's push to move its economy further up the value chain. Singapore has successfully turned itself as a research and development hub for sectors ranging from life sciences and pharmaceuticals to high value-added electronics. The city-state's newest initiative, called *Future.Singapore*, aims to position the country as a test bed and working model for businesses that want to develop new ideas, new technologies and new business models. A key part of the *Future.Singapore* plan is to become a hub for environmental solutions.

Clean technologies already form a fast-growing part of Singapore's manufacturing sector. The city-state is a major hub for water-treatment research: the Danish Hydraulic Institute, Keppel Corp., and a new joint venture between Singaporean water treatment firm Hyflux Ltd and America's Marmon Group LLC., have all set up research units here to develop new technologies and products. Last year Norway-based Renewable Energy Corporation ASA said it would invest US\$6.3 billion to build the world's largest integrated solar manufacturing complex in Singapore. The plant, which is under construction, will incorporate wafer, cell and module production facilities, and will have the potential to reach 1.5 gigawatts in production capacity, roughly three-quarters of the total global output in 2006. In March, 2008, NorSun AS, another Norwegian company, announced its own plans to build a solar wafer fabrication plant in Singapore.

Even as Singapore expands its green industries, companies across the manufacturing sector are moving environmental management issues up the agenda. All of the MAXA finalists had aggressive environmental management plans in place. The Singapore unit of Taiwan-based chip maker United Microelectronics Corp., for example, has set greenhouse gas emission targets that are far lower than its peers: the company's emissions are just 28% of the World Semiconductor Council's average.

"Companies are really waking up to the green theme," says Valentin Safir, Associate Principal at McKinsey. The UN's push to cut carbon emissions by 40% is starting to impact the way manufacturing companies across the world think, Mr. Safir says, adding "almost all of this year's MAXA participants had solid action plans that had produced tangible results".

GSK's initiatives were part of the company's global push to control energy use. The Singapore unit formed



From left to right:

Ms Yoshiko Rosche—Translator, Dr Yoshiyuki Kaneda—Executive Deputy President Emeritus, Sony Corporation, Professor Lord Bhattacharyya KB CBE, Professor of Manufacturing, Director of Warwick Manufacturing Group, University of Warwick, Mr. Raphael Pura—Deputy Bureau Chief, South & Southeast Asia, The Wall Street Journal, Mr. Chris Dobson—Vice President, Global Manufacturing & Supply, GlaxoSmithKline, Mr. Anthony Yung—Senior Director of Operations, Applied Biosystems B.V.

an energy conservation team in 2002, which has helped put a raft of measures in place, including variable-drive motors on hundreds of pumps that handle chemicals and solvents, and highly-efficient refrigeration, replacing ozone-depleting coolants.

GSK is one of the largest investors Singapore's burgeoning biomedical sector. Its operations here span the entire value chain, from drug discovery to clinical research to manufacturing. GSK opened a pilot plant in Singapore earlier this year that manufactures drugs that are needed for clinical trials.

GSK, which has been in Singapore for 25 years, chose the city-state both as its regional headquarters and a site for everything from research to manufacturing because of the city-state's pro-business, stable government, and strong intellectual property laws, says Mr. Dobson.

"There is also great infrastructure. The planes take off on time, which is important as a global distributor. And in terms of reliability, the lights go off when we turn them off, not when something goes wrong," says Mr. Dobson. "The reason we've continued to invest because the long-term approach the government takes allows us to plan for the long term. You can form a long-term relationship with the government in Singapore, and trust it," Mr. Dobson says.

CORPORATE NEWS

Oilexco's struggles epitomize industry

Credit crisis, drop in oil prices have smaller independent oil companies slashing budgets, scrambling for funds

BY JAMES HERRON

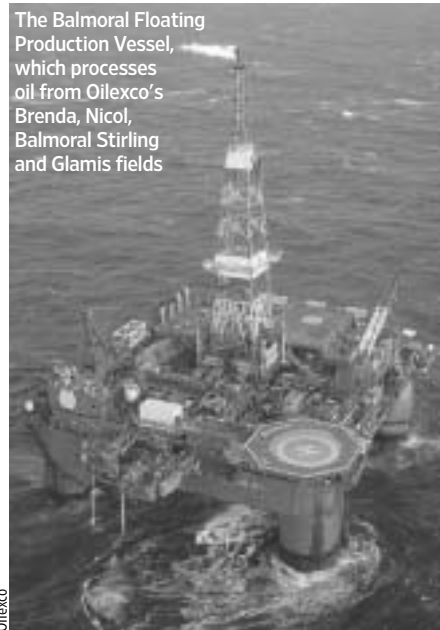
LONDON—Canadian oil company Oilexco Inc.'s struggles to renew its financing illustrate the problems faced by small and midsize oil explorers and producers in the current market climate.

Until a few months ago, Oilexco was feted for its growth and oil discoveries in the North Sea. But in just a few months the company has gone from an ambitious drilling and development program to slashing output targets, scrambling for funds and asking a banker to seek potential partners on its behalf.

Oilexco's predicament underscores how the credit crisis is threatening the business model of independent companies across the oil patch. These companies borrowed heavily and sold shares to fund aggressive exploration programs. But in the current debt and equity drought, and with oil prices falling steeply from their summer high, the companies are now being forced to cut their capital budgets, and in some cases sell assets.

Oilexco was set up in 1994 by President and Chief Executive Arthur Millholland, a petroleum geologist. After abortive forays into other regions, the company was attracted in 2002 by a new licensing regime designed to encourage smaller companies to develop left-over areas of the U.K.'s well-explored North Sea area.

By 2004, Oilexco was sinking wells off the coast of Scotland and proving that a number of prospects



Oilexco

overlooked by the major oil companies held substantial reserves that could be significantly profitable as oil prices rose.

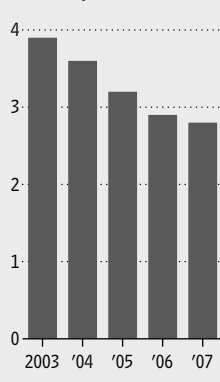
By the second half of 2007, Oilexco was producing as many as 30,000 barrels of oil a day from the Brenda and Nicol fields, up from just a few hundred a day for the company in 2005. It also had discovered Huntington, one of the largest oil finds in the North Sea for years. Some analysts estimate Huntington could hold 100 million barrels—more than double the size of the majority of recent discoveries.

Oilexco was well rewarded for its

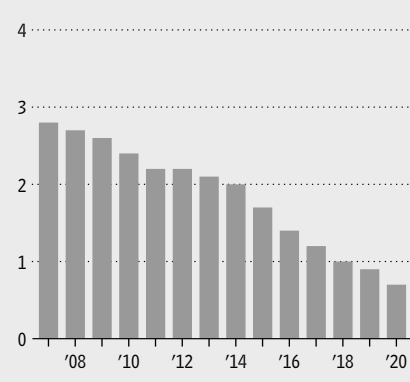
Diminishing returns

A decline in U.K. North Sea oil production is accelerating as small oil companies struggle with debt, rising costs and falling prices. In millions of barrels of oil equivalent per day.

Actual production



2007 Forecasts



Source: Oil and Gas, U.K.

success. Between raising \$30 million Canadian dollars (US\$24.3 million) for its first drilling program on the Toronto exchange at the end of 2003 and laying out an ambitious C\$700 million one-year spending plan at the end of 2007, its share price increased more than tenfold.

In that period, Oilexco was the most-active operator of exploration and appraisal wells in the U.K. North Sea. "They were riding a wave—using Brenda and Nicol cash flow and debt to fund rig contracts and exploration," said Oriel Securities analyst Richard Rose.

The wave broke in October when

Oilexco said "unprecedented liquidity and volatility issues facing the credit markets" had wrecked talks with Royal Bank of Scotland Group PLC to renew and expand a US\$700 million credit facility that was vital for Oilexco's development plans next year. Just over a month later, Oilexco's attempts to raise C\$150 million from a convertible-bond issued at a 15% interest rate was abandoned after the board said it would weaken the holdings of existing shareholders too much.

Meanwhile, Oilexco said on Oct. 8 that it would have to slash its production target for the end of

2008 by 25%.

Oilexco declined to comment. In a statement after the cancellation of its bond issue on Nov. 20, the company said it had appointed Morgan Stanley to help it study other funding options, such as seeking generally more expensive unsecured debt or transactions or partnerships with other companies. It has until Jan. 31, when £30 million (\$45.9 million) of RBS debt is due, to find a solution, or else it will be declared in default. Meanwhile, the company's shares are down about 80% since the start of October, to C\$1.88 on Tuesday.

The company's current options are challenging. Debt markets are largely shut to the smaller oil and gas companies and there are barriers to mergers and acquisitions, said Michael Powell, head of oil and gas at Barclays Capital, the investment-banking arm of Barclays PLC.

As long as the depth and the length of the economic downturn remains uncertain, companies are "watching their cash position very carefully," he said.

Oriel's Mr. Rose said the most likely way for Oilexco to raise money is "the sale of the company or the piecemeal sale of assets," given the current challenges in raising equity or debt.

Huntington is large enough to attract the interest of larger independent companies, but it isn't clear that any of them would be keen to take on Oilexco's debt, which stood at \$560 million at the end of the third quarter, or its costly rig commitments, Mr. Rose added.

France sets steel price-fixing fines

BY ALEX MACDONALD

The French competition council on Tuesday fined 11 companies, including several units of steel giant ArcelorMittal, a record €575.4 million (\$788.8 million) for allegedly running a price-fixing cartel.

Luxembourg-based ArcelorMittal, the world's largest steelmaker, said it expects to appeal its portion of the fine, which totals €301.8 million.

"ArcelorMittal takes matters of this nature extremely seriously and has a rigorous global compliance program in place to combat anticompetitive practices," a spokesman said. "At this time the company has no further comment to make on the situation."

Besides units of ArcelorMittal, other companies charged include divisions of Klöckner & Co. of Germany and Descours & Cabaud SA of France and Dufenco Group.

The investigation, conducted by France's economy minister and the competition council, found that the companies coordinated their offers to steel-products distributors in terms of pricing and other conditions over a five-year period between mid-1999 and mid-2004.

At that time, the three ArcelorMittal units were owned by Arcelor SA, which later merged with Mittal Steel.

"These actions are exceptionally serious," the competition council



Several units of ArcelorMittal are among 11 companies fined by France's competition council for running a price-fixing cartel. Arcelor said it will appeal.

said, adding that companies coordinated with each other on prices, allotting customers and markets, "killing all competition mechanisms between the concerned companies."

The damage to France's economy amounts to "several hundreds of millions of euros," the council said.

The council fined Klöckner €169.3 million, Descours & Cabaud €82.6 million, and Dufenco €12 million. Klöckner said it would appeal on grounds the fine was incorrectly calculated based on global sales rather than much smaller sales by its French subsidiary.

Separately, ArcelorMittal lost a battle in the European Court of Justice against what it saw as unfairness in how industries are covered by the EU's carbon-trading system.

The law establishing the system "does not breach the principle of equal treatment," the court said in a statement on Tuesday.

Eight ArcelorMittal units argued that the system discriminates against steel producers, because it doesn't cover aluminum or plastic-producing chemical companies.

—Geraldine Amiel and Mike Gordon contributed to this article.

EU is dealt a likely blow over pharmacy ownership

BY MIKE GORDON

LUXEMBOURG—German and Italian laws restricting who may own and operate a pharmacy are justified under European law, a senior legal adviser to Europe's highest court said Tuesday, in a legal opinion handed down for two similar cases.

The opinion is likely to be a blow for the European Commission, the European Union's executive arm, which has sought to open the bloc's pharmacy market to more competition and sees many national restrictions on the sector as unjustifiable.

Restrictions on people who want to operate pharmacies in the two countries are "justified by the objective of protecting public health," Advocate General Yves Bot said in a court press statement.

Legal opinions are routinely prepared in European Court of Justice cases by senior court advisers known as advocates general. The adviser's proposed ruling isn't binding on the court, but is followed in the final ruling in roughly 80% of cases.

Two separate cases are being heard by the court, one involving a national case in Germany and the other brought by the commission against Italy.

In the German case, the pharmacists' organization of the region of Saarland has challenged the local

government's decision to authorize DocMorris, a unit of Celesio AG, to operate a pharmacy in the German city of Saarbrücken, arguing that German law prevents companies from owning pharmacies.

In September, the commission, as part of infringement proceedings, asked Germany to review its pharmacy-ownership rules, saying the rules were too strict by prohibiting nonpharmacists from owning pharmacies, while limiting existing licenseholders to owning a maximum of four pharmacies.

In the Italian case, the commission is challenging a law on pharmacy ownership, arguing that it goes against the European rules of freedom to set up a business. Under the Italian law, only qualified pharmacists or groups of such individuals can own pharmacies. The law also prevents pharmaceutical-distribution companies from owning pharmacies.

At the joint hearing in these two cases, representatives of member states opposed to removing the national ownership restrictions claimed that doing so would infringe on their citizens' health.

The commission has noted the opinion and will now "wait for the court ruling," said Oliver Drewes, spokesman for internal markets.

—Peppi Kiviniemi in Brussels contributed to this article.

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CORPORATE NEWS

LVMH cancels new Tokyo flagship

Japanese consumers find luxury brands are less appealing

BY HIROKO TABUCHI

TOKYO—LVMH Moët Hennessy Louis Vuitton SA, the world's largest luxury-goods company, has canceled plans to rent a 10-story building in central Tokyo for a new flagship store, showing how hard the global economic downturn has hit one of the most important markets for the luxury-goods industry.

Louis Vuitton's Japan arm informed property developer Hulic Co. about a month ago that it wouldn't follow through with plans for a new Tokyo flagship, a Hulic official said Tuesday. The developer was rebuilding its property in Tokyo's glitzy Ginza district for a planned store opening in late 2010, but it is now looking for new tenants, according to the developer.

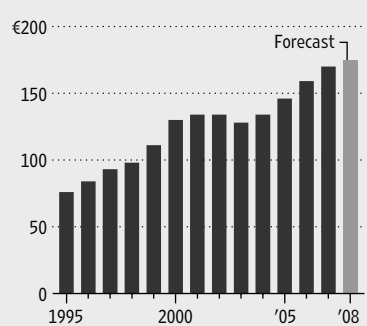
Officials at Louis Vuitton Japan confirmed that plans were canceled for the store, which would have been one of the brand's biggest in the world, but declined to give a reason.

Japan has historically been a major market for luxury goods, and it has been especially key for Louis Vuitton, which has 56 stores in the country. Now, as the growth in emerging markets is showing signs of strain as well, the falloff in the previously stalwart Japanese market is especially troubling for luxury-goods companies.

The world of expensive perfumes, leather goods, jewelry and designer clothing has until recently

Luxury goods

World-wide market, in billions of euros



Source: Bain & Co.

Louis Vuitton store in Tokyo's Omotesando shopping district



withstood the retail slowdown affecting apparel and home furnishings. Its resilience was due largely to growing business in emerging markets, such as China and Russia, which offset a slowdown in the U.S., Europe and Japan.

Emerging markets make up about 15% of the luxury-goods sector's overall sales and had in some places been reporting double-digit growth. But as the global financial crisis has knocked down Chinese and Russian stock and property markets, wealthy consumers are under pressure to cut spending.

Japan, meanwhile, makes up 12% of the luxury sector's global sales of €175 billion (\$240 billion), according to a Bain & Co. study released last month. But the Bain study said Japan's luxury sales are expected to decline 7% in 2008, after a 2% decline in 2007. LVMH reported that in the first nine months of 2008 Japan sales were down 7%, as world-wide sales grew 4.5% in the period to

€11.6 billion.

The deepening recession is just part of LVMH's woes in Japan. There are increasing signs that young Japanese women are finally tiring of the luxury brands that previous generations snapped up.

"If it looks good, I don't care what the label is," says Izumi Sugano, a 21-year-old shop assistant in central Tokyo. A few years ago in high school, she coveted any bag with a Louis Vuitton monogram. "Now that I'm working, I realize it's silly to spend so much on a single bag," says Ms. Sugano, who recently sported a no-brand bag that cost her less than \$100.

That's a sea change for Japan, where women have flocked to buy brands like Louis Vuitton since it entered the Japanese market in 1978. Luxury labels have tapped Japan's big middle class, and Louis Vuitton has long counted on Japan as one of its most profitable markets.

Japan is still Louis Vuitton's No.

1 profit contributor, according to Melanie Flouquet, an analyst at J.P. Morgan. But Japan's share of overall LVMH sales, which also include smaller luxury brands like Marc Jacobs and Fendi, has fallen in recent years to 10% in 2007 from 40% in 2001, as emerging markets like China and India showed strong growth.

"Younger Japanese prefer to be stylish and follow trends, but not spend too much money," says Andrea Fenaroli, Japan president of Furla of Italy, part of the Furla SpA Group, an Italian midrange handbag maker.

As Japan's birth rate falls and its population ages, there are fewer people in the most fashion-conscious age group: women in their twenties. Since 2000, the number of women in that age group has fallen by almost two million.

And an increasing number of women view luxury brands with indifference, marketers say. A recent survey by the Nikkei Marketing Journal, a trade publication, shows the percentage of women in their twenties who own at least one luxury-label bag falling from 57% in 2000 to 44% in 2008.

Some brands have cut prices. Bally and Salvatore Ferragamo have offered discounts of 25%-30% on their goods sold in Japan since earlier this year. Furla, which makes 20% of its revenue in Japan, has tailored its marketing, selling more bags that use nylon and less expensive parts.

In November, Louis Vuitton lowered prices on nearly all its products by an average of 7% to spur demand.

—Max Colchester in Paris contributed to this article.



The makers of Czechvar Premium Czech Lager and Budweiser get no resolution.

Czech brewery wins a round in Bud dispute

BY SEAN CARNEY

PRAGUE—The world's largest brewer and one of the world's smallest Tuesday learned their century-old trademark dispute is far from over. They are now set for another round of country-by-country battles for the prized Budweiser and Bud trademarks.

The European Union's lower court Tuesday upheld Czech state-owned brewer Budejovický Budvar NP's challenge to Anheuser-Busch Inbev, which holds the Bud trademark in the 27-nation bloc.

Now Budvar—which in volume terms, produces less than one-two hundredths of what AB InBev does—can reassert its rights to the Bud and Budweiser brands. The Czech brewer has one or both of the disputed marks registered in 28 European and 37 non-European countries, including in some of Europe's key beer markets, such as Germany, Austria and the Czech Republic.

AB InBev and Europe's trademark organization, OHIM—which was the defendant in the case decided Tuesday—have two months to appeal the decision.

"As with any matter affecting our trademark, we will vigorously protect our rights," said Gwendoline Ormigg, a spokeswoman for AB InBev.

Four trademarks were at issue, the most important being the application for the Bud trademark word, without logo, filed by Anheuser-Busch in 1996. The ruling doesn't concern disputes over ownership of the key Budweiser trademark.

It also means there is no sweeping, European answer to the roughly 100 disputes over trademarks and appellations of origin in more than 30 jurisdictions the brewers are engaged in globally. Some of these disputes date to the early 20th century, so the brewers are well acquainted with the trademark tango and both brush it aside.

AB InBev currently sells its Budweiser beer in Europe under various brands, including Bud and Anheuser-Busch.

The brewery was founded in 1895 in the southern Czech city of Ceske Budejovice—called Budweis by the German-speaking people who lived among the Czechs at the time—and beer brewed there has traditionally been called Budweiser.

—Adam Cohen and Carolyn Hensen in Brussels and Leos Rousek in Prague contributed to this article.

New-car registrations slump 26% in Europe

BY CHRISTOPH RAUWALD

FRANKFURT—European new-passenger-car registrations slumped 26% in November as weak consumer confidence continued to hurt demand, the European Automobile Manufacturers Association, or ACEA, said Tuesday.

European new-car registrations, which reflect sales, have shrunk for seven consecutive months now, mirroring the financial and economic crises, the ACEA said. Registrations dropped to 932,537 last month from a year earlier, the car-makers group said, adding that two fewer working days on average across Europe aggravated results.

"The last time registrations dropped this notably [in Western Europe] was in 1999 and 1993," ACEA

said. Amid an economic recession in 1993, registrations fell by more than 20% for three consecutive months, while a sales dip in August 1999 was a one-month anomaly.

In the first 11 months of the year, new-car registrations in Europe were down 7.1% from a year earlier at 13.8 million cars.

Troubled U.S. auto maker General Motors Corp. was hit hardest in Europe last month, with a decline of 38% to 76,383 car registrations. Its core European brands, Opel and Vauxhall, saw registrations fall 38%, with demand at Chevrolet down 32% and the Swedish Saab brand posting a 45% decrease.

Auto makers are facing a dramatic downturn in demand for new cars in many markets around the globe, triggering a slew of profit warnings and drastic production cutbacks in recent weeks.

"We expect very negative monthly figures going forward," said Commerzbank analyst Daniel Schwarz, citing a high comparative basis in the first half of the year and plummeting consumer confidence. "The pace of deterioration in markets like Spain, Italy and U.K. is alarming. The German market deteriorates from an already very low base," he added.

In November, GM's Detroit peer Ford Motor Co. performed better than the overall market, although it still posted a drop of 20% from a year earlier to 96,053 new-car registrations in Europe.

Europe's largest auto maker by sales, Volkswagen AG, continued to

weather the storm relatively well, with registrations down 17% to 213,196 cars. Volkswagen's Audi AG premium unit managed to eke out a 0.1% rise last month, but the core VW brand and Skoda posted declines of 18% and 31%, respectively.

New-car registrations in Western Europe, a crucial source of earnings for many auto makers, fell 26% to 854,698 cars in November. In the January-to-November period, the Western

European car market was down 7.6% from a year earlier at 12.7 million cars.

Japan's Toyota Motor Corp. posted another sharp drop. Its new-car registrations in Europe fell 34% to 43,541 cars in November.

French auto maker Renault SA saw European registrations decrease 22% to 89,202 cars last month, with its no-frills Romanian Dacia brand performing slightly better, posting a 16% decline.

Cadbury reiterates forecast; Australian drinks up for sale

BY MICHAEL CAROLAN

LONDON—Confectioner Cadbury PLC confirmed its full-year forecasts despite a weaker fourth quarter, particularly in the U.S., and unveiled plans to sell off the last of its beverage businesses.

The company also named Andrew Bonfield chief financial officer. Mr. Bonfield, who had been finance chief of U.S. drug maker Bristol-Myers Squibb Co., will succeed Ken Hanna when he retires in April.

Cadbury, the maker of Dairy Milk chocolate and Trident chewing gum, said Tuesday it will be able to meet forecasts made in July that put 2008 revenue growth at the top end of its 4%-6% target and an increase in margins of about 1.2 percentage points.

The company plans to expand margins to "the mid-teens" by 2011 from under 11% currently.

Chief Executive Todd Stitzer said in a conference call with reporters that growth in North America was slowing. Mr. Stitzer said that after a six-month review, the company had received sufficient interest in its Australian drinks business to be persuaded that a sale makes sense. The Australian drinks business is Cadbury's last remaining beverage operation after it spun off Dr Pepper Snapple Group Inc. in the U.S. earlier this year.

The company declined to put a price on the Australian business. Mr. Hanna said the unit had revenue of £300 million, or about \$460 million, last year.

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CORPORATE NEWS

Toshiba to cut chip output

Decrease in demand, flash-memory glut spur 30% reduction

BY YUZO YAMAGUCHI

Toshiba Corp. is slashing production of NAND flash-memory chips by 30% next year, becoming the first manufacturer in Asia to cut output of the widely used digital-camera and iPod component.

Toshiba, the world's second-largest producer of NAND flash-memory chips by revenue after Samsung Electronics Co., said it will cut production of the chips at its main plant in Yokkaichi, central Japan, its only NAND-producing facility.

Toshiba said it will also halt production of other nonmemory chips at three different plants in Japan for as many as 25 days amid sluggish demand and a supply glut.

While Toshiba's chip-production cut may help alleviate an oversupply of chips, analysts say it won't necessarily help the company re-

couple losses from its chip operations. Given the uncertainty in the market, Mizuho Investors Securities' Yuichi Ishida said he expects Toshiba's losses from its chip business for this fiscal year ending March 2009 to double from Toshiba's estimate of 65 billion yen (\$716.3 million) in September.

Mr. Ishida also said Toshiba's action may prompt other chip makers to follow suit, given weak market conditions. But others said the output cuts may not be enough to help the battered chip industry recover.

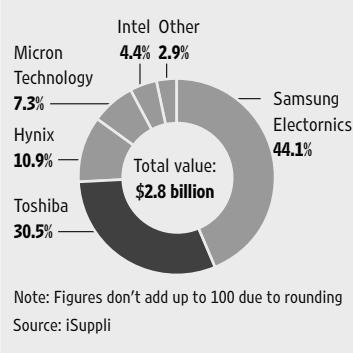
"The key for a recovery in the global chip sector is demand, not supply. Unless the amount of global chip supply is cut to more than half from the current level, it looks hard to expect a turnaround in chip prices without a recovery in demand," said Kim Hyun-joong, an analyst at Tong Yang Securities.

Samsung Electronics said Tuesday it has no plans to cut its NAND chip output currently.

In a separate statement, SanDisk Corp., Toshiba's partner in making NAND flash-memory chips, said the production cut

NAND flash memory chips

Market share, third quarter of 2008



would result in higher wafer costs but that it will better align the company's output to meet projected demand in 2009.

SanDisk also said it is continuing to work with Toshiba on definitive agreements to restructure their manufacturing joint ventures and expects to sign these agreements in the first quarter of 2009.

—Soo-Kyung Seo and In-Soo Nam in Seoul contributed to this article.

U.K. regulator threatens inquiry into utility costs

BY JAMES HERRON

LONDON—U.K. gas and electricity markets regulator Ofgem on Tuesday threatened it would launch a competition inquiry if companies delay cutting more than £500 million (\$765.1 million) in unfair costs from some customers' utility bills.

The regulator's chief executive, Alistair Buchanan, also said he expects the U.K.'s six biggest energy suppliers to cut home energy bills for all their customers in early 2009 after big falls in wholesale energy prices. Companies that don't comply will face an inquiry by the Competition Commission, he added.

The six biggest U.K. utilities are Centrica PLC; Scottish & Southern Energy PLC; the U.K. arm of Electricité de France SA; the U.K. arm of Germany's RWE AG; the U.K. arm of E.ON AG; and Iberdrola SA subsidiary ScottishPower.

In February, Ofgem began an investigation into energy prices amid concerns that companies may have been reducing competition by im-

posing similar price rises on consumers around the same time.

Ofgem said the six utilities have acknowledged that some premiums paid by customers on prepaid gas or electricity meters, or those living in remote areas off the gas network, were unfair. They have already cut £300 million from the premiums paid by the users of prepaid meters, but Mr. Buchanan said he wasn't satisfied with the pace of delivery of a further £200 million of cuts to customers of E.ON U.K., RWE npower, EDF Energy and Scottish and Southern who are off the gas grid.

E.ON U.K. said in a statement that it has already cut £14 from the annual bills of every customer off the gas grid and hopes to reduce prices for all of its customers as soon as it is able next year.

"We are fully confident we will meet all Ofgem's requirements," said Phil Bentley, managing director of British Gas, the retail arm of Centrica. Scottish & Southern, ScottishPower and the U.K. units of EDF and RWE couldn't be reached for comment.

ADVERTISEMENT

Kazakhstan: at the crossroads of civilizations

In mid-October, a Conference under the theme "Common World: Progress through Diversity," attended by some 40 foreign ministers from Islamic and Western countries as well as representatives of international organizations, was held in Astana, the capital of Kazakhstan.

In a way, it has become a prologue to next year's Congress of World Religions, a forum now traditionally hosted by Kazakhstan's capital city. The Conference adopted the Astana Declaration, which welcomes the efforts of international, regional and subregional organizations, forums and states aimed at promoting intercultural dialogue and harmony to achieve sustainable progress, international peace, equitable security and stability.

This century's most engaging philosophical discourse attempts to address unity and the struggle of civilizations. The West is pitched against the East while the East is misunderstood by the West. In fact, this philosophical debate has been narrowed down to a banal flagging of the various differences in culture, mentality, ethics and faith that exist between the two sides. The dispute, let's face it, is eternal but there are quite a number of ways to settle it peacefully and to mutual satisfaction. As they say, God is one but paths to God are many. Kazakhstan is a valuable contributor to this discussion and has initiated a Congress of World and Traditional Religions. It should be noted that this mission has been gaining the support of other countries as well as international organizations. So why Kazakhstan? The answer is clear.

As a Eurasian state Kazakhstan is located right at the crossroads of civilizations and for this reason it blends away, in a most harmonious way, all the contrasts between the East and the West. One can safely argue that today's Kazakhstan has become an important international center for intercultural and interfaith dialogue.

Consider this: Kazakhstan, the ninth-largest state in the world, sits on a vast stretch of land between Communist China, Orthodox Russia, Islamic Central Asia and mixed Caucasus. This fact and certain turning points in its history have transformed Kazakhstan into a multicultural environment where representatives of more than 100 ethnic groups and many religions coexist peacefully. In the 1930s, during Stalinist repressions, Kazakhstan became a second homeland for thousands of ethnic Germans, Poles, Koreans, Greeks, Chechens and Kurds.

The President of Kazakhstan Nursultan A. Nazarbayev has an ambitious dream to build a Palace of Nations in Astana that will bring under one roof a mosque, an Orthodox church, a Buddhist temple and a synagogue. It is a beautiful dream, and it is likely to become a reality because the country promotes the use of three languages – Kazakh, Russian and English – and creates conditions for various ethnic groups to preserve their tongue, culture and freedom of religion.

Kazakhstan's biggest accomplishment so far, in the area of interethnic accord, has been the establishment of an Assembly of the People of Kazakhstan. It is one of the pillars of the country's

democracy that has come a long way from a purely consultative mechanism to a constitutional body.

The national authorities pay close attention to interethnic accord and interfaith dialogue, both of which are essential for international relations at this juncture. Additionally, Kazakhstan has always prioritized efforts to ensure regional stability and accordingly participates actively in such organizations as the Eurasian Economic Community, Shanghai Cooperation Organization and Conference on Interaction and Confidence-building Measures in Asia.

In 2010, Kazakhstan will assume Presidency in the Organization for Security and Cooperation in Europe (OSCE) in a demonstration of the international community's recognition of the country. In this role, Kazakhstan intends to strengthen the OSCE as a link between the West and the East within the framework of a dialogue among civilizations. The idea to establish this dialogue between the Muslim world and the West was first put forward by Kazakhstan in 2006. President Nazarbayev discussed it with US President George W. Bush, former British Prime Minister Tony Blair and leaders of other Western nations, including Brazil and Spain. Within the Muslim world, willingness to support this initiative was expressed by the leaders of Egypt, Qatar, Saudi Arabia and Jordan. It was also embraced by 57 Member States of the Organization of Islamic Conference. The idea has flown logically from the outcomes of two successful Congresses of World and Traditional Religions, held in Kazakhstan in 2003 and 2006. The second Congress was attended by 43 delegations from more than 20 countries of the world. All in all, there were some 160 delegates representing all world and traditional faiths: Islam, Christianity, Judaism, Buddhism, Taoism, Shinto and others. The forum also welcomed guests of honor representing international organizations: the United Nations, OSCE and UNESCO.

Participants of the second Congress adopted as its outcome document a declaration calling for all religious people on our planet to abandon enmity and hatred and embrace mutual respect.

The Congress called on the international community and the United Nations to support the concept of such congresses. There were also appeals to the United Nations Secretary-General to

convene a joint summit of world religious leaders and heads of state and to recognize the conceptual need of these congresses.

Today, everyone is aware of a close link between such important notions as security and tolerance. The West's stereotypical perceptions of the East and East's stereotypical perceptions of the West provide fertile ground for mutual intolerance and the spread of radical ideas in both camps involved in the standoff between civilizations. Dialogue between civilizations seems to offer the most effective tool for dismantling these stereotypes.

Arguably, the effectiveness of such a dialogue is especially relevant for Western Europe because the European Union alone is already home to some 20 million Muslims. According to various estimates, every ten years, the number of Muslims will increase by 50 percent. It is precisely for this reason that both forums, the Conference of Foreign Ministers "Common World: Progress through Diversity" and the Congress of World Religions, pay special attention to the search for practical solutions that will reflect joint contribution by Muslim and Western countries. These solutions should aim to achieve harmonization of international relations, progress and sustainable development and also shape relations between the West and the Muslim world in a positive way.

It is a great challenge, but our future and the future of our children depends on how we meet it and, especially, on the will of politicians in the East and in the West to meet it. The Astana Declaration adopted at the Conference recognized that "globalization, while opening up new opportunities for social and economic development, presents a challenge to cultural and religious identities of nations" and therefore called for the rejection of "any form of tensions, based on religious beliefs, cultural and civilizational differences, and their use for fuelling hatred, xenophobia and confrontation."

Kazakhstan's initiatives to convene the Congress of Leaders of World and Traditional Religions and the Conference of Foreign Ministers "Common World: Progress through Diversity" complement each other. Kazakhstan has volunteered to assume the challenging role of serving as a link in the global process of dialogue between civilizations, cultures and religions.



CORPORATE NEWS

Investment in Carphone reins in Best Buy profit

Electronics retailer will cut U.S. staff, trim store openings

BY MIGUEL BUSTILLO

Electronics retailer Best Buy Co. posted a 77% drop in fiscal third quarter profit Tuesday and said it would slow new-store openings and reduce its work force to weather an extended recession.

Its reported net income for the quarter of \$52 million, or 13 cents a share, compares with \$228 million, or 53 cents a share, a year earlier. The latest period, which ended Nov. 29, includes a \$111 million pre-tax charge to write down its 2.9% investment in Carphone Warehouse Group PLC.

Best Buy executives stressed that the company remains committed to its European retail joint venture with Carphone Warehouse. The company last year paid \$183 million for the stake.

Despite sales falling 5.3% at stores open at least a year, the Richfield, Minn.-based consumer electronics chain said it was still gaining market share in the U.S. at the expense of weaker rivals. Total revenue for the quarter rose a better than expected 16% to \$11.5 billion, from \$9.93 billion a year earlier.

What's more, it said it accomplished the gains while largely preserving profit margins at a time of heavy discounting across the retail sector, including by its chief U.S. rival, Circuit City Stores Inc., which is in Chapter 11 bankruptcy protection and is liquidating inventory at 155 stores.

To shore up its finances during the economic slump, Best Buy said it will limit new store openings in the

U.S., Canada and China, and is offering buyouts to nearly all of its 4,000 headquarters workers.

Best Buy's moves to tighten its belt pleased analysts, who believe the company is positioning itself to prosper whenever the economy picks up. "Much of our enthusiasm on Best Buy over time is its potential for market share gains as competitors fall by the wayside," said Credit Suisse analyst Gary Balter.

Best Buy shares were up nearly 16%, or \$3.69, at \$27.16 in mid-afternoon trading on the New York Stock Exchange. Investors cheered the cost-cutting measures as a sign that reality has finally set in the company's executive suites.

Still, earnings were worse than expected for Best Buy's latest quarter, even after the retailer warned last month that sales during the last four months of its fiscal year ending Feb. 28 could fall 5% to 15% compared to the year before.

Company executives said they anticipate that a protracted economic slowdown will prompt companies to cut more jobs next year. That made it hard for Best Buy to predict when its business would bounce back.

"The historic slowdown in the economy and its effect on our business over the past 90 days has been the most challenging consumer environment our company has ever faced," Best Buy Chief Executive Officer Brad Anderson said. "We believe that there has been a dramatic and potentially long-lasting change in consumer behavior."

Best Buy did not specify how many corporate jobs it wants to cut, but it did not rule out firings. Executives emphasized that although they plan to slash capital expenses in half next fiscal year, it won't necessarily translate to a 50% reduction in new store openings.

Disney to form TV venture with Russian broadcaster

BY PETER SANDERS

LOS ANGELES—Walt Disney Co. said it will form a joint venture with a Russian broadcaster to offer a Disney-branded television channel on 30 stations throughout Russia, marking a major foray into the country's media market.

The Burbank, Calif.-based entertainment conglomerate will form a subsidiary, which will hold a 49% stake in the venture with Russian broadcaster Media-One Holdings Ltd. Disney will invest cash and provide content to Media-One, which will allow the company to expand viewership of its popular U.S. television franchises—such as "Hannah Montana" and "High School Musical"—as well as locally produced shows.

The channel is slated to launch sometime next year, pending Russian regulatory approval, according to Disney officials. The move is a significant push into Russia, a market that many Western entertainment companies are hoping to tap.

In the last year, Disney struck licensing deals with two of Russia's biggest broadcasters to air various content, including movies and popular Disney television shows. But until now it hasn't had a dedicated

channel for its content in Russia.

Disney this year has created a Russian version of its Web site, begun a stage version of "Beauty and the Beast" and started production of its first Russian-language film, scheduled for release in Russia next fall. Disney's blockbuster films, including the "Pirates of the Caribbean" franchise, have also fared well theatrically in Russia. Next year, Disney's cruise line will also dock in St. Petersburg.

"Russia is an extremely important market for Disney and this new Disney channel is a great way for us to expand our brand and business, Disney Chief Executive Robert Iger said in a prepared statement.

However, Disney's expansion coincides with a sharp slump in what had been a booming Russian economy. Doing business in Russia—particularly in media—can be treacherous because of an unpredictable political and economic climate.

But Mr. Iger has made international expansion a focus of Disney's strategy. The company is increasing its presence in India and negotiating with Chinese officials for a possible theme park in Shanghai and a potential expansion of its existing Hong Kong theme park.

GLOBAL BUSINESS BRIEFS

Volkswagen AG

SEAT to cut production, furlough workers in 1st half

Spanish auto maker SEAT plans to temporarily lay off 5,300 workers in its home market in the first half because of falling sales. Between Feb. 2 and June 30, the company will halt production on different lines for varying amounts of time, said a spokeswoman for the company, a unit of Volkswagen AG. SEAT sales fell 24% to 97,000 vehicles in the first 11 months of this year. Car manufacturers generally reported a 50% drop in sales last month alone in Spain. Ford Motor Co. and General Motors Corp. have also announced job and production cuts in Spain recently. After posting years of strong growth, Spain's economy is ailing, mainly because of a collapse in the construction industry. The government has announced a €800 million, or about \$1 billion, stimulus package for the auto industry, which accounts for 20% of exports.

Centro Properties Group

Centro Properties Group reached an agreement to extend its debt facilities under a deal that could eventually see its lenders own 90% of the Australian group. Melbourne-based Centro said it struck an agreement in principle with its Australian and U.S. lenders on its A\$5.05 billion (US\$3.42 billion) senior secured debt facility. Of that, A\$4 billion will be converted into three-year term loans, maturing Dec. 15, 2011. The remaining A\$1.05 billion will be converted to senior-secured hybrid securities, to be issued to its Australian lenders, with a seven-year maturity. If converted in full, the hybrid securities will account for 90.1% of the shopping-mall owner's shares. The group also said it won't pay distributions to ordinary security holders in the next three years.

Volvo AB

Truck maker Volvo AB said deliveries tumbled 21% in November from a year earlier, adding that its order book is shrinking rapidly. Volvo, whose brands include Renault, Nissan Diesel and Mack as well as its own name, said deliveries fell 42% in Europe, its biggest market, and 22% in North America. Overall the Swedish company delivered 19,326 trucks last month. Europe's heavy-duty truck industry has seen demand plunge from high levels as the financial crisis has pushed a growing number of export markets into recession and made funding for potential purchasers difficult. In late October, Volvo reported a 100% fall in order bookings after clearing its books of uncertain orders and cancellations. It has since said it will shed thousands of jobs and cut production.

Telenor ASA

Norwegian telecommunications company Telenor ASA said Tuesday that a shareholder meeting has been held at Ukrainian mobile operator Kyivstar, potentially marking a first step toward ending the long-running shareholder disputes at the company. The operator, which is jointly owned by Telenor and Storm, a unit of Alfa Group, also approved a dividend of around 2.9 billion Norwegian kroner (\$420 million) for the fiscal years 2004 and 2005. Telenor has so far not been able to consolidate the company's operations into its earnings because Storm has refused to attend board meetings, hindering the audit of its reports. Investors reacted positively to the news, and Telenor's shares closed at 42.60 Norwegian kroner, up 8.5%.

Danisco A/S

Danisco A/S said net profit for its fiscal second quarter increased 7%. The Danish enzymes and food-ingredients maker also raised its full-year sales outlook but cut its profit forecast. Net profit for the three months ended Oct. 31 rose to 339 million Danish kroner (\$62.4 million) from 317 million kroner a year earlier, helped by financial gains. Sales rose 12% to 3.35 billion kroner. Danisco said it now expects full-year revenue to come in at 13.3 billion kroner, up from a previous forecast of 13 billion kroner. But the company cut its outlook for net profit to 950 million kroner from 1 billion kroner. Danisco said customers and suppliers are cutting orders sharply to reduce the amount of inventory they hold. The company also postponed a 1 billion kroner share-buyback program. Danisco shares fell 18 kroner, or 6.8%, to close at 245 kroner in Copenhagen.

PartyGaming PLC

PartyGaming PLC, the owner of the PartyPoker.com Web site, said it is close to reaching a settlement with the U.S. Justice Department regarding the company's legal status in the country. The company has been beset by legal problems in the U.S. since the Justice Department ruled in 2006 that online gambling always had been illegal, making PartyGaming open to retrospective legal action. The American market used to account for 80% of the company's revenue. PartyGaming, which is based in Gibraltar and listed on the London Stock Exchange, said its discussions with the Justice Department have "made good progress" and said they are "currently negotiating the final terms of a possible settlement." PartyGaming's shares rose to 176.50 pence (\$2.70), up 37.75 pence, or 27%.

Total SA

Italian police have taken Lionel Levha, the chief executive of French oil firm Total SA's Italian unit, into custody for questioning as part of a corruption probe into how construction contracts were assigned at an oil field in southern Italy, according to police and a person familiar with the matter. The probe was launched by prosecutors in the Italian city of Potenza, the capital of the southern Italian region where Total is part of a consortium that is drilling the Tempa Rossa oil field, police said. The Tempa Rossa field was discovered in 1989 and is being developed by a consortium led by Total that also includes Royal Dutch Shell PLC and Esso Italia S.r.l., the Italian subsidiary of Exxon Mobil Corp. Oil from Tempa Rossa is due onstream in 2011, and its peak production is estimated at 50,000 barrels a day, according to Total.

Laird PLC

British electronics and technology company Laird PLC said it will lay off 4,500 direct employees, or 40% of its work force, in response to a slowdown in demand that will reduce fourth-quarter revenue by as much as 30%. Laird said that for planning purposes, it is assuming that the slowdown will last through at least the first quarter of 2009, and that there will be no market recovery during 2009. The company said it expects revenue at constant exchange rates in the fourth quarter to be 25% to 30% below a year earlier, but that the current weakness of the pound against other currencies will considerably mitigate the reduction in revenue. By the end of the fourth quarter, the company will cut about 4,500 direct employees and 500 indirect employees.

EADS

European Aeronautic Defence & Space Co. said Tuesday it plans to merge its military-transport operations into its Airbus civil plane unit to bring its troubled A400M program under one roof. The Toulouse, France, company also said it would bring its satellite and defense divisions, which respectively handle strategic projects for France and Germany, closer, but without merging them. The €20 billion (\$27.42 billion) A400M military airlifter project is running an estimated 18 to 24 months late, leading to friction between EADS, its engine makers and European governments, some of which are demanding penalties be applied to EADS. The A400M had previously been managed by EADS's Spain-based military-transport unit, and Airbus's chief, Tom Enders, until now hadn't had direct control of the project.

Aer Lingus PLC

Aer Lingus PLC Tuesday again firmly rejected the takeover approach from rival Ryanair Holdings PLC, saying it undervalues the Irish flag carrier and would create an air-travel monopoly in Ireland. Europe's largest low-cost carrier has offered €750 million (\$1.03 billion) for Aer Lingus, saying it would turn around the loss-making airline, reduce its fares and create about 1,000 new jobs. "This document contains nothing new," said Aer Lingus Chairman Colm Barrington. Ryanair had attempted to take over Aer Lingus in 2006, but was unable to win support for that bid from the Irish government and other shareholders. The bid was also blocked by European Union regulators. Ryanair has appealed that decision.

Fortis NV

The Belgian government late Monday decided to appeal a court ruling that has frozen the sale of Fortis NV's Belgian banking operations to French bank BNP Paribas SA. The government continues to view the sale of the assets to BNP Paribas as the "best guarantee for the continuity of Fortisbanque Belgium," the prime minister's spokesman said in a prepared statement. A court of appeals in Brussels Friday slapped a 65-day suspension on the Belgian government's emergency measures taken in October to save Fortis from bankruptcy, throwing the whole transaction into doubt. The government's measures included buying the 51% of Fortis it didn't already own for €4.7 billion (\$6.4 billion) and then selling 75% of the company to BNP Paribas.

Mattel Inc.

Mattel Inc. and its Fisher Price toy unit will pay \$12 million as part of a multistate settlement to resolve charges it shipped toys with lead paint to the U.S. last year. The settlement with 39 states follows the recall of millions of Chinese-made toys last year because of concerns that their lead paint didn't meet U.S. standards. Dozens of U.S. lawmakers later urged Mattel to stop selling toys that contained any lead, claiming the company wasn't doing enough to address safety concerns. Under the pact, Mattel will follow tougher standards for accessible lead in toys made after Nov. 30 and agreed to maintain at least four years of records for subcontractors that produce parts for its toys, including results of lead tests.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

China property prices keep buyers wary

Policy makers have made housing one of their top priorities because it is seen as a major source of stability

BY JONATHAN CHENG

SHENZHEN, China—Turning around China's slumping property market could depend on luring Jamie Chen and tens of millions of the nation's other potential home buyers to the table. The problem, she and others say: In many of China's biggest cities, falling home prices are still too high.

"If I had enough money to make a down payment, I wouldn't wait. I think it is a good time to buy now with all the policies to help buyers," said Ms. Chen, a 28-year-old single woman living with her parents in a suburb of this Chinese boomtown. "Prices in my area have adjusted to a more reasonable level, but not in downtown."

That reluctance suggests China's property market may have a way to go before recovery, which has implications for the broader economy. Policy makers have made housing one of their top priorities, because it is seen as a major source of stability in the country and a further-reaching reflection of citizens' well-being than the stock market. A decline in construction activity also has been a major factor in the slowdown.

Figures released last week by China's official National Development and Reform Commission showed that property-price growth in 70 of the country's largest cities in November slowed to just 0.2% from a year earlier, the lowest growth

since the government began publishing the numbers four years ago. The statistics also showed a 0.5% drop in November home prices compared with October. Shenzhen registered a 15% year-to-year drop.

That is a sharp turnaround from just a few months ago, when China was still posting double-digit percentage growth in prices across the country, on a year-to-year basis.

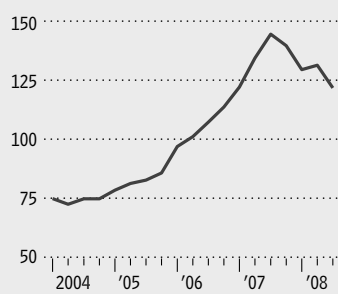
But even so, prices in Shenzhen are 63% higher than four years ago, according to real-estate brokerage firm DTZ. Some market watchers say that puts homes out of reach of many. Citigroup says the national average ratio of property price to household annual disposable income in China is 8.3, compared with an average of 6.5 to 7.5 for developing countries. In a major city such as Shenzhen, the ratio last year was 12.4, up from 8.6 just a year earlier.

"When times were good last year, prices had gone up to an unaffordable level—they were rising faster than incomes," said Alan Chiang, DTZ's Shenzhen-based head of mainland Chinese residential property. Others believe China has enough potential buyers at current prices, but they won't act until prices stop falling.

Dropping prices haven't caused a foreclosure wave like the one in the U.S. because Chinese consumers typically put down at least 30% on a mortgage, and a substantial number still pay for their houses in cash.

Cooling down

Index of residential prices* in Shenzhen, quarterly data



*First quarter of 2000 = 100
Source: DTZ



Victoria Harbour residential project in Shenzhen

Mortgages remain attainable, and central Chinese authorities slashed mortgage rates and eased home-buying rules and taxes Oct. 22 to reduce home-buying costs. Last month, the government also unveiled a broader stimulus package that calls for 900 billion yuan (\$131 billion) to be spent on more affordable housing over the next three years, an effort that could hurt home values depending in how the policy is implemented.

Some of the initial evidence has been tentatively encouraging, with J.P. Morgan reporting an 11% jump late last month in nationwide home sales from the week before, the third consecutive week of increases. "There is just so much pent-up de-

mand," said Frank Gong, the bank's China economist. "We're starting to see anecdotal encouraging signs, but it's not a widespread trend yet and we don't know if it will be sustainable. But let's see."

Shenzhen-based China Vanke Co., China's largest property developer by market value, said Tuesday that sales volumes in November had increased marginally from a year earlier when measured by floor space, but that revenue had fallen nearly 16% over the same period. That highlights both the widespread discounting that developers have had to turn to, and home buyers' expectations that home prices will continue falling.

As China's economy soared in re-

cent years, property prices jumped, helped in part by rampant speculation. The promise of fatter profits triggered a land-buying binge among developers last year. But less-noticed at the time was that home buyers were dropping out of the market as home prices climbed. In 2005, when prices in Shenzhen were averaging 7,000 yuan per square meter, developers were selling an average of 274 units a day, according to DTZ. By 2007, prices had doubled, and sales dropped to 140 units a day.

Shenzhen, a manufacturing center of 12.7 million people, is one of China's biggest and most mature property markets and is considered a bellwether for the nation's housing scene. The first major market hit by China's property slump, Shenzhen also was the first to see property developers slash prices in hopes of luring customers from the nation's massive pool of potential home buyers. Brokers say prices here have fallen some 30% in the past year, and the rate of unit sales has fallen by about half from a year earlier.

On a recent weekend at the MixC, a bustling mall in downtown Shenzhen, shoppers swarmed two large display booths promoting high-end apartments as sales staff took down names and a musician plucked at a traditional Chinese instrument to draw shoppers. A lot of brochures were picked up, but few commitments were made.



Police discovered a bundle of dynamite in a prestigious Paris department store Tuesday, after a tip from a group demanding France withdraw from Afghanistan.

French police find explosives in Paris department store

ASSOCIATED PRESS

PARIS—Acting on a warning, police on Tuesday found a bundle of dynamite inside a Paris department store, at the height of the holiday season. A group demanding that France withdraw from Afghanistan claimed responsibility.

Five sticks of dynamite were found tied together, but without a detonator, in the third-floor restroom of the menswear department at the Printemps department store, police said. The store is a favored shopping destination for tourists and a Christmas season attraction because of its festive window displays.

Interior Minister Michèle Alliot-Marie said "there was no risk of ex-

plosion." She said the explosives appeared "relatively old."

News agency Agence France Presse said it received a letter Tuesday morning from a group calling itself the Afghan Revolutionary Front saying that several bombs had been planted in the store. Police said they searched the store and found the dynamite because of the warning. Ms. Alliot-Marie said the group was "totally unknown" to the police.

In the letter, the group demanded the withdrawal of French troops from Afghanistan before the end of February, and threatened attacks if France refuses. President Nicolas Sarkozy, who has increased France's troop levels there, said he wouldn't bend to terrorism.

Russian industrial output plunges

BY LIDIA KELLY

MOSCOW—Russian industrial output plunged in November, exceeding even the most pessimistic expectations and affirming that the country's economic fundamentals are too fragile to fend off fears of a recession.

Industrial production, hit by liquidity shortages and falling export demand, dropped an unadjusted 8.7% from November 2007, data released Tuesday by the Federal Statistics Service, or Rosstat, showed. Most economists expected a decline in industrial output, but the consensus was for a 1.5% to 2% slide.

Production was dragged down chiefly by a sharp decline in the steel sector, automobiles, fertilizers and cement—the main drivers of the robust industrial growth the

country enjoyed in recent years. "The size of the decline in output is striking and indicates that the economy has very little resilience to negative shocks," Aleksandra Evtifyeva, an economist at the state-run VTB Bank in Moscow, said in a note to investors.

The Ministry of Economic Development predicts industrial growth of 1.9% this year—a third of what Russia recorded in 2007.

After a controversial statement last week by Deputy Economy Minister Andrei Klepach, who said the economy has entered a period of recession that promises to be long-lasting, a number of Russia's senior officials rushed in to assure the public and investors that isn't yet the case. "We expect positive growth next year, up to 3%," Finance Minis-

ter Alexei Kudrin said Monday.

There has been little going in Russia's favor in recent weeks. The government's \$200 billion stimulus package—one of world's largest as a percentage of GDP—has aided liquidity at some of the biggest banks and has tamed a slide on the equity markets. But it hasn't stopped the economy at large from deteriorating at a startling pace.

It has taken only three months for GDP to fall from the robust 7% rate of the past five years to what economists predict will be negative numbers in the next couple of quarters. The central bank has engineered a gradual decline of the ruble in recent weeks, which has brought the value of the currency down 6% since early November and 10% since August.

Ukraine's economy weakens further

BY LIDIA KELLY

MOSCOW—Ukraine's GDP plunged at its fastest rate in more than a decade in November, and President Victor Yushchenko warned the worst is yet to come.

Gross domestic product in the former Soviet republic contracted 14.4% in November from a year earlier, the State Statistics Committee said Tuesday. In January to November, the annual growth rate slowed to 3.6%, just half the pace of the past seven years.

Mr. Yushchenko told local authorities the coming months will be particularly painful. "In the first

quarter of 2009, GDP is expected to fall between 7% and 10%," he said, according to his press service.

The news came as the country's currency, the hryvnia, hit a historic low of 8.50 hryvnia to the dollar, despite intervention from the National Bank. The currency has shed nearly half of its purchasing power since late summer.

With an economy heavily dependent on commodities, Ukraine is proving to be among the hardest hit emerging markets during the global economic decline. As international demand for steel collapsed, so did prices, straining corporate and banking liquidity, and causing

a freefall on the equity markets.

A conflict between Mr. Yushchenko and Prime Minister Yulia Tymoshenko has impeded action to offset the growing crisis, delaying the passage of measures in parliament and almost derailing a \$16.5 billion loan agreement with the International Monetary Fund.

November data released earlier this month by the National Bank showed Ukraine spent 80% of the first tranche of the \$16.5 billion IMF loan within a month of receiving it. The central bank spent \$3.4 billion in foreign exchange interventions in November to defend the hryvnia.

ECONOMY & POLITICS

Caroline Kennedy looks to Senate

Democrat seeks seat vacated by Clinton; experience questions

BY BRAD HAYNES
AND MONICA LANGLEY

After shunning the spotlight for much of her life, Caroline Kennedy has decided to seek the Senate seat being vacated by New York Sen. Hillary Clinton.

New York Gov. David Paterson said Monday that Ms. Kennedy, the daughter of President John F. Kennedy, notified him she was interested in the seat once held by her uncle, Robert F. Kennedy.

Ms. Kennedy entered the political fray nearly a year ago when she gave a strong endorsement to Barack Obama, whom she compared to her father, in the closely fought Democratic primary. She was a major draw on the campaign trail and in June was named to Mr. Obama's vice-presidential search committee, where she emerged as a crucial member of the vetting team.

Ms. Kennedy began calling prominent figures in New York politics Monday morning to announce her intentions, including New York Mayor Michael Bloomberg, Time Warner Inc. Chairman Richard Parsons, the Rev. Al Sharpton and upstate New York Democratic Rep. Louise Slaughter, who offered her public endorsement.

Joel Klein, New York City's schools chancellor, said Ms. Kennedy told him she is "seriously interested" in the post. "It's terrific for New York," said Mr. Klein, who enlisted Ms. Kennedy to help raise millions of dollars and set up a "strategic partners" office for New York



Reuters

Caroline Kennedy was a crucial member of the Obama vice-presidential search committee. Republicans questioned her experience.

City public schools.

Ms. Kennedy has hired the political consulting firm Knickerbocker SKD, which is headed by New York Democratic Sen. Charles Schumer's former chief of staff, Josh Isay.

At the beginning of December, President-elect Obama said he would nominate Mrs. Clinton as secretary of state, opening up her Senate seat. The governor will appoint someone to fill out the last two years of her term.

Republicans, as well as some backers of Mrs. Clinton's failed pres-

idential run, have questioned Ms. Kennedy's readiness for the Senate, citing her lack of experience in public office. One prospective candidate for the seat in two years, Rep. Peter King, a Long Island republican, suggested that her selection would make him more likely to run in 2010.

Speculation has been wide-ranging about whom Gov. Paterson would appoint to the seat. Powerful advocates, including Massachusetts Sen. Edward Kennedy and Mayor Bloomberg, have made the case pub-

licly for Ms. Kennedy.

A Marist poll released last week on who should fill the open seat showed Ms. Kennedy and New York Attorney General Andrew Cuomo tied at 25% support among registered voters in the state; just as many voters are unsure who should fill the seat.

Other possible contenders registered in the single digits. Ms. Kennedy led among Democrats, while Mr. Cuomo had the advantage with Republicans. But both Democrats were seen positively among more than 60% of those polled.

Obama unveils California-style team for energy

BY STEPHEN POWER

CHICAGO—President-elect Barack Obama is pushing to give U.S. energy policy a California-style makeover, choosing for key energy and environmental posts people who advocate more aggressive steps against climate change.

Mr. Obama introduced Monday the people who will advise him on energy and environmental policy, including several figures who either hail from the Golden State or have called for emulating California's policies in the fight against climate change.

"Consistently, California has hit the bar" on environmental policy, "and the rest of the country has followed," Mr. Obama said during the news conference here.

Mr. Obama's picks in the energy and environmental arena signal a sharp break with Bush administration, in contrast with Mr. Obama's choices for some national-security and economic posts, who reflected a tilt toward continuity.

Mr. Obama's nominee for Energy secretary is Steven Chu, a Nobel Prize-winning physicist who is director of the Lawrence Berkeley National Laboratory in California. Mr. Chu has praised California's approach to energy conservation, and called for aggressive steps on climate change.

Mr. Obama also named Carol Browner, who headed the Environmental Protection Agency during the Clinton administration, to be the White House czar coordinating climate policy. Ms. Browner has said publicly that the next president's priority should be to direct the EPA to reconsider the decision by President George W. Bush's current EPA administrator, Stephen Johnson, to deny California a waiver from the Clean Air Act that would have allowed the state to regulate greenhouse-gas emissions from automobiles.

To head the EPA, Mr. Obama named Lisa Jackson, former head of New Jersey's Department of Environmental Protection, who led her state's effort to implement auto greenhouse-gas standards modeled after California's. Los Angeles Deputy Mayor Nancy Sutley was nominated to run the president's Council on Environmental Quality.

Mr. Obama, meanwhile, appears poised to round out his energy and environmental team by naming Democratic Sen. Ken Salazar of Colorado as Interior secretary. Mr. Salazar fought the Bush administration's efforts to allow oil-shale development in the West, but has also worked with Republicans on legislation to allow for some increased offshore drilling in exchange for greater spending on low-carbon technology.

Mr. Obama's picks add to the growing number of Californians who will influence U.S. energy policy. That group includes House Speaker Nancy Pelosi, who has made addressing global warming a priority; Senate Environment Committee Chairman Barbara Boxer; and Rep. Henry Waxman, who last month defeated Rep. John Dingell (D., Mich.) for the chairmanship of the House Energy and Commerce Committee.

Mr. Chu has held up California's policies on conservation as a model for the rest of the U.S., noting in a speech in Washington earlier this year that the state's real gross domestic product has grown by a factor of two since the early 1970s, even as electricity consumption per person has risen only moderately.

Opponents of California's policies note that the state pays relatively high electricity rates.

Obama taps education chief from Chicago

BY JOHN HECHINGER
AND LAURA MECKLER

President-elect Barack Obama named Chicago schools chief Arne Duncan as his education secretary on Tuesday—choosing a hometown friend who has introduced some education reforms popular with conservatives without alienating teachers unions.

The announcement came at a news conference in Chicago, a transition aide said. Mr. Duncan, who has been Chicago's top school official for seven years, has overseen the closure of struggling schools, advocated merit pay for better teachers, and adopted a program to use private money to reward children for better grades.

He has straddled two competing factions of the education community: the teachers unions, who push for more funding and smaller classes, and a movement that favors accountability and free-market-style incentives and looks to hold schools and teachers more accountable for student performance.

Those within the Democratic party who supported him say he has improved student achievement, graduation rates and college-going rates in the nation's third-largest school system, which was called the worst in the nation by former Education Secretary William Bennett in the late 1980s.

Like Mr. Obama, Mr. Duncan, 44 years old, is Harvard educated and loves basketball. The two are person-



Chicago Tribune/News.com

Arne Duncan was named Education secretary. At right, Education Secretary Margaret Spellings.

that school systems show steady progress toward meeting that goal or face sanctions.

Mr. Obama has called for increased funding for NCLB programs such as teacher training and better testing. He has said he wants to increase spending on early-childhood education by about \$10 billion annually and provide a \$4,000 annual tax credit to college students who perform 100 hours of community service.

Advocates of the law, including both Democrats and Republicans, believe NCLB's testing requirements provides an important way to hold schools accountable for students' achievement. But critics, including teacher's unions, some education experts and school systems, have complained bitterly about the law's frequent testing and lack of funding.

Tom Loveless, an education expert at the Brookings Institution, a Washington think tank, called Mr. Duncan a "safe choice. It reconciles the disagreements within the Democratic Party."

Monday night, Janet Bass, a spokeswoman for the American Federation of Teachers, which represents Chicago teachers, declined to comment on the appointment prior to the official announcement, but said: "As we have said in the past, we have a high opinion of Arne Duncan."

ally close, with the pair sometimes playing pickup basketball together. In fact, Mr. Duncan, as an undergraduate, was co-captain of the Harvard basketball team and briefly played professional basketball in Australia.

The choice of Mr. Duncan comes as

the Education Department faces a debate next year over the reauthorization of No Child Left Behind, President Bush's controversial education law. NCLB, which took effect in 2002, mandates that all students be proficient in reading and math by 2014 and requires