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Ill-timed land deals hit California pension fund
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Windows Live organizes Web activities in one place
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Business & Finance

EDF agreed to pay $4.5 billion for about half of Constellation Energy's nuclear-power business. The deal, furthering the French firm's U.S. nuclear-power expansion, thwarts Warren Buffett's plans to take over Constellation. Page 1

■ **The SEC's chief admitted** to lapses in its handling of Bernard Madoff's firm. But as repercussions widen, investors have little in the way of a safety net. Pages 19, 21

■ **The ECB has room** to lower its official interest rate from the current 2.5% as inflation cools, a member of the bank's governing council said. Page 3

■ **Britain's economy is slowing** rapidly, as unemployment surges, retail sales plumb lows and interest rates may soon be cut to an all-time low. Page 1

■ **Antitrust authorities ruled** Apple's deal to sell the iPhone in France only through France Télécom posed an unfair barrier to consumer choice. Page 2

■ **Ryanair won** its challenge of European Commission limits on aid it can receive from a Belgian regional government. Page 2

■ **EU regulators plan** to make it easier for companies unable to get bank funding to receive state subsidies. Page 9

■ **U.S. shares fell** as investors rethought the Fed's rate cut and digested new signs of the pain from soured credit bets. Europe stocks fell. Page 20

■ **Morgan Stanley had a loss** of $2.37 billion, less than a year earlier but more than analysts expected. Page 19

■ **New surveys suggest** buyers may be willing to buy a car from an auto maker in bankruptcy court. Page 6

■ **BNP is considering job cuts** after market volatility hit the French bank's results. Page 4

■ **U.K. regulators** recommended BAA be forced to sell three of its seven British airports to improve competition. Page 5

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8824.34	-99.80	-1.12
Nasdaq	1579.31	-10.58	-0.67
DJ Stoxx 600	197.51	-1.50	-0.75
FTSE 100	4324.19	+15.11	+0.35
DAX	4708.38	-21.53	-0.46
CAC 40	3241.92	-9.74	-0.30
Euro	$1.4342	+0.0583	+4.24
Nymex crude	$40.06	-3.54	-8.12

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World-Wide

OPEC said it will cut oil output by 2.2 million barrels a day, after slicing 1.7 million barrels a day over the past three months. Russia and Azerbaijan said they may contribute an additional 600,000 barrels a day in cuts to show support. The OPEC cuts would mark the swiftest reduction since the cartel began setting output quotas in 1982. Oil prices fell despite the announcement. Page 1

■ **Brown said U.K. soldiers** will leave Iraq by May 31, a move that will force the U.S. to send troops to the south to secure supply lines. At least 18 died in Baghdad bombings, police said.

■ **A doctor who led** failed car-bomb attacks in Britain in revenge for U.S.-led military action in his family's native Iraq was jailed for at least 32 years.

■ **A draft law promoted** by Putin's cabinet would allow Russian authorities to label any government critic a traitor.

■ **The European Parliament** voted to force all EU members to respect a law limiting individual work weeks to 48 hours.

■ **France's Sarkozy announced** plans to boost diversity by putting more ethnic minorities in political parties and elite schools.

■ **Kenya's government agreed** to create a tribunal to prosecute organizers of ethnic clashes this year, a rare step toward holding top officials accountable. Page 12

■ **China is considering** sending warships to the Gulf of Aden to help protect commercial shipping from pirate attacks, a move that would sharply broaden the range of its naval forces. Page 11

■ **Kuwait's emir asked** his former prime minister who resigned last month to return to his post and form a new cabinet.

■ **Antigovernment protesters** hung two giant banners off Athens' Acropolis, calling for mass demonstrations across Europe.

■ **The European Parliament** gave jailed Chinese dissident Hu Jia a standing ovation as it honored him in absentia with its top human-rights award.

■ **An alleged Mafia boss** hanged himself in a Sicilian jail hours after his arrest in sweeping raids.

EDITORIAL & OPINION

Mugabe in South Africa
Jacob Zuma's ANC seems to be taking its cue from Zimbabwe's dictator. Page 14

OPEC to reduce output in bid to raise oil prices

Additional cuts set to begin in January; crude market falls

By Neil King Jr.

ORAN, Algeria—Flush and powerful just months ago, the world's big oil producers now fear that even a record cut in crude supplies won't turn around a plunge in oil prices that has slammed their economies and shelved important energy projects.

Those concerns intensified on Wednesday, when oil prices dropped to their lowest level in over four years just minutes after OPEC announced plans to impose the group's deepest cuts ever. The 12-member Organization of Petroleum Exporting Countries now intends to cut output by 2.2 million barrels a day, or about 7%, after slicing 1.7 million barrels a day over the last three months. Two other big producers, Russia and Azerbaijan, said they may contribute an additional 600,000 barrels a day in cuts to show support.

The OPEC cuts, meant to be effective Jan. 1, would mark the swiftest reduction in the cartel's production since it began setting output quotas in 1982.

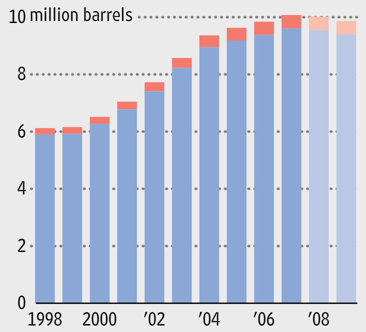
Despite the announcement, which was 200,000 barrels a day

Please turn to page 31

Will Russia cut?

OPEC oil ministers approved 2.2 million barrels a day of new cuts and are hoping other major non-OPEC producers, in particular Russia, will curb output too. Russia's Deputy Prime Minister Igor Sechin, left, at OPEC's 151st Extraordinary Meeting in Oran, Algeria.

Russia's daily oil output



Note: 2008 and 2009 are forecasts
Source: International Energy Agency. Photo: Reuters.

U.K. reports new distress for economy

By Joe Parkinson And Nicholas Winning

LONDON—The U.K. economy is rapidly slowing as the year closes, with unemployment surging, retail sales plumbing record lows and the Bank of England hinting that it will soon cut interest rates to their lowest level ever.

The number of people claiming unemployment benefits in the U.K. posted its biggest monthly rise for more than 17 years in November as the downturn forced more companies to lay off staff, the government statistics office reported on Wednesday.

The Confederation of British Industry separately said December sales volumes at U.K. retailers fell to their lowest level since records began in 1983. In the crucial buildup to Christmas, businesses reported that a continued lack of credit is forcing them to turn down profitable orders.

"The latest news on the economy shows that the downturns in the labor market and in the retail sector are accelerating at a frightening

Please turn to page 31

EDF sets nuclear deal, thwarting Buffett's plan

By David Gauthier-Villars in Paris and Rebecca Smith in San Francisco

Constellation Energy Group Inc. backed out of a plan to sell itself to Warren Buffett's MidAmerican Energy Holdings Inc., and instead struck an agreement to sell half of its nuclear power business to **Electricité de France** SA for $4.5 billion, opening the way for the French state-controlled firm to pursue a nuclear power expansion in the U.S.

Under the terms of the agreement, EDF will make an immediate, $1 billion cash investment in Constellation toward the $4.5 billion purchase and will offer a $600 million backstop credit facility. In the future, it could invest as much as $2 billion in nonnuclear generation assets owned by Constellation, if the company needs more cash to restore confidence at its natural-gas trading business.

Though the deal with EDF signals a rare defeat for Mr. Buffett, the billionaire investor doesn't walk away empty-handed. When MidAmerican, a subsidiary of Mr. Buffett's **Berkshire Hathaway** Inc., made its offer to buy Constellation in September, it negotiated a $600 million cash payment, including a

Please turn to page 31

LEADING THE NEWS

France bars iPhone deal

Decision is setback for France Télécom, opens way for rivals

By Leila Abboud

PARIS—Antitrust authorities ruled that **Apple** Inc.'s deal to sell the iPhone in France exclusively through **France Télécom** SA posed an unfair barrier to consumer choice, which could pave the way for other operators to sell the iPhone.

The decision from France's Competition Council suspends a five-year contract that the companies signed last year. The ruling came in response to a complaint filed by one of France Télécom's competitors, Bouygues Telecom.

France Télécom said it would appeal the decision. Apple didn't immediately comment.

The decision is a blow to France Télécom, which has bet that the iPhone would help attract and retain high-tech savvy customers who tend to spend more on their monthly communication bills.

It also complicates Apple's marketing plans in one of Europe's biggest markets. But the decision isn't likely to have immediate repercussions for Apple outside France. European Union regulators have so far chosen to let individual countries decide how to handle competition issues arising from Apple's iPhone.

The result is a patchwork of different situations for consumers in Europe. In Belgium, for example, consumers can buy an iPhone and use it on any operator. In Germany, a similar legal challenge filed in 2007 by **Vodafone Group** PLC to derail **Deutsche Telekom** AG's exclusive contract with Apple failed.

Even before Wednesday's ruling, French consumers could buy an iPhone, have it unlocked for a €100 fee ($141) and then use it on any operator, though they forfeit some functionality. Based on such usage, SFR—France's mobile-phone operator jointly owned by Vivendi SA and Vodafone—had 45,000 subscribers on the iPhone.

A spokeswoman for Bouygues Telecom, a unit of French diversified construction group **Bouygues** SA, said the company would try to sign its own contract with Apple as quickly as possible. A spokesperson for SFR said the firm hopes to be able to start selling the iPhone "very soon."

The Competition Council said France Télécom's deal with Apple was "clearly excessive" and risked "serious and immediate damage to competition on the mobile market and to consumers." The Council said it would do an "in-depth examination" of the case and the appeal.

France Télécom said the decision would have the unwanted effect of stifling innovative services for consumers, by causing operators to think twice before investing in network upgrades. The operator said it had "heavily invested" to upgrade its network to handle and optimize the iPhone. It has sold about 600,000 iPhones.

Although the Competition Council's decision applies only to the iPhone, the regulators mentioned two other deals recently signed by SFR for exclusive rights to distribute certain devices made by **Research In Motion** Ltd. and **HTC** Corp. The SFR deals "confirmed the risk" that such contracts would become a norm, the Council said.

—A.H. Mooradian contributed to this article.

Associated Press

France Télécom lost its exclusive rights to sell the iPhone in France.

Ryanair wins challenge over limits to state aid

By Peppi Kiviniemi

Ryanair Holdings PLC on Wednesday won a challenge against the European Commission on limits imposed on state aid the carrier received from a Belgian region.

The ruling allows the Dublin-based budget airline to keep a discount of more than €4 million ($5.7 million) that it received from Belgium's Walloon regional government to operate flights out of state-owned Charleroi Airport.

Michael O'Leary

The ruling from the European Union's lower court is seen as a blow to the commission, the EU's executive arm, which has eight other cases pending against regional airports out of which Ryanair operates.

The commission said Wednesday's judgment doesn't have an immediate impact on the other cases, adding that it would look at the remaining cases on merit.

The European Court of First Instance said in a statement that it "annuls the commission's decision on advantages granted by the Walloon region and by Charleroi Airport to Ryanair," based on a procedural mistake the commission made when examining the case.

The court ruled that the commission's failure to consider that a public-sector owner of an airport could behave like a private investor was an "error in law."

The ruling is a "good decision for the future growth of regional secondary airports," Ryanair Chief Executive Michael O'Leary told journalists in Brussels.

The company's legal counsel, Jim Callaghan, called the decision "a huge victory," saying that based on the legal principles established in the ruling, the commission would have to reconsider all eight cases in which Ryanair is involved.

In this case, the commission was investigating a 2002 complaint about state aid granted in 2001 to Ryanair from Charleroi Airport, and concluded that a private investor wouldn't have made a similar investment. This led to a decision in 2004 that various benefits—including reduced landing fees and discounted ground handling services—constituted illegal state aid.

If courts consider that a public authority can be a private investor, then all the rest of the cases are baseless, Mr. O'Leary said.

Mr. O'Leary said Ryanair is seeking a meeting with the commission to develop a "new relationship" with the European executive arm.

—Mike Gordon in Luxembourg contributed to this article.

CORRECTIONS & AMPLIFICATIONS

If the stocks in a double-leveraged bull-market exchange traded fund with an initial value of $100 per share fall 10%, the broker would have to sell $20 of the underlying stocks to square the books and sell $60 to even positions on a similar bear-market fund. In some editions, Monday's Abreast of the Market article incorrectly said brokers would have to sell $40 in both cases.

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LEADING THE NEWS

ECB has room to lower its key rate, official says

By Nina Koeppen
And Peter Trautmann

FRANKFURT—The European Central Bank still has room to lower its official interest rate from 2.5% as inflation cools sharply, ECB governing council member Axel Weber said.

In the future, the ECB's key policy rates could be dropped to below the central bank's 2% inflation target for a short period, but the ECB should tread cautiously when entering this territory, he said.


Axel Weber

"I wouldn't cry wolf if—in a situation of very low inflation and positive real rates—nominal rates would briefly fall below 2%," Mr. Weber said. A real interest rate reflects an adjustment in the nominal rate for the market's inflation expectations. "Given our lack of experience with sub-2% nominal rates, we've got to be very careful in exploring this territory for a longer period," he said.

Mr. Weber emphasized that the ECB should raise interest rates "quickly and wholeheartedly" if the economic outlook brightens. "Lasting negative real interest rates aren't desirable," he said.

The ECB should first thoroughly examine money-market developments after the critical year-end period before taking further rate action, Mr. Weber said.

That might indicate that the ECB could wait until the Feb. 5 governing council meeting before cutting rates further. Many economists expect the central bank to slash interest rates by a half-point at the next scheduled policy meeting, or on Jan. 15.

ECB President Jean-Claude Trichet declined to indicate whether the central bank was considering another rate cut in January.

Mr. Weber said euro-zone inflation may turn "slightly negative" for a short period of time next year, owing to falling energy prices. "But that wouldn't be relevant for monetary policy" as a few months of falling prices mustn't be confused with deflation, when price falls become entrenched in the economy, he cautioned.

The 51-year-old economist, who is Bundesbank president, came close to dismissing the idea of a German clearinghouse to guarantee short-term loans that banks make to one another. Economists have floated the idea as a way to get funds to flow through frozen euro money markets. "The fact that people talk about its pros and cons doesn't mean that it will be implemented," he said. "In my eyes, the disadvantages outweigh the advantages."

It would require a thorough examination of a bank's creditworthiness and involve extensive administrative efforts, he argued. "It wouldn't work on a national level, but require a pan-European solution," he said.

Mr. Weber cautioned against lowering the rate the ECB pays banks that deposit funds overnight with it. Some policy makers have argued that this could help spur interbank lending.

"An isolated reduction in the deposit rate would mean that we'd render control over short-term money market rates that, without any additional liquidity fine-tuning operations, would risk falling way below the main refinancing rate," he said.

The ECB aims to anchor overnight money-market rates close to its key policy rate, currently 2.5%. By comparison, the ECB pays a 2% rate on its deposit facility.

Mr. Weber said growth forecasts in Germany and elsewhere in the euro zone may have to be cut again. German fourth-quarter gross domestic product could drop by more than the forecast 0.5% on the quarter in the year's last three months, he said.

Norwegian, Czech rates cut to aid slowing economies

A WSJ News Roundup

OSLO—Central banks in Norway and the Czech Republic cut their main interest rates Wednesday in an effort to limit the damage to their economies from the continuing global financial crisis.

In Norway, the central bank cut its main interest rate by a deeper-than-expected 1.75 percentage points to 3.0%, and signaled that more rate decreases could lie ahead.

The biggest cut ever in Norges Bank's sight deposit rate, for which data are available since January 1991, comes as Norway's oil-exporting economy is slowing and inflation pressure appears to be on the decline.

Norges Bank said the risk of a "pronounced downturn" in the Norwegian economy had increased and said the economy was likely to contract in the fourth quarter of 2008 and first quarter of 2009 instead of its earlier forecasts for growth.

"Since the end of October, international and domestic growth prospects have weakened considerably," Norges Bank Deputy Governor Jan Qvigstad said in the statement. "At the same time, the risk that inflation will become too high ahead has been reduced."

Finance Minister Kristin Halvorsen welcomed the rate cut and said it would stimulate the economy and employment.

The bank said its main rate was likely to be in a range of 2% to 3% until late March, instead of its earlier projection of 4% to 5% during the period. It projected that rates would bottom out at 1.95% in December 2009.

Meanwhile, the Czech central bank lowered its headline two-week repurchase agreement rate by a half-percentage point to 2.25%.

The move, which was in line with market expectations, followed a 0.75-percentage-point cut in November as the bank seeks to soften the impact of the economic slowdown.

Dwindling household spending and demand for Czech exports is stemming inflation pressures and the bank is eager to prevent price growth from undershooting its target next year.

The moves followed the U.S. Federal Reserve's decision Tuesday to cut its key interest rate to between zero and 0.25%.

Bush policies face reversal

New White House to review abortion, other health issues

By Laura Meckler

WASHINGTON—The outgoing Bush administration this week will finalize a regulation establishing a "right of conscience" allowing medical staff to refuse to participate in any practice they object to on moral grounds, including abortion but possibly birth control and other health care as well.

The regulation is one of a swath of abortion and other reproductive-health issues under review by the Obama team, which is preparing to reverse a variety of Bush measures, according to officials close to the transition. The review is part of a sweeping scrutiny of Bush-era legislation and regulation on issues across the federal government, from environmental and labor rules to defense spending.

Decisions that the new administration will weigh include: whether to cut funding for sexual abstinence programs; whether to increase funding for comprehensive sex education programs that include discussion of birth control; whether to allow federal health plans to pay for abortions; and whether to overturn regulations such as one that makes fetuses eligible for health-care coverage under the Children's Health Insurance Program.

Obama aides will have to settle many of these questions in issuing their first budget in February.

As one of his first actions, President-elect Barack Obama is likely to issue an executive order lifting President George W. Bush's restrictions on funding for research using embryonic stem cells.

Women's health advocates also expect early action on the "global gag rule," which bars foreign organizations from using their own money for abortion services or advocacy if they accept U.S. aid for family planning. This policy was instituted by President Ronald Reagan, immediately overturned by President Bill Clinton and then reinstated by Mr. Bush.

Mr. Obama is also expected to restore federal funding for family planning to the United Nations Population Fund soon after taking office. This policy also has gone back and forth with control of the White House, with Republicans arguing that the U.N. agency supports coercive abortions because of its work in China with its one-child policy, and Democrats saying that the agency doesn't.

As they face Democrat-controlled Washington, antiabortion activists are gearing up to fight the Freedom of Choice Act, or FOCA, which would codify Roe v. Wade into federal law. Mr. Obama said last year that he would sign the bill. Depending on how it is interpreted, the bill could overturn state laws regulating abortion, such as parental notification and mandatory waiting periods.

"Our No. 1 concern would be the FOCA bill," said Connie Mackey, senior vice president of Family Research Council Action, a conservative group that focuses on social issues. "We have to appeal directly to the American public."

While many abortion-rights supporters would like to see Congress pass FOCA, their advocates in Washington have concluded that there aren't enough votes in Congress and that it isn't politically smart to push such a divisive measure. A coalition of nearly 60 liberal and women's groups submitted a list of 15 requests for action in the Obama administration's first 100 days, and FOCA isn't on the list.

Cecile Richards, president of Planned Parenthood Federation of America, said: "The Freedom of Choice Act is very important...but we have a long list of things to get done that I think can address problems immediately that women are facing, that are really immediate concerns."

Among them is the "right of conscience" regulation that is expected to be published this week.

For decades, federal law has said that doctors and nurses can't be compelled to perform abortions. The new regulation broadens that to make clear that all health-care workers may refuse to provide information, such as a referral, to patients looking for an abortion.

Advocates on both sides of the issue have interpreted the rule as also protecting workers who refuse to participate in providing birth control or other care they don't support.

CORPORATE NEWS

Microsoft targets Adobe in Web design

Software titan uses its muscle to lure rival's core Flash customers over to competing Silverlight technology

By Ben Worthen

Adobe Systems Inc. is facing increasing pressure from **Microsoft** Corp., which is using its deep pockets to challenge Adobe's dominance of Web design software.

Adobe's Flash software, which adds video and animation to Web sites, is at the heart of many popular Internet destinations. Retailers, media outlets and entertainment sites rely on Flash to make their sites interactive and to serve up advertisements.

But Microsoft has recently launched a new version of its competing Silverlight technology and has been aggressively courting the operators of popular Web sites and advertising agencies that are Adobe's core customers.

Netflix Inc. recently said it would use Silverlight to stream movies over the Internet. When **CBS** Corp.'s college sports group decided to build its Web site using Silverlight earlier this year, Microsoft chipped in free development and support that "reduced our costs tremendously," said Tom Buffolano, the CBS business unit's former chief. A CBS spokesman declined to comment.

Winning the war with Microsoft "is clearly the most important priority," said Adobe Chief Executive Shantanu Narayen.

The economic downturn is adding to Adobe's challenges. The company Tuesday said its net income rose 11% for the quarter ended Nov. 28, but revenue growth stalled. Sales were $915.3 million, little changed from a year ago and below Adobe's original targets. Earlier this month, Adobe said it would cut 600 jobs, or 8% of its work force.

Microsoft sees opportunity in the economic pressures on Adobe. "I'm sure that we will gain ground technologically," said Bob Muglia, senior vice president of the Microsoft unit responsible for Silverlight.

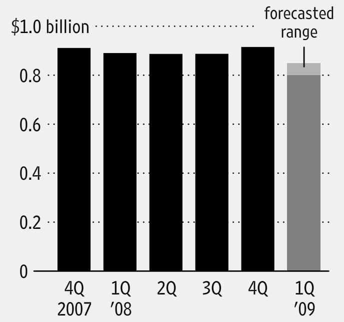
Adobe's Flash player is installed on about 98% of Internet-connected PCs, and Silverlight is only installed on about 25%, according to Adobe and Microsoft. Adobe executives said this gives the smaller company about a two-year head start. But Microsoft is "willing to invest" in order to win certain "trophy sites," said Mr. Muglia.

Earlier this year, for instance, **General Electric** Co.'s NBC Universal chose Silverlight over Flash to deliver video from the Beijing Olympics over the Web. Microsoft was an official sponsor of the Democratic National Convention, which streamed video using Silverlight.

Spokeswomen from Microsoft and Adobe declined to comment on the terms of these deals, as did representatives from the Web sites.

Under pressure

Adobe's quarterly revenue



Source: the company

"There's no doubt that Adobe is ahead of Microsoft in terms of features," said Al Hilwa, an analyst at research company IDC. "But winners aren't always picked on merit. Companies strike deals, woo customers, and try to build an ecosystem. Microsoft is very good at that."

Adobe isn't without wins: In November, MLB.com LLC, the Web site for Major League Baseball, switched to Flash from Silverlight for online video of games.

Last year, Web design firm Cynergy Systems Inc. began using Microsoft tools to build Internet sites. While Cynergy still uses Adobe technology for 80% of the sites it builds, it uses Silverlight for the other 20% and that work is growing more quickly, said Dave Wolf, Cynergy's vice president of sales and marketing.

While millions of software programmers use Microsoft's tools, the company has little traction among Web designers. Adobe said it is counting in part on loyalty from graphic designers to hold Microsoft at bay.

"It's difficult to find designers who know Silverlight," said Scott Stanfield, chief executive of Vertigo Software Inc., which specializes in building sites with Silverlight. "I can't imagine a more hostile community [to Microsoft] than designers," he said, noting his firm's designers still use software from Adobe to sketch plans for sites before building them with Silverlight.

Adobe is also wooing computer programmers, the majority of whom use Microsoft's tools. Navtrak Inc. built the fleet-management software it sells to trucking companies using Adobe's technology after sending some of its programmers to an Adobe-sponsored training session last year, said Todd Hodges, a Navtrak product manager.

In May, Adobe launched the Open Screen Project, a group of 19 companies—including Nokia Corp., Qualcomm Inc., and Verizon Communications Inc.'s wireless unit—to attract developers. The project promises developers that they can build software once—using Adobe's technology—and have it run on PCs, mobile phones and televisions.

But the economic downturn has forced Adobe to scale back some efforts and the company is slashing parts of its business that it says don't affect its ability to compete with Microsoft. Adobe substantially cut its services arm during this month's layoffs. Adobe also folded its mobile division into the group responsible for Flash and canceled some research projects, including ones centered on search and voice over the Internet.

Adobe is "getting squeezed by the economy and they're also getting squeezed by Microsoft," said Mike Olson, an analyst with Piper Jaffray Co. He estimated that Flash accounts for 20% to 25% of Adobe's revenue.

Adobe's cost-cutting is also hitting its developer-outreach efforts. While Adobe last year bought a 12-bed tour bus and drove it to 18 North American cities to promote its tools for programmers, these days the company is hosting some free workshops for developers with no speakers or formal agenda.

Satyam drops plans to buy stakes

Satyam Computer Services Ltd. aborted a $1.6 billion plan to buy stakes in two construction and property firms partly owned by Satyam's chairman after angry investors dumped the tech company's stock.

Satyam, India's fourth-largest outsourcing company by sales, announced plans to acquire the companies Tuesday. But it abandoned the bid just hours later after investors rushed to sell Satyam's American depositary receipts on the New York Stock Exchange, driving down their value 55%.

*By **Niraj Sheth** and **Jackie Range** in New Delhi and **Romit Guha** in Bangalore*

The reversal caused more damage Wednesday, with Satyam's stock price finishing down 30% on the Bombay Stock Exchange. In New York, the ADRs recovered some of the lost ground, jumping 47% to $8.36 in late-afternoon trading Wednesday.

"Their credibility has taken a huge hit. Investors are now doubting the company's focus," said Harit Shah, an analyst at Mumbai brokerage Angel Broking.

Analysts criticized Satyam's management for its unexpected acquisition proposal on two key grounds. They questioned its strategy of moving away from Satyam's core software outsourcing business and attacked the aborted deal because Satyam Chairman B. Ramalinga Raju holds substantial equity stakes in the companies Satyam planned to buy.

Key Satyam shareholders, led by Mr. Raju, own about 35% of real-estate concern Maytas Properties Ltd. and construction company Maytas Infra Ltd. The companies are run by Mr. Raju's sons.

Critics questioned Satyam's corporate-governance standards, contending that the proposed deal was overpriced and that other Indian software companies—also struggling in the global economic slowdown—haven't attempted diversification plans as radical as Satyam's.

Satyam Computer Services

American depositary shares on the New York Stock Exchange
Late afternoon Wednesday:
$8.36, up 47%

Source: Thomson Reuters Datastream

The criticism put Mr. Raju on the defensive. "If we had anticipated [the negative reaction], we wouldn't have done this in the first place," he told Indian business station CNBC TV-18 Wednesday, without specifying what measures the company intends to take to mitigate the investor backlash. He maintained that Satyam had "followed meticulous processes and the highest standards of governance" while preparing the proposed purchases.

Adrian Lim, an investment manager at Aberdeen Asset Management, which is among Satyam's major foreign shareholders, told an Indian television station Wednesday that his firm "won't tolerate a change in principal activity without consultation. Minority shareholders should be consulted and given a say."

Like much of India's outsourcing industry, Satyam has been hit hard by recession in the U.S. and some European countries. Even more than its larger peers, such as **Tata Consultancy Services** Ltd. and **Infosys Technologies** Ltd., Satyam is vulnerable to the economic contraction in the U.S., where it derived more than 60% of its revenue of $2.1 billion in the fiscal year ended March 31. Satyam is particularly exposed to the shaky U.S. automotive industry, with **General Motors** Corp. and **Ford Motor** Co. among its biggest customers.

Satyam now faces an uphill battle to restore investor confidence. "Because there has been a loss of faith, obviously there is going to be a lot of pressure on the present management, to have a better board [of directors], who can work in the interest of all of the shareholders," said Sunil Singhania, Mumbai-based executive vice president of Reliance Mutual Fund, which manages $15 billion in assets and is a small shareholder in Satyam.

Other investors said the company could take steps such as buying back its stock or paying a special dividend to revive investor interest. "There could be a clamor among shareholders for a change in the board and/or the management" as well, said the chief investment officer of a Mumbai-based mutual fund, who declined to be named.

Meanwhile, Satyam's stock price could see further declines as several Indian brokerages lowered their ratings on the company. "Even though the [acquisition] has now been suspended, the [price to earnings ratio] erosion that Satyam will suffer is likely to be permanent," said Viju George, an analyst at Mumbai-based brokerage Edelweiss Securities. The brokerage cut Satyam's rating to "sell" from "accumulate."

Chrysler arm may suspend car-buying loans to dealers

By Neal E. Boudette

DETROIT—**Chrysler** LLC's financing arm has warned dealers it may have to temporarily stop loans they use to pay for stocking vehicles on their lots as a result of a recent wave of withdrawals from a fund used to pay off those loans.

In a letter dated Dec. 12, Chrysler Financial Chief Executive Tom Gilman said dealers have been withdrawing as much as $60 million a day from the fund, according to a copy of the letter that was reviewed by The Wall Street Journal.

Dealers familiar with the matter said they started pulling money from the "cash management account" because of fears that Chrysler's auto operations could be forced to file for bankruptcy protection. "Everybody is concerned about that," said one dealer.

Chrysler Financial allows dealers to put money into the cash-management account and pays them 2% interest. The money is then used to make payments on the loans dealers take out to buy new cars.

In the letter, Mr. Gilman said that more than $1.5 billion has been withdrawn from the fund since July.

"Continued significant levels of withdrawals from CMA could potentially force us to temporarily suspend wholesale funding," he wrote. He asked dealers not to withdraw "beyond what's absolutely necessary."

News of the letter was earlier reported by Bloomberg News.

Suspending loans for purchasing new-vehicle inventories would be a tough blow for Chrysler. Dealers wouldn't be able to order cars and Chrysler's revenue could plunge, because auto makers book car sales when cars are shipped from plants to their dealers.

BNP warns of big loss at unit

By Digby Larner

PARIS—French bank **BNP Paribas** SA said market volatility hit results at its corporate and investment-banking operations in October and November, meaning the division will report a €710 million ($1 billion) pretax loss for the first 11 months of the year.

BNP Paribas was considered one of the few banks in Europe to have sidestepped the worst of the financial crisis. The announcement, made late Tuesday, prompted a wave of profit-estimate cuts by analysts.

The bank said it is considering cutting 5% of its corporate and investment-banking staff, affecting about 800 jobs out of the unit's work force of 16,000.

BNP shares fell 17%, while shares in rival **Société Générale** SA fell 5.8%. **Crédit Agricole** SA dropped 3.5%.

Despite the loss at the corporate and investment-banking unit, BNP said the overall group will remain "largely profitable" for the same 11-month period.

BNP said the loss reflected "market dislocation and the extreme volatility," aggravated by the bankruptcy of Lehman Brothers Holdings Inc.

CORPORATE NEWS

BAA airports sale urged

Competition group wants three airports placed in new hands

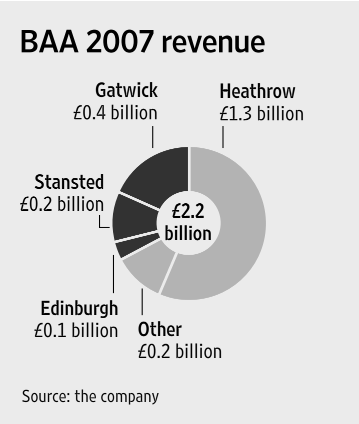
By Jonathan Buck

LONDON—British regulators Wednesday took another step toward breaking up BAA Ltd., recommending that the company be forced to sell three of its seven U.K. airports to improve competition.

The U.K. Competition Commission confirmed that it will require BAA to sell its Gatwick and Stansted airports in London as well as Edinburgh airport in Scotland.

BAA, a unit of Spain's **Grupo Ferrovial** SA, owns London's Heathrow, Gatwick and Stansted airports; Southampton airport in southeast England; and Scotland's Glasgow, Edinburgh and Aberdeen airports.

The decision on Stansted, in particular, will come as a blow to BAA. The company in September put Gatwick airport up for sale in what appeared to be a bid to avoid a breakup.



However, the Competition Commission stuck to its original ruling, recommending that BAA sell two of its three London airports and either Edinburgh airport or Glasgow airport. The commission, which investigated BAA airports at the request of the Office of Fair Trading, in August said there were competition problems at each of BAA's U.K. airports, and identified a principal cause of those problems as "common ownership by BAA."

Christopher Clarke, chairman of the BAA airports inquiry, in a statement said: "The most effective way to introduce competition in the Southeast and in lowland Scotland is to require the three London airports and the two principal Scottish airports to be separately owned."

He added: "Under separate ownership, the airport operators will have a much greater incentive to be far more responsive to their customers, both airlines and passengers."

BAA said Wednesday that it disagreed with the ruling and would continue to try to persuade the U.K. regulator that selling three U.K. airports wouldn't increase competition. A BAA spokesman said: "We continue to make our case to the Competition Commission and have not ruled out an appeal."

A Stansted sale could be delayed because of the forthcoming planning inquiry on a second runway, which would affect the price BAA could get. The regulator is now seeking opinion on timing of the sale.

—Kaveri Niththyananthan contributed to this article.

China's airline shake-up sets stage for closer ties

By Patricia Jiayi Ho

BEIJING—Recent management shuffling at China's top three airlines, particularly the move of **China Southern Airlines** Co.'s Chairman Liu Shaoyong to head rival **China Eastern Airlines** Corp., has some industry observers asking if some form of integration is in store.

Analysts say closer ties among the airlines are especially important at a time when Chinese carriers are posting hefty losses as travel demand slows during the global economic weakness.

"It should help the big three reestablish more orderly competition, including coordinating aircraft orders and capacity deployment and restoring falling air fares," Citigroup analyst Ally Ma said.

China's aviation regulator said last week it will "guide and push forward" unification and reorganization in the sector but didn't elaborate.

China Eastern said Friday that Mr. Liu will succeed Li Fenghua, who resigned as chairman. In addition, Ma Xulun, deputy general manager of **China National Aviation Holding** Co., the parent of **Air China** Ltd., will take over from Cao Jianxiong as president of China Eastern.

Morgan Stanley said in a note Monday that it was "surprised by the relocation of Mr. Liu to CEA...which could imply potential industry consolidation among Chinese airlines." Morgan Stanley didn't specify which companies might merge.

The airlines have disclosed few details on the management changes, other than to say the executives had no disagreements with their boards.

Citigroup's Ms. Ma said the transfers will help to smooth out "open hostility" between China Eastern and Air China after its parent scuttled an effort by China Eastern to tie up with **Singapore Airlines** Ltd.

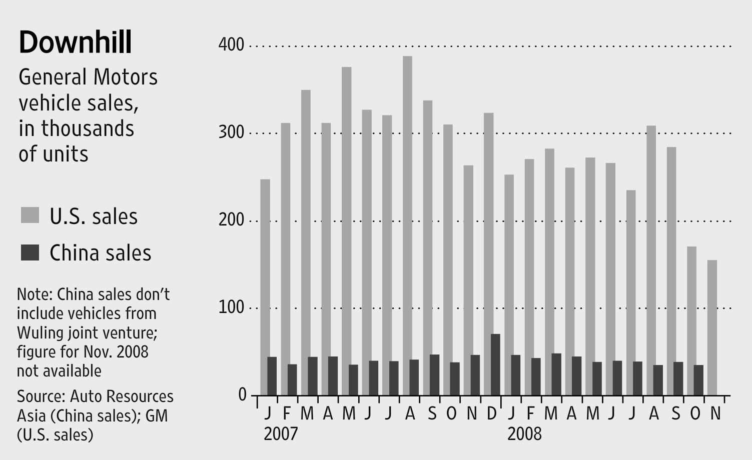
China Eastern and China Southern said this month they will each raise 3 billion yuan, or about $450 million, through share sales to their state-owned parents. **Shanghai Airlines** Co. said it has asked the Shanghai municipal government for aid.

CORPORATE NEWS

GM expanding in China

Auto maker's fifth factory will build Chevrolet compact

By Norihiko Shirouzu
and Patricia Jiayi Ho



BEIJING—**General Motors** Corp. opened a new passenger-vehicle plant in China, the fifth factory it runs with a Chinese joint-venture partner even as it idles and shutters plants in North America to cut costs.

The new Chinese plant, which formally opened Wednesday with a ceremony in the northeastern city of Shenyang, has already begun producing the Chevrolet Cruze, the first compact sedan for the Chevy franchise in China. GM said the new car should arrive in dealer showrooms during the second quarter of 2009.

The move to expand GM's manufacturing capacity here comes as demand for cars in China has cooled significantly. Sales of passenger cars in November fell 10% from a year earlier, the third monthly decline in four months. The industry is bracing for the slowdown of the market to continue next year, especially during the first half. China's car market had been booming since around the start of this decade, often growing more than 20% a year.

Still, GM has high hopes for the Cruze car because Chinese consumers are seen as likely to become more frugal amid a general economic slowdown, making fuel-efficient compacts more attractive. GM plans to launch the Cruze elsewhere, including the U.S. and Europe.

The car is "very, very important for us," said a GM official, who spoke on condition of anonymity. "It allows Chevy to have a credible entry in one of China's fastest-growing segments" where it competes with the Toyota Corolla and the Honda Civic, among others, the official said. GM's Buick already sells the Excelle compact, but its sales have slowed in recent months.

"The opening of this plant is part of GM's ongoing pledge to grow our operations in China," Kevin Wale, president and managing director of the GM China Group, said in a statement.

GM management has said the company's growth in China, among other emerging markets, would help offset market-share losses in the U.S.

Yet the new plant's opening comes at an awkward time, as GM and the other two Detroit-based auto makers are pursuing billions of dollars in emergency loans from the U.S. government. Sophia Luan, a Shanghai-based GM spokeswoman, said the decision to build the new China plant was made well before the company's current crisis, and that the money invested in the factory couldn't have been used to help GM's financial problems.

The new plant has been designed to be flexible enough to produce vehicles based on different platforms, and could eventually start exporting vehicles overseas, according to people familiar with GM's plans.

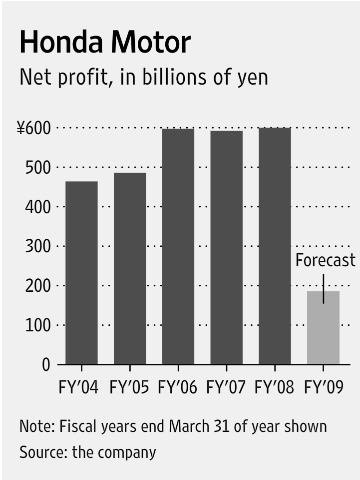
Ms. Luan said the plant's "first priority is to satisfy the local market" in China. "We don't have plans for export yet," she said.

The Cruze plant is GM's second in Shenyang with **Shanghai Automotive Industry** Corp., its Chinese partner. The other plant produces the Buick GL8 and the Buick FirstLand, both minivans. The joint venture also has two car-manufacturing plants in Shanghai and one in the northeastern city of Yantai in Shandong province.

Additionally, GM operates a commercial mini-vehicle joint venture, **SAIC-GM-Wuling Automobile** Co., which is owned by GM, SAIC and Liuzhou Wuling Motors Co. GM holds a 34% stake in the business. People familiar with the situation have said GM is looking to increase its 34% stake in the venture.

Honda slashes forecast, plans to reduce output

By Yoshio Takahashi



TOKYO—**Honda Motor** Co. slashed its earnings forecast and announced further cuts in its Japanese production and work force, as global demand for cars continues to falter and the soaring yen hits its overseas profit.

Honda, Japan's No. 2 car maker by volume, Wednesday cut its net profit forecast for the fiscal year ending March 2009 to 185 billion yen ($2.08 billion) from the 485 billion yen profit it expected in late October. In the year ended March 31, 2008, Honda's net profit totaled 600.04 billion yen.

This was the second downward revision in two months, highlighting the rapid deterioration in the auto industry. The company cut its sales projection to 10.4 trillion yen from 11.6 trillion yen.

Also on Wednesday, rival **Nissan Motor** Co. said it will cut domestic production by an additional 78,000 vehicles and eliminate its 500-strong domestic temporary work force by the end of March 2009.

The announcements come just a few days before rival **Toyota Motor** Corp. releases details of its business plans for the next year. Standard & Poor's Rating Services Wednesday cut to negative from stable its outlook on Toyota's long-term corporate credit ratings.

Highlighting growing concerns of Japan's export-dependent corporations, Honda President Takeo Fukui said the soaring yen against major currencies was a major factor behind the company's latest earnings downgrade. In a news conference, he called on the Bank of Japan and the government to take steps to stabilize foreign-exchange markets.

Honda revised its exchange rate forecast for the fiscal second half to 95 yen from 100 yen. On Wednesday, the dollar fell to as low as 88.17 yen. Almost all major exporters have pegged full-year earnings expectations to a dollar-yen exchange rate of 100 yen.

While the pressure for consolidation has been mounting in the global auto industry, Mr. Fukui said Honda isn't involved in any alliance talks for now. Earlier this month, **Fiat** SpA Chief Executive Sergio Marchionne predicted the global crisis will end with only six global auto makers still in business.

In Japan, Honda said it will postpone starting operations at a new plant north of Tokyo by more than a year from its initial plan for 2010. The car maker will reduce domestic production by 54,000 vehicles and cut its domestic temporary work force by 450 by early February.

Bankruptcy may not halt car sales

By John D. Stoll

DETROIT—A pair of new surveys suggest buyers aren't completely unwilling to buy a car from an auto maker in bankruptcy court, as long as the federal government is willing to play a role in helping the company restructure.

This contradicts the conventional view of Detroit auto makers that suggests consumers would shun a bankrupt auto maker over fears related to the resale value of a car, the warranty and the ability to secure service and replacement parts.

Merrill Lynch & Co. recently completed a study showing 90% of car buyers would consider purchasing a vehicle from a car company in bankruptcy court.

Another survey, by CNW Marketing Research, found 48% would consider buying from a bankrupt auto maker if the company were getting help from the government, but that is up from a previous survey conducted by the Bandon, Ore., company.

The findings come as the Bush administration continues to consider "all options" when it comes to a potential bailout of the U.S. auto makers. President George W. Bush, in an interview Tuesday with CNN, said he is concerned that a "disorganized bankruptcy [in Detroit] could create enormous economic difficulties." However, he remains cautious about committing funds because he doesn't want to commit taxpayer money, only to "have the same stuff happen over and over again."

General Motors Corp. and **Chrysler** LLC are banking on the Bush administration coming through this month with billions of dollars in loans after the auto makers' plea for a bailout was rejected last week by the U.S. Senate. GM alone needs $4 billion in funding by Dec. 31 in order to pay supplier bills that are due in early January. If GM doesn't get the money, it likely will need to seek Chapter 11 protection.

Even though **Ford Motor** Co. currently has more liquidity than its Detroit rivals, it is supporting the push by GM and Chrysler. Ford Chief Executive Alan Mulally has said he is afraid of the collateral damage that a bankruptcy filing would have on the entire U.S. auto industry. The Big Three share many of the same suppliers and dealers, which are already suffering because of tepid auto sales.

On Tuesday, auto suppliers **Key Plastics** LLC and **Special Devices** Inc. filed for Chapter 11 bankruptcy protection. Several other major suppliers, including **Johnson Controls** Inc. and **Eaton** Corp., cut earnings guidance.

The Merrill Lynch study, conducted for its clients and which included talking to 500 people, concluded that a "large majority of consumers would consider buying or leasing their next vehicle from an auto maker that is backed by U.S. government funding and may emerge as a strong company, following a restructuring through the bankruptcy process."

Merrill has had a banking relationship with domestic auto makers within the past year.

The CNW Marketing Research survey, of 9,700 domestic car owners completed Dec. 14, suggested 48% of buyers would be willing to consider a product sold by an auto maker in bankruptcy court, as long as the government was involved in the process.

CNW had been the source of an earlier study whose conclusions raised concerns about the impact of a bankruptcy filing on a car company. That survey found 80% of buyers would stay away, and the auto maker's revenue would plunge.

The results contradict much of what executives at U.S. auto makers and the United Auto Workers argue would be the impact of a bankruptcy on one or more of the companies.

GM Chief Executive Rick Wagoner has said a Chapter 11 filing would quickly spiral into Chapter 7 liquidation because an auto maker would be branded as insolvent by consumers, even though many companies simply use bankruptcy as a vehicle to restructure.

—Jeffrey McCracken and Sharon Terlep contributed to this article.

Lufthansa closer to landing a deal for Austrian Airlines

By Jan Hromadko
And Kirsten Bienk

FRANKFURT—**Deutsche Lufthansa** AG is likely to win approval for its planned takeover of **Austrian Airlines** AG if financial support from Vienna is viewed by regulators as restructuring assistance and not illegal state aid, industry observers said.

Austrian Airlines, which is 41.6%-owned by the Austrian government, was put up for sale earlier this year. Lufthansa agreed to acquire the state's stake, paving the way for a full takeover, so long as the government agreed to take on some of the unprofitable carrier's debt, which has grown to about €1 billion ($1.41 billion), by giving the airline a €500 million state loan. The Austrian government gave final approval to the loan Tuesday.

The European Commission is likely to give the green light to the takeover and the loan, industry experts say, despite opposition from the German flagship airline's rivals. A decision is expected in the spring.

Restructuring aid is generally compatible with EU laws if it "ensures the sustainable profitability of a company," said Jens Peter Schmidt, a partner at Brussels-based law firm Mayer Brown. Approval for such aid would usually depend on the affected company demonstrating how it intends to return to profitability, Mr. Schmidt said.

Mr. Schmidt conceded that the commission would have to take into account complaints from rival airlines, such as those launched by **Air France-KLM** SA and **Ryanair Holdings** PLC, adding that the complaints could prompt the commission to impose conditions on the aid.

Still, Mr. Schmidt said the commission has previously approved restructuring aid in the European aviation industry, such as the aid packages given by Italy to struggling Italian carrier **Alitalia** SpA in 2001 and 2004. But the commission ruled that an emergency loan of more than €300 million given to Alitalia this year is illegal and must be paid back. Overall, the Italian state has pumped more than €5 billion into Alitalia over the past decade.

The takeover of Austrian Airlines would allow Lufthansa to leapfrog Franco-Dutch carrier Air France-KLM as Europe's largest airline in terms of both revenue and passengers.

Both Air France-KLM and Ryanair, Europe's biggest low-cost airline, have lodged formal complaints with the commission over the government loan.

Air Berlin PLC, Germany's second-largest airline after Lufthansa, has also said it will challenge the planned state aid, saying it would equate to an unacceptable "distortion of competition."

Two food makers post higher sales but lower profits

By Julie Jargon

General Mills Inc. and **ConAgra Foods** Inc. each reported sales gains driven by price increases, a sign that food makers are still grappling with high commodity costs.

Although the prices of grains and energy have fallen from their recent peaks, they are still high, and food companies are continuing to raise prices in an effort to offset the increases.

The two food makers also posted declines in quarterly net income due, in part, to hedging markdowns. General Mills's net income for the fiscal second quarter ended Nov. 23 fell 3% to $378.2 million, or $1.09 a share, compared with $390.5 million, or $1.14 a share, a year earlier, because of the declining value of its hedging positions. Excluding that loss, as well as a gain from the sale of its Pop Secret popcorn business, the Minneapolis company's underlying earnings grew 23% to $1.36 a share, beating analysts' estimates of $1.23 a share. Sales for the maker of Cheerios cereal, Progresso soup and Green Giant vegetables rose 8.3% to $4.01 billion.

ConAgra's net income fell 31% to $168.1 million, or 37 cents a share, for its second quarter ended Nov. 23, compared with $244.8 million, or 50 cents a share, a year earlier. Earnings from continuing operations, excluding the impact of product recalls and hedging losses, increased to 43 cents a share from 30 cents. Sales increased 11% to $3.26 billion.

Price increases aren't likely to continue at the fast clip at which they have been rising for the past several months. "Retailers have been pushing back more aggressively on price increases because they want the packaged-food makers to pass on the benefit of falling commodity costs," Credit Suisse analyst Robert Moskow wrote in a note to investors.

General Mills Chief Executive Kendall Powell said in an interview that when company executives discuss pricing with retailers, they point out that their input costs have risen 25% in the last four years and that they have raised prices only between 8% and 10% during that time. "The fact that [commodity] prices are coming down is good thing," he said, adding that if they continue to decline, there likely will be fewer and smaller price increases.

General Mills repeated its earlier estimate of 9% cost inflation for fiscal 2009. Despite that, the company raised its guidance for full-year earnings, excluding the hedging markdown and Pop Secret sale, to $3.83 to $3.87 a share, up from $3.81 to $3.85 a share.

Most analysts view General Mills as a company well positioned to weather the slowing economy because of its strong brands and a focus on cost cutting. "General Mills has developed a track record of conservatism and exceeding its targets," Stifel Nicolaus analyst Christopher Growe wrote in a note to investors.

Mr. Growe and other analysts have been less bullish about ConAgra, which relies heavily on the frozen-meals category, with its Healthy Choice, Marie Callender's and Banquet brands.

ConAgra reported that sales in its consumer-foods segment, of which its frozen meals are a part, grew 4% but that profit declined 8%. The Omaha-based company reaffirmed its earnings per share guidance of $1.50 from continuing operations for fiscal 2009.

German chemical firms cut output

Merck and Lanxess see falling demand in autos, electronics

By Natascha Divac

FRANKFURT—Two big German chemical producers on Wednesday said they are cutting back production as the economic crisis continues to damp demand from customers in the auto and consumer-electronics sectors.

Pharmaceutical and chemical company **Merck KGaA** will shut several manufacturing facilities and operations for several weeks in the first half of next year. About 800 people are employed at these sites in Germany, Asia and the U.S.

Merck said the economic slowdown has caused a "substantial decrease" in orders for products from its liquid crystals division, as well as from its pigments unit.

Specialty-chemicals maker **Lanxess** AG said it reached an agreement for temporary production cutbacks and plant shutdowns with its employee representatives. It plans to cut back or halt production at 23 of its 45 facilities in Germany over Christmas and into January, affecting about 1,400 employees.

The announcements from Merck and Lanxess underscore growing problems facing the chemical sector world-wide. The industry has been hard hit by the global downturn, suffering the consequences of the crisis gripping the auto and construction sectors. German chemicals association VCI sees chemicals production dropping 1% in 2009, the first drop since 2001.

Dutch vitamins and chemicals group **DSM** NV said earlier this week that it was cutting some 1,000 jobs and lowered its 2008 profit forecast, as customers moved to reduce inventories and conserve cash.

Merck said the economic slowdown has caused a 'substantial decrease' in orders for products from its liquid crystals division, as well as from its pigments unit.

French chemicals company **Arkema** SA said this week that it will slash output across half of its plants, and predicted a 15% drop in fourth-quarter revenue.

Last month, German chemical giant **BASF** SE said it would temporarily halt or slow down production at 180 plants to adjust to a "massive decline in demand."

Though Merck still sells chemicals, its main business is pharmaceuticals: It is Europe's largest biotechnology company by sales, and pharmaceutical products represented nearly 70% of its total sales in 2007. Merck isn't related to U.S.-based drug maker Merck & Co.

—Sten Stovall contributed to this article.

CORPORATE NEWS

Woolworths closure set

If buyer isn't found, all 807 U.K. stores will shut by Jan. 5

BY LILLY VITOROVICH

LONDON—**Woolworths Group** PLC, the U.K. retail sector's biggest victim of the economic downturn, will close all of its 807 stores by Jan. 5, with 27,000 jobs to go, if a buyer for the 99-year old chain isn't found by then.

Administrator **Deloitte & Touche** said Wednesday that 200 stores will be closed Dec. 27, and then a further 200 stores every other day until Jan. 5. About 22,000 permanent staff and 5,000 temporary employees will lose their jobs, joint administrator Neville Kahn said.

Local shopworkers union Usdaw said it is "appalled" at the store closures and job losses.

The announcement coincided with official U.K. data showing that the number of people claiming unemployment benefits reached 1.07 million last month, the biggest monthly rise in more than 17 years, as companies struggle during the economic downturn.

Woolworths—which sells items including toys, candy, DVDs, CDs, books, greeting cards, children's clothing and household accessories—was placed in administration last month after management failed to reach a deal with the retailer's banks.

To date, 1,150 employees from Woolworths' head office and its wholesale-distribution business, Entertainment UK Ltd., have lost their jobs.

Deloitte remains in talks with parties over the sale of Woolworths' retail business, with some expressing interest as recently as this weekend, and the EUK unit, Mr. Kahn said.

More than 300 Woolworths stores are "under offer" to be taken over by other retailers. There has also been "considerable interest from other retailers for the remaining 500-odd stores, so we do expect that number to rise as we get through all the queries and more people come with their interest," Mr. Kahn said. There has been interest from Asia, Africa and the Americas as well as locally, he added.

Associated Press

Woolworths, the 99-year-old British retailer, will close its 807 stores, including this one in south London, early next year absent a last-minute rescue plan.

Motorola to freeze pay, pensions

BY JEFFRY BARTASH

Motorola Inc. said it will freeze its pension plan and employee salaries, suspend matching 401(k) contributions and cut the pay of top executives to reduce costs amid the global economic downturn.

The company has suffered steep losses in its wireless-phone division, whose long-term survival remains in doubt. Motorola's former flagship business has lost a large chunk of market share in the past few years amid strategic missteps and product snafus.

The Schaumburg, Ill., company said its latest steps will help it save an unspecified amount of cash, which the brokerage Morgan Keegan estimated could reach as much as $100 million. That would come on top of $800 million in cost-saving initiatives announced in late October.

Greg Brown and Sanjay Jha, Motorola's co-chief executives, volunteered to accept a 25% salary reduction next year. Each has a base salary of $1.2 million. Mr. Brown will also forfeit any cash bonus this year, and Mr. Jha, who joined the company in August, will give up most of his cash bonus. What Mr. Jha does receive will be converted to restricted stock options. When Mr. Jha was hired, he was promised a bonus this year of $2.4 million.

Most other company employees, meanwhile, will receive no salary increase next year, Motorola said.

Funding for the company's traditional pension plan, which mostly serves older and retired workers, will be permanently frozen, effective March 1.

—Shirleen Dorman contributed to this article.

E.ON, Electrabel agree to asset swap

A WSJ NEWS ROUNDUP

German utility **E.ON** AG announced an asset swap with Electrabel that will give it more than 12% of Belgium's total generation capacity. The transaction also follows through on a promise made to the European Commission to settle an antitrust case.

E.ON Wednesday said it would sell 2.2 gigawatts of its German power generation capacity to Electrabel, 1.7 gigawatts of which would be in the form of a trade of E.ON's power generation capacity in Germany for the same amount of capacity in Belgium from Electrabel.

Electrabel is a unit of **GDF Suez** SA and **EnBW Energie Baden-Württemberg** AG.

E.ON Chief Executive Wulf Bernotat said the deal l would mark its entry into the Belgian power market.

In late February, E.ON proposed selling its German high-voltage power grid to an independent operator and committed to selling around 5 gigawatts of German power-generation capacity if the European Commission dropped its antitrust investigation against thecompany. The commission dropped its antitrust case against E.ON in November, saying the sales would address its concerns about competitive bottlenecks in the market.

No relief in sight for chip makers

BY DON CLARK AND YUZO YAMAGUCHI

A grim 2008 is looking like it will be followed by an even worse 2009 for makers of computer chips.

New research from Gartner Inc. and KPMG LLP point to a sharp decline in revenue for chip makers next year, with negative implications for both employment and capital spending for the closely watched industry.

Many semiconductor makers were suffering from plummeting prices and excess production capacity even before the recession's impact began to be felt in September.

Gartner forecast Tuesday a 4.4% drop in world-wide semiconductor revenue for the year. Gartner now expects revenue to decline 16.3% in 2009.

A survey of 85 semiconductor executives by KPMG, scheduled for release Wednesday, reinforces the pattern. The firm says 52% of those surveyed in November predicted revenue to fall in 2009. Some 70% of the executives surveyed expect their companies to decrease their global work force in the next 12 months.

GLOBAL BUSINESS BRIEFS

Tesco PLC

Two directors are named in wake of resignations

U.K. retailer **Tesco** PLC named Ken Hanna and Jacqueline Tammenoms Bakker as nonexecutive directors. Mr. Hanna, the chief financial officer of candy maker Cadbury PLC, will take up his new position April 1. Ms. Tammenoms Bakker, who has worked at Unilever, McKinsey & Co. and as the Netherlands' director-general of aviation, will start Jan. 1. The appointments follow the resignation of Mervyn Davies in October because of potential conflicts of interest as the retailer expands into financial-service businesses similar to those of Standard Chartered PLC, of which Mr. Davies is chairman. Carolyn McCall, chief executive of Guardian Media Group PLC, resigned in April because of a Tesco libel case involving the Guardian newspaper that has since been resolved.

GlaxoSmithKline PLC

GlaxoSmithKline PLC signed a partnership with biopharmaceutical company **Dynavax Technologies** Corp. to develop treatments for immuno-inflammatory diseases. Dynavax will get an initial payment of $10 million from the British drug maker. Glaxo said that the pair plan to develop novel inhibitors of endosomal toll-like receptors. TLRs are key receptors of the immune system that can induce strong inflammatory responses. Dynavax will conduct research and early clinical development in up to four programs and could get total payments of about $200 million per program. In return, Glaxo will get an exclusive option over four programs targeting diseases such as lupus, psoriasis, and rheumatoid arthritis.

British Airways PLC

As the price of jet fuel drops in tandem with the price of oil, **British Airways** PLC, **Virgin Atlantic Airways** Ltd. and **Austrian Airlines** AG said Wednesday they are cutting their fuel surcharges. BA and Virgin said the reductions apply on tickets purchased beginning Thursday. BA is reducing the charge on world-traveler-class flights of nine hours or longer to £66 ($103.15) from £96. For first-class and club-class passengers on those long-haul flights, the surcharge will be reduced by £30 to £85. Surcharges on domestic and European flights are being cut by 25%, BA said. Virgin also cut its surcharge on long-haul economy flights to £66 from £96. Austrian Airlines' surcharge on short and medium-haul flights will be cut to €21 ($29.67) from €24, effective Dec. 23.

Eastman Chemical Co.

Eastman Chemical Co. became the latest chemicals maker to announce cost cuts, aiming for 2009 savings of more than $100 million, as the industry deals with slumping demand amid "the sudden and dramatic deterioration of the global economy." Of the $100 million, approximately $80 million of the savings is expected to come from labor-related costs, Eastman said. The company said that there will be no 2009 salary increases. Other cost-saving measures include elimination of overtime wherever possible and cutting use of contractors and part-time labor. Eastman noted it recently finished paring management, a move that will result in $5 million in fourth-quarter restructuring charges.

BP PLC

U.K. oil major **BP** PLC has agreed with shareholders of Caspian Pipeline Consortium that it will exit the project, Mikhail Barkov, deputy chief executive of Russian state-controlled oil-pipeline operator Transneft, said Wednesday. Shareholders in the consortium agreed in May to expand the throughput capacity of the pipeline system, which carries crude from the **Chevron** Corp.-operated Tengiz field in Kazakhstan to Russia's Black Sea port of Novorossiysk. But BP, which holds a 6.625% stake in the pipeline through two joint ventures, disagreed with the plan. A BP spokesman said the company expects to sell its stake in one joint venture to Kazakh energy company **KazMunaiGas** before year end and its stake in the other joint venture to Russian oil company OAO **Lukoil Holdings** at the beginning of next year.

Hypo Real Estate Holding AG

German prosecutors said they have searched the offices of lender **Hypo Real Estate Holding** AG and the homes of former managers in an investigation of suspected market manipulation and other offenses. The Munich prosecutors' office said it started conducting the searches Tuesday. It said they involved a former supervisory-board chief and people who were members of the management board between November 2007 and September 2008, but didn't identify them by name. The prosecutors' office said it is investigating suspicions the company's situation was misrepresented and of market manipulation, as well as allegations of breach of trust. A spokesman for Hypo RE said the company was cooperating with authorities but didn't comment on the allegations.

Deutsche Telekom AG

German prosecutors on Wednesday said one person has been arrested in a scandal at **Deutsche Telekom** AG that involved monitoring managers' call records to track possible leaks. Fred Apostel, a spokesman for the prosecutors' office in Bonn, said the suspect was arrested last Thursday and will remain in detention pending completion of the investigation. He declined to identify the suspect or offer any further details. A spokesman at Bonn-based Deutsche Telekom also declined to comment. Mr. Apostel has said that less than 10 people were under investigation, but wouldn't identify any of them. Prosecutors launched an investigation in May after the allegations of monitoring came to light.

China Unicom (Hong Kong)

China Unicom (Hong Kong) Ltd. said it plans to buy assets from its parent companies for 6.43 billion yuan (US$939.4 million), which will complete its transformation into a national wireless and fixed-line operator. The move expands its reach into the southern China heartland of its rival, **China Telecom** Corp. China Unicom will buy broadband and fixed-line assets in 21 provinces in southern China, a local-access telephone business in Tianjin and transmission assets in northern China from China United Network Communications Group Co. and China Network Communications Group Corp. The expansion will include several affluent coastal cities.

—Compiled from staff and wire service reports.

Obama is working to overhaul TARP

To combat financial crisis, team tries to meld some Paulson ideas with aid to borrowers facing foreclosure

By Deborah Solomon

WASHINGTON—The incoming Obama administration is considering a series of initiatives to combat the financial crisis, including some efforts to help banks that the Bush administration has tried with limited success.

Among the plans being discussed are injecting more capital into banks, creating a market for illiquid assets clogging the books of financial institutions and helping borrowers who are having trouble making their mortgage payments.

On Tuesday, members of President-elect Barack Obama's economic team briefed Mr. Obama on ways to address the financial crisis and also on plans for an economic-stimulus package.

While Treasury Secretary Henry Paulson has seized on equity investments in banks as Treasury's primary mechanism to help resolve the financial crisis, the Obama team is developing a broader approach that would likely incorporate multiple remedies.

The new administration is "trying to put components together that... will be complementary...while recognizing there's no easy answer," said a person familiar with its plans.

The Obama team, hoping to avoid the criticism leveled at Mr. Paulson by lawmakers that he lacks a consistent strategy, is also working to come up with a way to cogently explain the rationale behind its approach.

One key distinction will be in the approach to helping homeowners facing foreclosure. Mr. Paulson and the White House have resisted calls to embark on a government rescue of homeowners. The Obama team, by contrast, sees that as a critical leg of its financial-crisis rescue plan, people familiar with the matter said.

Democratic lawmakers are pushing for Mr. Obama to take steps quickly to help at-risk borrowers. Details of the Obama foreclosure plan aren't known, in part because they are still being hashed out.

In a fresh sign of the magnitude of the financial crisis, the Federal Deposit Insurance Corp. braced for more bloodletting in the U.S. banking industry. The five-member board of the FDIC, which is in charge of unwinding failed banks, voted Tuesday to increase the agency's 2009 budget to $2.24 billion, an increase of $1 billion, compared with 2008, and said it planned to beef up its bank-examination and supervisory staff by more than 500 to 6,269. It would pay for the increase by levying higher fees on banks.

While it is unclear exactly what the Obama financial rescue will look like, it is expected to continue Mr. Paulson's attempts at addressing the lack of capital at financial institutions. That could mean additional equity injections, as well as an effort to have the government boost the value of troubled assets, such as mortgage-backed securities.

"We are looking at a number of initiatives that will allow us to move aggressively and responsibly to address the economic and financial crisis both on Wall Street and Main Street, including programs to provide targeted foreclosure relief," said Stephanie Cutter, an Obama spokeswoman.

Mr. Paulson initially planned to help financial institutions by purchasing troubled assets through the $700 billion Troubled Asset Relief Program approved by Congress in October. Banks are struggling with a glut of those assets, which continue to fall in price, forcing the banks to write down the losses and take a financial hit.

But Mr. Paulson jettisoned that idea in favor of taking $250 billion of equity stakes in banks, arguing that was a quicker and more effective way to encourage banks to lend money to consumers, businesses and each other. However, the credit crisis has continued despite Treasury's efforts, prompting criticism from lawmakers and Wall Street.

On Tuesday, Mr. Paulson acknowledged that banks aren't lending enough money despite the government infusion, but said the U.S. didn't want to nationalize the industry and dictate the loans banks make.

Much of the Obama team's financial rescue package likely won't be known until the new administration takes office next month. Some of it depends on whether Mr. Paulson seeks the second half of the promised $700 billion. Treasury's initial $350 billion batch is rapidly dwindling and could be further drained by aid to struggling U.S. auto makers.

Lawmakers have made it clear that if Treasury wants to get the next tranche, it will need to come up with a foreclosure-mitigation plan and enact stricter requirements on banks that get government funds. Mr. Paulson has said he wants the Obama team to support any new programs, but the Obama team has yet to engage with Treasury on current efforts.

Mr. Paulson, in an interview with CNBC on Tuesday, said the government had enough "firepower," and suggested he had no current plans to tap the second tranche.

Some lawmakers want Mr. Paulson to request the funds. House Financial Services Chairman Barney Frank (D., Mass.) said he has told the Obama team it should work with Mr. Paulson to request the second $350 billion and embark quickly on a foreclosure-prevention plan.

"My hope is for them to agree with Paulson that he should request the second $350 billion as soon as we [Congress] reconvene," Mr. Frank said in an interview.

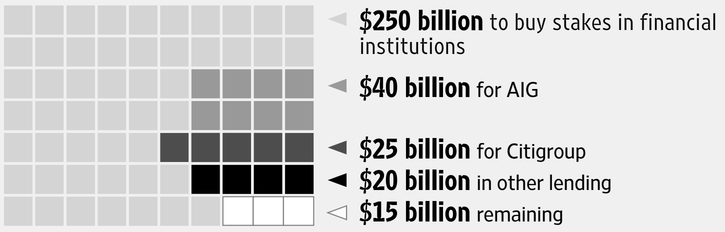
—Jessica Holzer contributed to this article.

Getty Images

President-elect Barack Obama greets people Tuesday after a news conference in Chicago, where he met with his economic team to discuss ways to address the financial crisis and plans for a big economic-stimulus package.

Under the TARP

Only $15 billion remains in the first $350 billion tranche of the Troubled Asset Relief Program.



Source: U.S. Treasury

No special vote to fill Obama's Senate seat

By Douglas Belkin

SPRINGFIELD, Ill.—State Democrats slammed the door Tuesday on a special election to fill the U.S. Senate seat vacated by President-elect Barack Obama, reversing earlier calls for a vote and ending a rare sense of statewide bipartisanship that followed Gov. Rod Blagojevich's arrest last week.

"We need leadership from majority Democrats in the Legislature; instead, what we are getting is the same old insider political games," Deputy Republican Leader Christine Radogno said. "Frankly, after the past week, most people in Illinois are wondering how much more embarrassment the state must endure. Apparently, legislative Democrats think the state needs more embarrassment."

In a news conference Tuesday, Mr. Obama backed away from his earlier call for a special election. "I'm going to let the state Legislature make a determination in terms of how they want to proceed," he said.

Mr. Blagojevich, a Democrat, has the power to make the appointment, but he was arrested last week and charged with trying to sell the seat. The Legislature had been considering a bill that would strip Mr. Blagojevich of his power to fill the seat but has since dropped that bill. Now, if Mr. Blagojevich resigns or is impeached, Lt. Gov. Pat Quinn will fill the seat, ensuring it remains in Democratic hands.

How long impeachment proceedings will take remains unclear. The committee charged with determining whether the state House should recommend the impeachment of Mr. Blagojevich said Tuesday that the governor's attorney, Ed Genson, will appear before the group on Wednesday to answer questions.

Rep. Barbara Flynn Currie, chairwoman of the 21-member committee, said she will ask Mr. Genson whether the governor will resign and whether he has any response to the 76-page criminal complaint filed against him last week by U.S. Attorney Patrick Fitzgerald.

The committee will look at years of activities, including the most recent charges. While the committee has subpoena power, members have said they will proceed cautiously so as not to foul up Mr. Fitzgerald's investigation. "There might be some witnesses we would be interested in hearing from that he'd rather we didn't," Ms. Currie said. "We don't want to undercut the federal inquiry."

If impeachment proceedings drag on, legislators could still call for a special election.

Separately, a spokesman for Rep. Jesse Jackson Jr., named as "Senate candidate 5" in the federal affidavit filed against Gov. Blagojevich, issued a statement saying the congressman had cooperated with federal authorities in corruption matters. "Congressman Jackson has in the past provided information to federal authorities regarding his personal knowledge of perceived corruption and governmental misconduct. This was completely unrelated to the current federal investigation regarding the U.S. Senate appointment," said Jackson spokesman Kenneth Edmonds, in a statement.

Mr. Jackson, son of civil-rights leader Rev. Jesse Jackson, assured reporters last week that he hadn't authorized anyone to approach the governor with an improper offer in exchange for the Senate seat.

The politics surrounding the replacement of Mr. Obama in the U.S. Senate are unfolding as the state's financial problems worsen. Illinois Treasurer Alexi Giannoulias said Tuesday that the legal problems surrounding Mr. Blagojevich already have cost the state more than $20 million because it was forced to delay a $1.4 billion short-term bond sale Thursday and missed the chance to sell the bonds at reduced interest rates.

—Amy Merrick and David Kesmodel contributed to this article.

EU regulators to make it easier to get subsidies

Associated Press

BRUSSELS—European Union regulators said they will loosen rules on state subsidies to allow governments to pump more money into companies unable to get bank funding during the credit crisis.

The European Commission said governments for the next two years can help companies by giving most payments of up to €500,000 ($684,500) without checking with regulators. This is more than double the current threshold of €200,000.

States could also guarantee loans at a reduced premium to prevailing interest rates, the EU said. Typically, regulators insist that state loans follow market rates. The commission said that it expects business lending to return to normal in the foreseeable future and that the looser rules will end at the end of 2010.

Obama names education secretary

Chicago schools chief supports a system of standardized tests

By John Hechinger, Janet Adamy and Robert Tomsho

The Obama administration's selection of Chicago schools chief Arne Duncan as U.S. education secretary signals an intent to maintain a rigorous system of standardized tests in public schools, while experimenting with reforms disliked by unions, such as teacher merit pay.

In announcing the appointment Tuesday at a Chicago news conference, President-elect Barack Obama said he and Mr. Duncan share a "deep pragmatism" and a willingness to tap ideas often associated with conservatives. "Let's not be clouded by ideology when it comes to figuring out what helps our kids," Mr. Obama said.

Mr. Duncan's "strength is really his openness to ideas and a real interest in data and how things are working," said John Easton, executive director of the Consortium of Chicago School Research, a University of Chicago program that has studied the city's schools.

One of Mr. Duncan's first tasks will be deciding what to do about the federal No Child Left Behind law, enacted in 2002, and now due for reauthorization. The statute, which has divided educators, requires all students to be proficient in math and reading by 2014. Schools that don't make adequate progress on tests measuring student achievement face sanctions.

During his campaign, Mr. Obama said he favored helping troubled schools rather than punishing them. Asked about the law in Chicago, Mr. Duncan told reporters he thought the ideas behind the law make a lot of sense, adding that he plans to look at data to evaluate it.

Mr. Duncan is also taking over at a time when the financial crisis is taking a toll on colleges. His approach to postsecondary education isn't well known.

The 44-year-old Harvard graduate has earned a reputation as someone who has found ways to carry out major overhauls without alienating key constituencies. Mr. Duncan has generally maintained the support of the Chicago Teachers Union.

Associated Press

U.S. Vice President-elect Joe Biden, from left, President-elect Barack Obama and Arne Duncan, the pick for education secretary, at a Chicago school Tuesday.

Marilyn Stewart, CTU president, said Tuesday the union didn't agree with several of Mr. Duncan's initiatives, including his push to close troubled schools and get rid of some teachers. But the two sides have been able to build a relationship because Mr. Duncan has helped the union push programs it supports, Ms. Stewart said. Those include an initiative called Fresh Start Schools, a pilot program for schools on the verge of closing that gives them more autonomy, rigorous reviews of teachers and extra funding.

Another program the union cites is the Teacher Advancement Program, or TAP. Among other things, it uses performance-based compensation to reward teachers when test results and other measures of their students' achievement improve.

Asked why she and Mr. Duncan have been able to work together despite their differences, Ms. Stewart said: "When I've called Arne Duncan, he's always returned my calls."

"What we have seen is a superintendent who has a very big system and who gets it and understands that you have to work with teachers," said Randi Weingarten, president of the American Federation of Teachers, the CTU's parent union. "You try new ideas, but you do that with collaboration."

In 2007, Mr. Duncan helped avert a strike by agreeing to a new five-year contract with the CTU. It grants a 4% wage increase every year and a three-year freeze on insurance costs. To supporters, the pact showed Mr. Duncan's flexibility and strength as a negotiator. Some teachers opposed the contract because it contained a provision to explore lengthening the school day.

Scores on the Illinois Standards Achievement Test, which is used to hold schools accountable under the NCLB law, have improved markedly during Mr. Duncan's seven-year tenure. For the 2007-08 school year, 65.2% of students met or exceeded state standards, compared with 38.3% in 2000-01. The gains included all minority groups, but there was still a major shortfall in the test scores of black and Hispanic students, when compared with whites.

Drilling issues await pick for interior secretary

By Ian Talley

WASHINGTON—Sen. Ken Salazar, President-elect Barack Obama's choice to run the Interior Department, is a Colorado Democrat who has opposed Bush administration efforts to open more Western land for oil-shale exploration, but worked with Republicans to broker a deal to allow more offshore oil exploration.

Mr. Salazar, nominated Wednesday, has been an outspoken advocate of renewable-energy sources, as have Mr. Obama's pick for energy secretary, Steven Chu, and his choice to be the top White House environmental adviser, Carol Browner. But as head of the Interior Department, Mr. Salazar will be both custodian and gatekeeper for the extensive fossil-fuel resources on public lands.

Wednesday, Mr. Obama also nominated former Iowa Gov. Tom Vilsack as agriculture secretary.

Among Mr. Salazar's mandates at Interior will be restoring confidence in the department's management of mineral resources following a series of scandals at Interior's Minerals Management Service. In one example, officials at the agency, which collects billions of dollars for federal coffers in royalty and lease revenue, were accused by the inspector general this year of improper conduct in relations with oil-industry executives.

Associated Press

Sen. Ken Salazar, nominated to head the U.S. Interior Department, will be custodian and gatekeeper for the extensive fossil-fuel resources on public lands

One of the hottest issues Mr. Salazar would face would be a decision on where and when the government should allow oil and gas exploration, particularly on the Outer Continental Shelf where experts say billions of barrels of oil and trillions of cubic feet of natural gas lie untapped.

Despite falling oil prices, the Obama administration will have to readdress the drilling issue in the new year. Under pressure from voters whose budgets were hit hard by $4-a-gallon gasoline, Congress allowed a federal moratorium on offshore drilling to expire, paving the way for a new lease schedule unless lawmakers and the administration reinstate the ban.

Mr. Salazar has opposed expanded oil-shale leases, arguing that such activity could threaten the region's scarce water supplies, and has voted for a federal renewable-energy mandate that would require utilities to provide a growing percentage of the power from sources such as wind and solar. Besides large natural-gas resources, Colorado and the Rocky Mountain states are home to what many scientists believe is some of the best wind-energy potential in the nation.

But he was also one of a group of 16 lawmakers who earlier this year tried to broker an agreement on offshore drilling in exchange for billions of dollars in new spending on low-carbon technologies. Mr. Salazar also made a deal with Sen. Mary Landrieu (D., La.), who publicly credited him with helping to win Gulf of Mexico drilling access in exchange for opposition of oil-shale development.

The Interior Department's Bureau of Land Management controls oil and gas production on federal lands while the Minerals Management Service controls offshore petroleum and renewable energy production in federal waters.

The Colorado senator has also been in favor of trying to force oil companies such as **Chevron** Corp., **ConocoPhillips** and **Royal Dutch Shell** PLC to renegotiate Gulf of Mexico leases signed in 1998-99 that omitted royalty-price thresholds that government auditors say have cost the U.S. billions in uncollected revenue.

Meanwhile, Mr. Salazar's confirmation would open up his Senate seat. Already Democrats are flooding Colorado Gov. Bill Ritter with advice on how to fill it.

Among the candidates most prominently mentioned: Mr. Salazar's brother, John, a U.S. representative from rural Colorado; John Hickenlooper, the popular mayor of Denver; and U.S. Rep. Ed Perlmutter, who represents the fast-growing Denver suburbs, a rich trove of votes. Another possibility: Federico Peña, the former Denver mayor who served as both energy and transportation secretary in the Clinton administration. Mr. Peña re-emerged this year to vigorously campaign on behalf of Mr. Obama's presidential bid.

—Stephen Power and Stephanie Simon contributed to this article.

Tough decision looms on fate of space shuttle

By Andy Pasztor

U.S. President-elect Barack Obama's NASA transition team faces a tough early choice between extending the life of the aging space shuttle and accelerating its replacement.

Bush administration plans call for grounding the shuttle by 2010 for budget and safety reasons. But congressional and industry critics worry that the expected five-year gap before the shuttle's replacement is prepared to blast off would lead to a crippling loss of program expertise and sap political support for manned space flights.

Federal, state and local lawmakers are distressed about losing thousands of jobs now associated with shuttle operations at the Kennedy Space Center in Florida. Some also point out that speedy retirement of the shuttle will force NASA to temporarily rely on Russian launches to reach the International Space Station.

Keeping the shuttle flying is not without risks, however. An internal National Aeronautics and Space Administration study projects that extending the program until 2015 would cost up to an additional $13 billion and could increase the chances of accidents with astronauts aboard.

Stretching shuttle operations through 2012, according to the report, would cost an extra $4.5 billion and "likely pose the lowest technical, schedule and safety risks."

Obama transition-team members are weighing various options, including speeding up development of follow-on systems and keeping the shuttle flying through 2015. Transition-team members declined to comment.

The study, prepared by managers at the Johnson Space Center in Houston to help guide the incoming administration, stresses the perils involved in delaying retirement of the shuttle. Continuing shuttle launches to the International Space Station through 2015 would add as many as 15 flights and raise the "cumulative risk" of an accident to "1 in 3.2" missions, the study says. While the risks for a particular flight won't increase, according to the study, overall risks of malfunctions, collisions with space debris and other problems increase with the number of flights. NASA previously projected the accident risk through the beginning of the next decade as roughly one in eight missions.

As a candidate, Mr. Obama proposed beefing up NASA's budget and joined other lawmakers in urging the agency to avoid any action that would preclude extending shuttle operations past 2010.

NASA Administrator Michael Griffin has clashed with the head of the Obama transition team over its sweeping questions about the agency's current plans and assumptions. Mr. Griffin has maintained that there won't be enough funding to simultaneously extend shuttle flights to 2015 while ramping up funding for the replacement program, dubbed Constellation. Current agency spending blueprints show Constellation spending jumping to roughly $6.5 billion from $3.3 billion in fiscal 2011, the same year that spending on the shuttle is slated to decline by a corresponding $3 billion.