9 772191 986818 49

For information or to subscribe, visit www.services.wsje.com or call +44 (0) 207 309 7799 — Albania **Lk 370.00** - Austria **€3** - Belgium **€2.90** - Croatia **HRK 22** - Czech Republic **Kc 110** - Denmark **Dkr 22** - Finland **€3.20** - France **€2.90**
Germany **€3** - Greece **€2.90** - Hungary **Ft 530** - Ireland (Rep.) **€2.90** - Italy **€2.90** - Lebanon **L£ 4000** - Luxembourg **€2.90** - Morocco **Dh 24** - Netherlands **€2.90** - Norway **Nkr 27** - Poland **Zl 10.50** - Portugal **€3** - Slovakia **Sk 100/€3.32** - Slovenia **€2.70**
Spain **€2.90** - Sweden **kr 27** - Switzerland **SF 4.80** - Syria **S£ 210** - Turkey **YTL 4.25** - U.S. Military (Eur) **$2** – United Kingdom **£1.40**

THE WALL STREET JOURNAL.

THE WALL STREET JOURNAL.

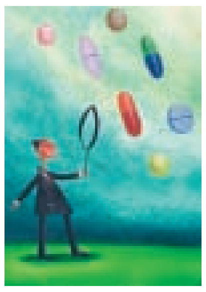
WSJ.com

DOW JONES Newswires

EUROPE

DOW JONES A News Corporation Company

VOL. XXVI NO. 214 MONDAY, DECEMBER 1, 2008



Western drug companies face scrutiny over trials

MARKETPLACE | PAGE 29

Banks, like auto makers, need a major overhaul

HEARD ON THE STREET | PAGE 19

Tensions mount as India seeks answer to attacks

Top security chief resigns and strains rise with Pakistan

India's top security official resigned and tension with Pakistan escalated amid growing recriminations over who is to blame for the deadly 60-hour-long attack on Mumbai that ended Saturday.

On Sunday, with corpses still being pulled from the landmark Taj Mahal Palace & Tower hotel, India

*By **Peter Wonacott** and **Matthew Rosenberg** in Mumbai, and **Jackie Range** and **Krishna Pokharel** in New Delhi*

named Finance Minister Palaniappan Chidambaram to be home affairs minister, after the incumbent stepped down to take "moral responsibility" for the attacks, which began Wednesday night.

Indian Prime Minister Manmohan Singh's Congress party-led coalition government faces mounting criticism for failing to prevent or quickly end the attacks, which Indian officials have suggested involved Islamist militants trained in Pakistan.

The only gunman captured by police after the attacks told authorities he belonged to the Pakistani militant group Lashkar-e-Taiba, a senior police officer said Sunday, according to the Associated Press.

Joint Police Commissioner Rakesh Maria said the assailant told police the group had intended to hit more targets during their attacks. "Lashkar-e-Taiba is behind the terrorist acts in the city," Mr. Maria told reporters. "The terrorists were from a hardcore group in the LET."

A U.S. counterterrorism official said that the information being learned in the investigation continues to point to a Lashkar-e-Taiba connection. He said the "working assumption" of the U.S. government that LET and another Pakistani militant group, Jaish-e-Mohammed, are behind the attacks continues to hold up. "It does seem consistent with that, even if you still don't have final definitive conclusion being drawn," said a U.S. counterterrorism official, who de-

Please turn to page 30

Associated Press

At least 174 people were killed in the assaults on 10 locations in Mumbai, including the 105-year-old **Taj Mahal Palace & Tower hotel**.

What's News—

Business & Finance

OPEC ministers meeting in Cairo this weekend debated whether to make another deep output cut at the cartel's next meeting. Big oil exporters are struggling to trim production enough to boost prices as demand plummets. **Page 2**

■ **The U.K. is sliding** deeper into recession, making another rate cut more likely. Poland adopted a $31.4 billion stabilization package. **Page 9**

■ **Slipping euro-zone inflation** and rising unemployment pushed observers to increase their bets that the ECB will cut rates Dec. 4. **Page 9**

■ **Viehbacher is likely to seek** big changes at Sanofi after he becomes CEO of the French drug maker this week. **Page 3**

■ **Italy approved** an economic-aid package, including a plan to shore up banks that is valued at up to $15.5 billion. **Page 3**

■ **GM is trying to lure** some debtholders into exchanging debt for equity as the auto maker works to craft a viable plan to give Congress. **Page 5**

■ **Luxury-car sales** are getting hit as hard as those for the overall auto market. **Page 4**

■ **Falling stock prices** are changing the composition of the indexes that determine which stocks many mutual funds purchase. **Page 19**

■ **Europe's corporate debt** market showed signs of life, with issuers raising nearly $12.7 billion last week. **Page 21**

■ **Commerzbank** will complete its acquisition of Dresdner Bank from Allianz months early amid concern that a full takeover wouldn't occur. **Page 21**

■ **Germany's Premiere won** rights to televise the country's top football leagues for the next four seasons. **Page 6**

■ **Carl Icahn purchased** 6.8 million shares of Yahoo stock, raising his stake to nearly 5.5% from about 5%. **Page 22**

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8829.04	+102.43	+1.17
Nasdaq	1535.57	+3.47	+0.23
DJ Stoxx 600	206.25	+2.63	+1.29
FTSE 100	4288.01	+61.91	+1.46
DAX	4669.44	+4.17	+0.09
CAC 40	3262.68	+12.29	+0.38
Euro	$1.2690	-0.0199	-1.54
Nymex crude	$54.43	-0.01	-0.02

Money & Investing > **Page 19**

World-Wide

India's top security official resigned and tension with Pakistan escalated amid growing recriminations over who is to blame for the deadly attack on Mumbai that ended Saturday. The only gunman captured said he belonged to the Pakistani militant group Lashkar-e-Taiba, a senior police officer said. At least 174 people were killed in the assaults. **Pages 1, 30**

■ **A deal with Bill Clinton** over his post-White House work helped clear the way for Hillary Clinton to join Obama's national-security team as secretary of state, reshaping a rivalry into a strategic and diplomatic union. **Page 9**

■ **Iran's top diplomat** on nuclear issues said his government would welcome a broad dialogue with Obama, but offered few signs that Tehran is willing to slow its nuclear program. **Page 9**

■ **The political crisis** in Thailand is escalating, choking the country's economy and damaging its image as a popular global tourist destination. **Page 12**

■ **A suicide bomber** blew himself up near a German Embassy vehicle in Afghanistan's capital and killed two Afghan civilians.

■ **Leftist Social Democrats** won the most votes in Romania's parliamentary elections but didn't get enough support to take power outright, projections showed.

■ **China's Hu warned** that the global financial crisis is sapping the nation of its competitive advantage in trade. **Page 11**

■ **Canada's opposition parties** said talks were progressing to topple the government over a contentious economic plan.

■ **Troops appeared to have** quelled two days of violence that left hundreds dead in central Nigeria, after a disputed election.

■ **Zimbabwe health authorities** said 425 people have died in a cholera outbreak, which could worsen in the rainy season.

■ **Ethiopia said it will pull** its forces out of Somalia, leaving the weak government to face a powerful Islamic insurgency.

■ **Swiss voters approved** a move to make permanent a program to give drug addicts government-authorized heroin.

EDITORIAL & OPINION

World AIDS Day

Don't blame the drug companies for the disease's continued prevalence in Africa. **Page 14**

Moscow shows healthy rivalry helps airports

By Daniel Michaels

MOSCOW—A heated battle for passengers between the Russian capital's main airports offers an unlikely model of competition for the aviation industry.

In most cities, airports are monopolies. Even in cities that have more than one, including New York, Paris and Tokyo, airports are usually owned by the same operator. That means airlines can rarely make the kind of choices passengers take for granted, such as choosing an airport for its efficiency, shopping or lounges.

Not so in Moscow, where two international airports, Domodedovo and Sheremetyevo, owned by rival organizations, battle for business. The result is lower fees, better service and fast-improving facilities all around.

Domodedovo Airport, for example, recently convinced several top airlines to make it their Russian base, thanks to a major modernization that added more than 20 new restaurants, jewelry boutiques and a shop where passengers can rent DVDs to watch in booths.

Sheremetyevo Airport responded by building a fast rail link

Please turn to page 31

Swiss Re's risky tack spurs investor worries

By Neil Shah

LONDON—Jacques Aigrain, chief executive of **Swiss Reinsurance Co.**, helped transform the sleepy insurer into a profit machine while making it act more like an investment bank. Now, some investors are fretting that Mr. Aigrain's strategy will make the company particularly vulnerable to a wave of troubles hitting the European insurance industry.

Over the past year, Swiss Re has suffered some three billion Swiss francs ($2.47 billion) in write-downs on credit-derivative investments few other insurance companies were willing to risk, putting it among the European insurers hardest hit by the crisis. And as recent sharp market declines cut into the value of the company's vast holdings of complex securities and corporate bonds, investors and analysts are worried there could be more.

"It's difficult to know how much they will eventually have to mark down," said John Raymond, an analyst at research firm CreditSights. "There's a chance there are...things that will suddenly surprise them, and us." Swiss Re's exposure to credit derivatives, for example, came to light only when the company had to recognize the losses.

Jacques Aigrain

Mr. Aigrain has put on a brave face, saying the Zurich-based company is seeking to take advantage of the crisis to gain market share. Swiss Re recently purchased an insurance unit from U.K. bank Barclays PLC for about £750 million ($1.16 billion).

Still, Swiss Re has warned that further write-downs could force it to sell new shares to boost its capital—a move that would dilute the holdings of existing shareholders. Last month, Swiss Re announced a loss of 304 million francs for the third quarter, its first loss in almost six years.

Since the beginning of the year, Swiss Re's share price has fallen 38% to 49.50 francs in Zurich. As of November, the insurer's holdings of complex securities like mortgage bonds represented about 250% of its market capitalization, compared with roughly 30% and 130% for German rivals **Munich Re** AG and **Hannover Re** AG, respectively, according to analysts at Dresdner Kleinwort. In a sign of investors' concerns, the cost of insuring against a default by Swiss Re has risen to more than double the level

Please turn to page 31

LEADING THE NEWS

Oil's decline tests OPEC

Cartel may struggle to influence market as economies slow

*By **Spencer Swartz** in Cairo, Egypt, and **Neil King Jr.** in Washington*

As the world's big oil exporters struggle to trim production enough to boost prices as demand plummets, Saudi Arabia has contended that $75 now represents a "fair price" for a barrel of oil. But OPEC may struggle to keep prices at any set level amid the current economic headwinds.

Meeting in Cairo over the weekend, ministers from the Organization of Petroleum Exporting Countries debated whether to make another deep output cut—the group's third in four months—when they meet in formal session in Algeria in mid-December.

The cartel's 13 members, which supply more than 40% of daily world oil demand of about 86 million barrels a day, are already falling behind earlier pledges to trim exports as countries such as Iran and Venezuela try to keep revenue flowing amid a crash in commodity prices and demand in key markets like the U.S. The price of crude oil has fallen more than 60% since its summer high, closing Friday at $54.43 a barrel on the New York Mercantile Exchange.

OPEC members have been slow to comply with the production cut of 1.5 million barrels a day agreed to in October. The group's secretary general, Abdalla Salem El-Badri, told reporters that members had so far managed to remove only 850,000 to 1.2 million barrels a day from world oil markets.

The group's lack of discipline was one reason Saudi Arabia, OPEC's biggest producer, didn't push for another output cut in Cairo, even though the Saudi oil minister, Ali Naimi, argued that oil prices should be around $20 a barrel higher than they are now. Mr. Naimi's remarks represented an unusual departure for Saudi Arabia, which has long avoided the appearance of trying to set the price of oil. Other OPEC ministers quickly seized on the $75 target, saying that current prices were too low to sustain needed investments in oil exploration and production in higher-cost areas.

OPEC has a spotty record when it comes to managing oil supplies to maintain a set price band. Lack of compliance with production cuts, driven by a jealous protection of oil revenue that are pivotal to all OPEC governments, has been a core theme throughout OPEC's 48-year history. This time around, keeping up with falling demand may prove particularly tough. Global oil demand looks set to contract this year for the first time in 25 years, with more declines expected in 2009.

An OPEC delegate and a person familiar with Saudi production policy both said the kingdom's reluctance to back a new output cut in Cairo was driven in part by the Saudis' belief that Iran, OPEC's second-biggest producer, and Venezuela are cutting output by less than they claim in order to preserve their own oil revenue. Both nations stand to suffer the most from sustained $50 oil prices relative to other OPEC members, as their budgets and spending are based on higher oil prices.

As it has several times in the past, OPEC is now calling on other big exporters outside the cartel to help curtail supply to stem the crash in prices. Russia has suggested it wants to help OPEC buttress prices, but its output is already slipping as Russian production continues to fall because of aging fields and slowing investment. The other big non-OPEC exporters, Mexico and Norway, also seem unlikely to rein in exports at a time of dropping oil revenue. Mexico's production is falling on a decline in its biggest field, Cantarell.

All this sets the stage for OPEC's next formal session on Dec. 17 in the Algerian port city of Oran, in what could be the group's most momentous meeting in years. Saudi Arabia will be looking most intently for signs that other OPEC members are complying with earlier agreements to trim supply. But just as important will be the latest raft of data on how sick the world's economy looks going into 2009.

U.S. employment picture is expected to get worse

By Brenda Cronin

A chorus of bad news throughout November has paved the way for a bleak U.S. employment report on Friday. Since October, weekly claims for unemployment insurance have reflected broad-based layoffs as the downturn takes its toll on consumers and businesses.

The U.S. unemployment rate surged to 6.5% in October from 6.1% the previous month, the Labor Department said. Declines in nonfarm payrolls, which hit 240,000 in October, could surpass 350,000 in the coming report. Such a drop would be the largest since May 1980, when nonfarm payrolls declined by 431,000. Many forecasters expect joblessness to top 8% by the end of next year.

For 2009, "the best-case scenario is 8.2% or 8.3% unemployment, but there's an increasing risk that we could go up to 9%," said IHS Global Insight Chief Economist Nariman Behravesh. For November, IHS Global Insight forecasts an unemployment rate of 6.8% and a payroll decline of 370,000.

Aggressive action by the Federal Reserve coupled with "a fiscal-stimulus package of between $500 billion and $700 billion spread over a couple of years" are essential to effect a turnaround, Mr. Behravesh said.

Much labor-market data, such as the nation's unemployment rate, are lagging indicators, meaning that during recessions, unemployment continues to rise even after gross domestic product has bottomed out.

Just how high the jobless rate will climb—and how long it will remain elevated—is difficult to gauge. Many economists say the U.S. is in a recession that could rival the downturn of 1981-82 in severity. Few expect the nation's GDP, which contracted during the third quarter at an annual rate of 0.5%, to show growth before the second half of 2009. That means worsening unemployment through next year.

To get the unemployment rate down, GDP has to show above-trend growth, said Michael Feroli of J.P. Morgan Chase. "Growth roughly has to be 2.5% or above to help improve the unemployment situation," Mr. Feroli said.

According to the Labor Department, the U.S. recorded 10 consecutive months of double-digit unemployment rates starting at 10.1% in September 1982 and concluding with the same rate in June 1983. The U.S. posted back-to-back months of 10.8% unemployment during November and December 1982. As the country emerged from the recession of the early 1990s, the employment rate hovered between 7.3% and 7.8% in 1992.

CORRECTIONS & AMPLIFICATIONS

Sophie Kelly is the global business director for Diageo brands at ad agency JWT. A Nov. 25 Corporate News article incorrectly referred to her as a Diageo employee.

INDEX TO BUSINESSES

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

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 Fax: 32 2 741 1600
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 779 Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com

Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01

Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.

Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

INDEX TO PEOPLE

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

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

LEADING THE NEWS

Sanofi's new CEO is likely to stir changes

Drug maker's board wants pragmatism in medicine research

By Jeanne Whalen

LONDON—Christopher Viehbacher is likely to have big changes in store for French drug maker **Sanofi-Aventis** SA when he takes over as chief executive this week.

Paris-based Sanofi is one of the world's largest drug makers by sales, but investors and analysts say it badly needs to change tack if it is to keep sales and profit rising.

The company has been relatively unproductive at developing new medicines in recent years, and many of its biggest products will soon face competition from low-cost generics. Sanofi also has been slow to buy drugs from biotechnology firms and slow to trim costs amid worsening market conditions.

As an outsider joining Sanofi from **GlaxoSmithKline** PLC, where he ran the U.S. business, Mr. Viehbacher will have the chance to cast a fresh eye on a company that had been run by the same group of mostly French managers for more than two decades. A Sanofi spokesman said Mr. Viehbacher, a citizen of Canada and Germany, was unavailable for comment.

Sanofi's board has said it wants Mr. Viehbacher to take a more pragmatic approach to research, developing more medicines that meet the approval of safety-conscious regulators and frugal insurers. That could mean focusing on a smaller number of drugs and dropping those with less of a chance of proving safe and significantly more effective than older drugs on the market.

In the past, some investors accused Sanofi of becoming attached to experimental drugs with flaws.

One example: the obesity pill Acomplia, which Sanofi continued to develop years after signs emerged that the drug had negative psychological side effects. Sanofi spent hundreds of millions of euros on Acomplia studies, finally abandoning the drug in November after European regulators asked the company to stop selling Acomplia in Europe. European regulators were concerned by reports of suicides and depression in patients taking the drug. Acomplia was never approved for sale in the U.S. because of concern about its side effects.

"The money spent on that high-risk project probably wasn't appropriately used," says Martin Brunninger, a pharmaceutical analyst with Bryan, Garnier & Co. in London. Mr. Viehbacher needs to bring "more realistic views on development projects," Mr. Brunninger says.

Christopher Viehbacher

Investors say they expect Mr. Viehbacher to buy more drugs from outside biotech companies, a strategy Sanofi has pursued less aggressively than other big drug makers have.

In a November report, Gbola Amusa, a pharmaceutical analyst at UBS in London, said Mr. Viehbacher may turn to buying a drug company as a way to gain products. A combination with **Bristol-Myers Squibb** Co., suggested often by analysts in recent years, "may be more likely now," Dr. Amusa wrote. A Bristol-Myers spokesman declines to comment.

Investors also want the new Sanofi chief to cut costs by closing factories and laying off workers—a particularly difficult task in France and Germany, where many of Sanofi's plants are based and unions and labor laws give workers strong protections. "They have quite a high cost base when you compare them to the pharmaceutical average," says Romain Pasche, head of global equity research at Vontobel Asset Management, which manages about €650 million, or about $825 million, in health-care stocks.

Italy approves economic aid, boost for banks

By Luca Di Leo

ROME—Italian Premier Silvio Berlusconi's government Friday approved an economic-aid package to counter a recession, including a plan to shore up its banks that may be valued at as much as €12 billion ($15.5 billion).

The measures, part of a coordinated effort by European countries to prevent a sharp economic downturn, range from €2.4 billion in tax breaks for low-income households to a delay for companies to pay value added tax.

But most of the funds committed with the government decree are focused on helping Italian banks strengthen their capital ratios so they can continue lending to companies and individuals.

Italy could end up giving banks between €10 billion and €12 billion to strengthen their capital ratios by underwriting their debt, Finance Minister Giulio Tremonti said.

According to officials who have been working on the bank measure for almost two months, banks including Italy's two largest lenders, **Intesa Sanpaolo** SpA and **UniCredit** SpA, would issue a perpetual convertible bond to the government to boost their core Tier 1 ratio, a key measure of capital strength.

Until now, Italy had refused to provide banks with state money, although other European countries, such as the U.K. and France, had done so. The Bank of Italy, the country's top banking regulator, insisted that Italian financial institutions were in a better shape and could ride out the crisis.

But concerns have grown that, without financial help from Rome, Italy's banks have been left with lower core Tier 1 ratios compared with many of their rivals in Europe.

Although there was confusion over the size of the full aid package approved Friday, which includes a 4% cap on mortgages and a temporary freeze on road-toll increases from January, Mr. Berlusconi said the stimulus amount would be lower than in Germany and France because of Italy's large public debt.

CORPORATE NEWS

Luxury autos get caught in the skid

Analysts project weak November U.S. sales, with high-end cars no longer able to outmaneuver economic woes

By Kate Linebaugh

In past economic slumps, luxury-car makers have withstood the downturn better than their mass-market counterparts. Not so this year.

Sales for the U.S. luxury-car market, which includes everything from a Lexus to a Lamborghini, fell 30% in October from a year earlier—on par with the 31.9% decline for the overall market, according to Autodata Corp., a market-research firm.

Auto makers report November's figures on Tuesday and that picture doesn't look any prettier. Credit Suisse projects the overall car market will show a decline of 36%—a "November slaughter," in the words of Credit Suisse analyst Christopher Ceras.

Among luxury cars, "we suspect that November was just as bad as October because people on Wall Street and in the banks are still losing their jobs," said Rebecca Lindland, an analyst with IHS Global Insight, a research firm in Lexington, Mass.

Researchers at Morgan Stanley expect the fall in demand for premium cars—the higher end of the luxury market—will get "significantly worse" in coming months.

J.D. Power estimates that **BMW** AG sales will show a decline of more than 20% for November and that sales for **Daimler** AG's Mercedes-Benz unit will fall more than 40%.

That trend spells bad news for auto makers who have been able to rely on the fat profit margins of luxury brands to offset plunging sales of mass-market vehicles with razor-thin margins.

Reuters

Amid the economic slump, auto makers may not be able to rely as usual on the sizable profit margins of **luxury brands**, such as Lexus, pictured above, to offset falling sales of mass-market vehicles with thin margins.

On top of rising foreclosures, a plunging stock market and thousands of pink slips on Wall Street, luxury-car makers say their customers also don't want their subordinates to see them driving a new car.

"People don't want to look like they have money now," said Mark Templin, group vice president of **Toyota Motor** Corp.'s North American Lexus division.

Lexus sales have started to pick up in November, said Sean Lyons, a Northeastern regional manager for Lexus. But that is partly because Lexus started its annual December sale early, on Nov. 21.

He said the region from Portland, Maine, to Washington was running only 10 vehicles lower than last November.

October was especially hard for the top-end luxury vehicles. **Porsche** AG's sales declined by half in October from a year earlier, to 1,427 vehicles.

Bentley's sales fell 62% to 146, while Maserati's sales declined 29% to 157.

The weak luxury-car market isn't isolated to North America as economies from Japan to Germany are in or near recession. Stuart McCullough, board member for sales and marketing at Bentley Motors, says sales in the Middle East and China are stable but are sinking just about everywhere else.

"Even the oligarchs in Russia don't feel rich anymore," he said. "There aren't many bright spots in the world right now."

Sales rose tenfold from 2004 to last year. But Bentley, the superluxury brand of **Volkswagen** AG, expects sales to drop to 5,000 vehicles next year from 10,000 this year.

In response, the company cut one of the two shifts at its plant in Crewe, England. That said, Bentley sold a $230,000 Continental Flying Spur sedan on the first media day of the Los Angeles auto show last week.

Incentive spending—such as zero-percent financing and cash rebates—is on the rise, more than doubling for vehicles priced over $60,000, according to Edmunds.com. The average incentive spending on a premium car in October was about $8,100, compared with $3,430 a year earlier.

But unlike past downturns, consumers aren't responding to traditional marketing devices such as increased incentives, lease deals or beefed-up advertising, said BMW spokesman Tom Kowelski. "This is the most difficult period we've experienced in North America," Mr. Kowelski said. BMW's U.S. sales fell 14% in October to 20,203 vehicles.

—Neal Boudette contributed to this article.

U.S. auto union offers giveback

By Matthew Dolan

DETROIT—The United Auto Workers union is in talks with some of Detroit's Big Three auto makers to stop a program that pays idled workers, people familiar with the matter said.

The so-called jobs banks, while shrinking, have been viewed by critics as a competitive disadvantage for Detroit auto makers, calling it an overly generous benefit at companies that are posting billions in losses. Union officials and their allies counter that it has been an effective way to keep a flexible job pool available and has allowed the companies to implement new technology while reducing overall numbers responsibly.

Labor leaders and auto makers insist that the much-criticized program to pay idled workers has been dwindling away on its own, thanks to new, stricter terms under the current union contract. The size of the revamped program, which pays nonworking employees almost their full wages at **General Motors** Corp., **Ford Motor** Co. and **Chrysler** LLC, has dropped to about 3,000 hourly employees, according to the companies. That's down from 15,000 workers just two years ago, a trend largely driven by time restrictions put in place as part of current union contracts.

There are about 1,400 workers in the Ford jobs bank, 1,000 at GM and 500 at Chrysler.

But while officials at Ford expect that the number of employees in its jobs bank will decrease by a third by year end, the numbers will likely swell at GM in the near term because of a new round of cutbacks that have reduced the number of shifts at some plants and closed other facilities faster than expected.

Elimination of the jobs bank isn't likely to be a part of the business plans that the auto makers will submit to Congress this week, when they head back to Washington in an effort to secure billions in emergency loans. But people familiar with the matter at GM said the union has put the issue on the table for discussion. (In November, the Big Three left Washington without the $25 billion loan package they were seeking and now are returning with the goal of proving that, with government assistance, they will be viable in the long-term.)

UAW officials, including its president Ron Gettelfinger, are said to understand that they are under pressure to deliver cost concessions and are deliberating over what kinds of cuts the union can promise to secure the emergency aid for the auto makers. Mr. Gettelfinger "understands the UAW is part of the solution here," a person close to the UAW president said. "He doesn't want to be characterized as the problem." A spokesman for the union declined immediate comment.

The topic is so politically sensitive that Mr. Gettelfinger sought to define the issue last month before members of Congress had a chance to criticize it. "Since September of 2005 through September of 2008, we have lost 47,000 workers at General Motors. By the same token, during that period of time and with that loss, we have all but virtually eliminated our jobs banks at all three companies," Mr. Gettelfinger told a Senate panel. "We recognize that in order for these companies to be competitive, we had to make the tough calls."

During the past three years, the UAW agreed to eliminate tens of thousands of union jobs, reduce health-care coverage for union retirees and cut wages for new hires. Those moves essentially leveled the future playing field between the Big Three auto makers and their foreign-owned rivals in terms of labor costs.

Union officials point out that the Big Three's competitors at non-union auto makers have similar job-insurance programs. **Toyota Motor** Co. idled, but kept paying, 4,400 workers from August to November in Texas and Indiana and about half those workers remain idled today.

Under the current contract between the UAW and Ford, workers remain in the jobs banks for no more than two years. If the worker declines two job offers during that period, the employee stops receiving wages. Similar conditions are in place at GM and Chrysler.

—John D. Stoll and Kate Linebaugh contributed to this article.

Slack sales could bolster Detroit's case for U.S. aid

By Alex P. Kellogg

Auto makers are expected to report another dismal month of new-car sales Wednesday, just as **General Motors** Corp., **Ford Motor** Co. and **Chrysler** LLC return to the U.S. Congress to plead for a federal bailout. If they make a strong enough case, Congress could begin considering legislation next week.

Vehicle sales in November are expected to come in at an annualized pace of just shy of 11 million vehicles, according to Barclays Capital, a slight improvement from October's depressed rate of 10.6 million. That rate would be about five million vehicles below the year-ago seasonally adjusted annualized selling rate of 16.1 million. All auto makers, including even normally recession-resistant luxury brands such as Mercedes-Benz and **BMW** AG, are expected to post big declines, with the Detroit three suffering drops of 30% or more, according to analyst estimates.

The dire news, however, could help the Big Three make their case in Washington for federal aid. Big declines for stronger rivals such as BMW, **Toyota Motor** Corp. and **Honda Motor** Co. would support Detroit's argument that the financial crisis is a major cause of trouble across the auto industry, and that GM, Ford and Chrysler just need a bridge loan to help them hang on until the economy improves.

GM and Ford have been losing billions of dollars, pushing their stock prices to dramatic lows. GM has warned that it could run out of cash in early 2009 if market conditions continue. Chrysler, which is privately owned, has indicated it is in similarly dire straits.

In mid-November, Detroit's three chief executives were rebuffed in their first attempt to win support for $25 billion in government loans. Both Republicans and Democrats say the CEOs have failed to adequately explain how they would use federal money to restructure their companies. They face a Tuesday deadline to submit proposals to Congress.

Another failure to secure backing for a bailout could leave GM and Chrysler in difficult financial positions. Ford is in a stronger cash position, although it, too, could face a cash crunch if auto sales remain at depressed levels.

Preliminary estimates from market researcher J.D. Power & Associates indicate that Toyota and Honda also will see sales declines approaching 30%. That would suggest the auto makers are facing an industry-wide crisis, not necessarily one stemming from the Detroit companies and their past management practices and labor agreements, Detroit backers say.

GM solicits debtholders

Equity-access plan could be alternative to bankruptcy filing

BY JOHN D. STOLL AND MONICA LANGLEY

General Motors Corp. is trying to lure debtholders into exchanging debt for equity as it tries to steer clear of a bankruptcy-court filing, people familiar with the plan said.

Chief Executive Rick Wagoner and top lieutenants are scrambling to assemble the business plan they need to deliver to the U.S. Congress by Tuesday. The plan needs to prove the car maker can remain a viable company. GM will argue that with a short-term loan from the government, along with agreements with creditors and unions, it can reshape itself.

That plan, yet to be approved by GM's board, is expected to include details on how GM will lighten its debt obligations without the protection of bankruptcy court, these people said.

GM's board, which was to meet over the weekend, is expected to play a role in crafting whatever document is submitted to Congress.

Rick Wagoner

By agreeing with certain debtholders to take equity in exchange for existing debt, the auto maker could offer these investors an alternative to a bankruptcy filing. Many unsecured debtholders stand to absorb big losses on their investment. Access to equity could allow them to cash out of GM at a more attractive price. The proposition comes as the company's debt is trading at distressed levels.

GM's stock on Friday rose 8.9%, or 43 cents, to $5.24 in New York Stock Exchange composite trading.

"The terms will be very important," KDP Investment Advisors auto analyst Kip Penniman said. He said investors will ask "are they really going to fix this company or are we going to potentially be back in a bankruptcy situation in a couple of years." Mr. Penniman said this type of maneuver could be critical to gaining government support, but if it isn't accompanied by strategy shifts, bondholders may balk.

GM has run through about $13 billion over the first nine months of the year because of restructuring expenses, weakness in global demand and other factors. The company is scrambling to cut costs and boost sales in order to maintain adequate liquidity through year end.

A component of GM's survival is persuading the government to provide at least $10 billion to $12 billion in bridge loans to keep the company afloat through 2010. GM also has been pressing banks, investors and other parties for help as it looks to unload assets, raise financing and reduce its debt obligations.

"At a high level, we think interest-expense reduction is needed immediately for cash-flow improvement, but GM simply needs to reduce overall leverage," J.P. Morgan Chase & Co. auto analyst Himanshu Patel said in a research note. "This suggests principal reduction should be one of the primary drivers of debt restructuring."

GM's debt load, estimated by J.P. Morgan at $43.3 billion at an annual interest expense of about $2.9 billion, has been a primary culprit in the company's deterioration in recent years. Many analysts have suggested GM needs to file for Chapter 11 bankruptcy-court protection to force creditors to renegotiate.

GM's blueprint is being put together as executives at **Ford Motor** Co. and **Chrysler** LLC also craft plans for Congress. Together, Detroit's three auto makers seek $25 billion in aid from the government.

While GM's lead independent director, George Fisher, supports the management team, more than a quarter of the company's 14 directors have privately expressed frustration with Mr. Wagoner, people close to the board said. But the list of potential successors to Mr. Wagoner is short, with Chief Operating Officer Fritz Henderson being the chief candidate, these people said.

Separately, the U.S. agency that protects pension plans raised new concerns about the Detroit auto makers, saying their use of pension funds to pay for restructuring threatens to drain the funds and leave the agency footing the bill.

The Pension Benefit Guaranty Corp. last week sent letters to GM, Ford and Chrysler asking for projections on how the companies plan to use their pension plans to cover early retirements or other buyout deals. The agency is "concerned" that using pension funds for such attrition programs could "undermine the state of the plans," agency Director Charles E. F. Millard said in letters to the auto makers. Copies of the letters were reviewed by The Wall Street Journal.

The funding of Detroit's plans in the next year or so is essentially "OK," Mr. Millard said in an interview. But

Fritz Henderson

DAILY SHARE PRICE

General Motors

Friday: **$5.24, up 43 cents**

Source: Thomson Reuters Datastream

"we see a continued use of the pension plan for other corporate purposes, including restructuring, and we worry that if it continues, the scenario could be much worse." The agency is concerned that with each passing year, the cost of funding buyouts will pose a greater threat to the pension funds.

"We take our obligations very seriously, managing our plans with integrity and prudence even during difficult times," a Ford spokesman said. Chrysler declined to comment and GM couldn't be reached. Each company has said a bankruptcy filing would be prohibitively expensive and could threaten car sales.

—Matthew Dolan contributed to this article.

CORPORATE NEWS

Unilever coifs a new 'do

Axe brand unveils men's hair-care line; its 'the last frontier'

By Ellen Byron

Unilever

In Axe's ads, running in movie theaters, a squad of young women shows a group of male models that if they don ugly wigs, they won't be able to **pick up girls**.

Guys, you're having a bad hair day. Every day.

That's the message **Unilever** is sending with the launch of its first AXE line of hair products for men. The Axe line, best known for male body sprays that claim to help guys get the girl, now promises "girl-approved hair" with the use of shampoos, conditioner and styling products due to hit U.S. store shelves Monday.

"We found that 85% of guys think their hair is pretty good, but more than half of women don't agree," says David Rubin, director of Unilever hair care. Axe's new line "meets guys' needs and provides a service to women," he says.

ADVERTISING

Exposing a sobering contrast between what men think of their hair and what women think of that same hair is central to Axe's marketing efforts. Axe began running ads in U.S. movie theaters this past weekend to reach men when they are likeliest to be on a date. In the ads, a squad of young women shows a group of male models that if they don ugly wigs, they won't be able to pick up girls. After the models fail, a squad member declares to the camera, "If these gorgeous guys can't pick up girls because of their hair, what chance do you have?" The ads will begin airing on television in January.

The Axe launch follows the June debut of a new men's hair-care line from **Procter & Gamble**'s Gillette, "engineered with charged cleansers" to help men "take charge of your hair," according to a TV ad.

Marketers hope the new men's products will help perk up a dismal U.S. hair-care market, currently suffering from the bad economy and intensely competitive even in the best of times. Shampoo sales fell 2% in the 52 weeks ended Nov. 2, to $1.38 billion, and fell 4% by unit volume to 373.6 million, according to market-research firm Information Resources Inc. (The figures don't include sales from Wal-Mart or club stores.)

Men's hair "is the last frontier for major marketers," says Burt Flickinger III, managing director of the Strategic Resource Group consulting firm. It is the latest in the rapid assignment of sexes to personal-care products over the past decade or so, including deodorants, skin care, body sprays and, most recently, shower gels, he says. Male shampoos aren't yet a mainstay, because "men tend to treat hair care as a much lower priority than body washes and antiperspirants," Mr. Flickinger says.

WSJ.com
Online today
See Axe's new TV ad for men, at **WSJ.com/OnlineToday.**

Convincing those men they need their own shampoo won't be easy, analysts say. "Satisfaction and complacency are barriers to sales growth in men's shampoos and conditioners," according to an April report from market-research firm Mintel International. Some 41% of men surveyed believe "all grooming products work the same," and more than a third say they "don't put much thought" into the products they use, a Mintel survey cited in the report found.

P&G and Unilever claim that men's hair is different from women's, and requires its own products. "Men's hair is shorter, so oil covers it more quickly, making it more prone to look dirty" says Mike Jutt, P&G's associate director of hair-care research and development. "And men don't typically color their hair or use heated styling products," as women do.

Axe is introducing men's hair-care products in part because "men's styling has without doubt become more exciting," says Kevin Havelock, head of Unilever's U.S. operations. "Specific hairstyles, whether it's having a spiked-up or shaggy or a clean-cut look leads them to want to have specific shampoo and styling products for themselves."

Axe excluded a favorite product of the young men it is targeting: hair gel. A Unilever-sponsored survey of 2,500 females 18-24 years old found that 90% are turned off by hard, crusty and overgelled hair. Axe calls it "the dreaded gelmet."

Premiere wins German soccer rights

By Archibald Preuschat

German pay-TV station **Premiere** AG won rights to televise the country's top national soccer leagues for the next four seasons, the German soccer-league association said Friday.

Winning the rights to Bundesliga soccer was crucial to Premiere and for majority shareholder **News Corp.** News Corp. has a track record of using soccer to turn around unprofitable pay-TV companies in Europe, notably Sky Italia and the U.K.'s **British Sky Broadcasting Group** PLC.

News Corp. has spent about €500 million ($635 million), according to JP Morgan estimates, to build a 25.01% stake in Premiere, and owns about 39% of BSkyB. News Corp. owns Dow Jones & Co., the publisher of the Wall Street Journal.

Premiere will pay about €225 million for the pay-TV broadcast rights for Bundesliga soccer for the 2009-10 season, rising to about €275 million for the 2012-13 season. For the current season, the company paid around €200 million.

Premiere also won Web-TV rights for the four seasons and gained exclusivity against free-TV offerings. While public stations ARD and ZDF won the free-TV rights to Bundesliga soccer, Premiere can broadcast a live "match of the day" at the same time as ARD airs its highlights program.

Premiere's shares price soared Thursday by almost 50% after a German media report said the company might win the rights. Premiere shares closed at €4.57 ($5.80), down 14 European cents, Friday after the report was confirmed.

The loss of Bundesliga soccer rights for the 2006-07 season "was one of the biggest problems in Premiere's business model," Chief Executive Mark Williams said last month. The former News Corp. executive took the helm at Premiere in September and has faced significant challenges since his appointment.

Premiere in October warned that it expects to post a full-year loss in earnings before interest, taxes, amortization and depreciation. It also restated its subscriber base, triggering its share price to loose half its value.

The German pay-TV station won rights to Bundesliga games for four seasons.

Premiere has since started negotiations with banks to restructure its debt facilities.

Nineteen companies said the league's chief executive, Christian Seifert.

Airlines weather turmoil as downturn continues

By Paulo Prada

Millions of passengers flocked through U.S. airports ahead of Thanksgiving Day during typically one of the busiest travel weeks, but in numbers below those of a year ago.

The smaller numbers—tamped down by economic concerns and higher ticket prices because of less flying by the nation's airlines—meant a smooth start to the holiday weekend.

About 10% fewer people will fly for the holidays this year, according to the Air Transport Association, an industry group, as passengers slash spending amid a slumping economy. Final volumes for Thanksgiving travel won't be known for weeks, but airports and airlines said passengers, traveling daily in numbers comparable with those of a busy summer-vacation day, crisscrossed the U.S. without major delays.

"It's gone quite smoothly," said John Kennedy, a spokesman for Hartsfield-Jackson Atlanta International Airport, the world's busiest. Around New York City, beneath the country's most crowded airspace, a spokesman for the Port Authority of New York and New Jersey, said a projected decrease of about 4% in passenger numbers also meant smooth operations.

For airlines, the fall in demand coincides with a fortuitous response to the increase in the cost of fuel last summer. In July, when oil prices reached nearly $150 a barrel, carriers scrambled to ground aircraft and charge passengers more for a diminished supply of seats. Now, even though oil prices have dropped by nearly two-thirds, airlines are resisting an urge to bring seats back because lower capacity is cushioning the carriers from the initial brunt of the downturn.

Historically when demand dwindles, airlines offer new flights and cheap tickets to lure travelers from competitors. But this time, with a number of seats going empty as the economy sours, airlines continue to pare flights from networks that by year end will already have shrunk in number of seats more than 10%, compared with last year.

Airline executives, burned by the volatility of energy prices in recent years, say they don't believe that the drop in oil prices is permanent. The frail economy that pushes oil prices lower is also what keeps demand for air travel weak.

"There is a long-term question mark over fuel prices just as there is a long-term question mark over demand," says Tammy Romo, vice president of financial planning at **Southwest Airlines** Co., the low-fare pioneer that in past downturns led the charge to add routes and aircraft as competitors pulled back. "There is a need for the industry to continue to show discipline."

The cuts are expected to help airlines post a profit next year. Almost as if by accident—the cuts came well before the severity of the downturn was apparent—carriers are now poised to weather the turmoil better than in the industry's recent history.

While the downturn could still hold surprises, "the combination of significant capacity reductions and declines in fuel prices far outweigh potential demand declines," wrote Gary Chase, an airline analyst at Barclays Capital, in a research report on Tuesday. In a separate report, analysts at Merrill Lynch on Wednesday predicted an industrywide profit of $2 billion next year, up from a previously projected loss of $4 billion.

Last week, **Delta Air Lines** Inc., seeking to integrate its operations with those of its recently acquired Northwest Airlines unit, said sluggish demand would lead the combined airline to shrink capacity beyond the 12% each will have already trimmed by year end. Though Southwest is selectively looking for an entree into new markets it is also scaling back flights elsewhere, paring overall capacity early next year as much as 6%.

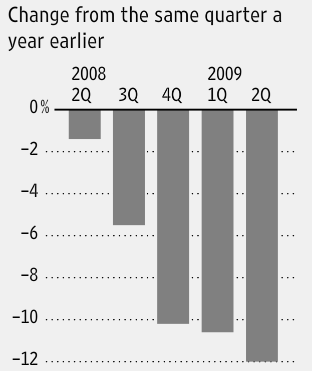
Lower fuel costs mean airlines can plan more effectively for the long term and prepare for price swings. **Virgin America** Inc., the year-old discount carrier based in Burlingame, Calif., recently said it was considering locking in some fuel supply through hedges lasting as long as four years.

Airlines are weathering the fallout from the credit crisis better than many industries. Because of their industry's volatility, airlines rely mostly on long-term debt—not short-term instruments that evaporated quickly during the recent turmoil.

To be safe, airlines also started hoarding cash when the cost of fuel began to soar and introduced new fees—such as fuel surcharges and fees for checked baggage. At the end of the third quarter, American Airlines parent **AMR** Corp. had $5.1 billion in cash.

Flight change

Recent and scheduled reductions in U.S. domestic airline capacity



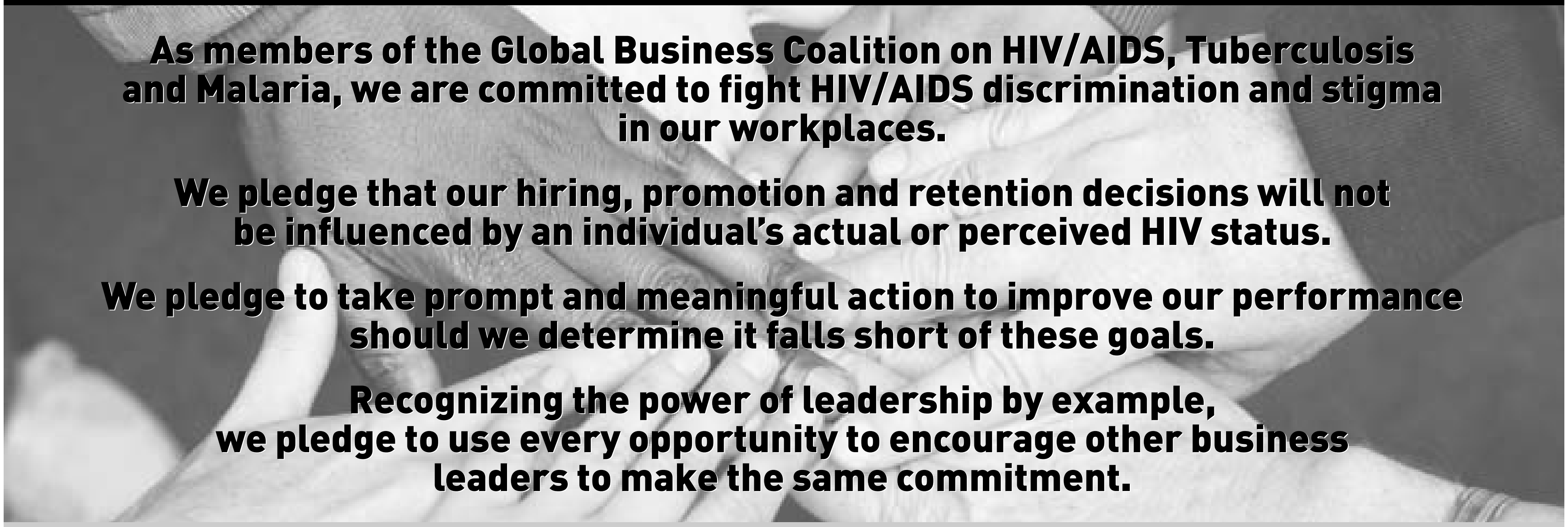
Note: Capacity measured in available seat miles

Source: International Air Transport Association; Photo: Associated Press

A passenger waits for relatives after arriving at Chicago's O'Hare International Airport

THE GLOBAL BUSINESS COALITION ON HIV/AIDS, TUBERCULOSIS & MALARIA

On this World AIDS Day, more than 100 CEOs are making an unprecedented commitment to help stop AIDS.



Miles D. White, **Abbott**
Aigboje Aig-Imoukhuede, **Access Bank Plc**
Gilles Pelisson, **Accor**
Cynthia Carroll, **Anglo American plc**
Margery Kraus, **APCO Worldwide**
Anne Lauvergeon, **AREVA Group**
Kabelo Antony Ebineng, **Associated Fund Administrators Botswana (Pty) Ltd**
David R. Brennan, **AstraZeneca**
Rahul Bajaj, **Bajaj Auto**
Peter Munk, **Barrick Gold Corporation**
Werner Wenning, **Bayer AG**
Edward J. Ludwig, **BD (Becton, Dickinson and Company)**
Vimal B. Shah, **Bidco Oil Refineries Limited**
Stephane Bancel, **bioMérieux**
Birger Sorensen, **Bionor Immuno**
Debra L. Lee, **Black Entertainment Television (BET)**
William Downe, **BMO Financial Group**
Alessandro Banchi, **Boehringer Ingelheim**
Shumeet Banerji, **Booz & Company**
Tony Hayward, **BP**
Michael T. Dan, **The Brink's Company**
James Cornelius, **Bristol-Myers Squibb**
Paul Adams, **British American Tobacco**
Mark Penn, **Burson-Marsteller**
Dave O'Reilly, **Chevron Corporation**
Gerald T. McCaughey, **CIBC**
Vikram Pandit, **Citigroup**
Muhtar Kent, **The Coca-Cola Company**
Samer Khoury, **Consolidated Contractors International Company S.A.L. (CCC)**
Dieter Zetsche, **Daimler AG**
N.F. Oppenheimer, **De Beers**
Blackie Marole, **Debswana**
Michael Dell, **Dell**
James H. Quigley, **Deloitte Touche Tohmatsu**
Gerald Mahinda, **East African Breweries Limited**
Gennady Gazin, **EastOne LLC**
Richard Edelman, **Edelman**
Christian Kemp Griffin, **EDUN**
John Lechleiter, **Eli Lilly and Company**
Phirwa Jacob Maroga, **Eskom**
Martin Vial, **Europ Assistance Holding**
Rex Tillerson, **Exxon Mobil Corporation**
Jacqueline Mugo, **Federation of Kenyan Employers**
Glenn K. Murphy, **Gap Inc.**
Alexander Saint-Amand, **Gerson Lehrman Group**
Jonathan D. Klein, **Getty Images**
Andrew P. Witty, **GlaxoSmithKline**
Dong Soo Hur, **GS Caltex Corporation**
P. Igathe, **Haco Industries Ltd**
William A. Haseltine, **Haseltine Global Health**
Jean-Francois van Boxmeer, **Heineken N.V.**
William Nelson, **Home Box Office (HBO)**
Victor Y. Yuan, **Horizon Research Group**
Frank Ireri, **Housing Finance Company of Kenya Limited**
Anthony L. Howard, **Independent Newspapers (Pty) Ltd**
Heather Reisman, **Indigo Books & Music Inc.**
Corrado Passera, **Intesa Sanpaolo**
Jena Gardner, **JG Black Book of Travel**
William C. Weldon, **Johnson & Johnson**
Gerard J. Inzerillo, **Kerzner International**
Derek J. Oatway, **KK Security (Kenya Kazi Services Ltd)**
Bruno Lafont, **Lafarge**
John Anderson, **Levi Strauss & Co.**
Jean-Paul Agon, **L'Oréal**
John D. Demsey, **MAC Cosmetics / MAC AIDS Fund**
Ian E.L. Davis, **McKinsey & Company**
Richard T. Clark, **Merck & Co., Inc.**
L W Nkuhlu, **Metropolitan**
Dennis Pinto, **Micato Safaris**
Samir Modi, **Modicare**
William H. Roedy, **MTV Networks**
Robert J. Coury, **Mylan Inc.**
David Stern, **National Basketball Association (NBA)**
Rupert Murdoch, **News Corporation**
Mark Parker, **Nike, Inc.**
Daniel Vasella, **Novartis**
Duncan L. Niederauer, **NYSE Euronext, Inc.**
Marcia Silverman, **Ogilvy Public Relations Worldwide**
Douglas A. Michels, **OraSure Technologies**
Jeffrey Kindler, **Pfizer Inc.**
Christie Hefner, **Playboy Enterprises Inc.**
Naresh S. Mehta, **Power Technics**
Neil Mehta, **Premier Medical Corporation**
Maurice Levy, **Publicis**
Thomas H. Glocer, **Reuters**
Tom Albanese, **Rio Tinto**
Simon Cooper, **The Ritz-Carlton Hotel Company**
Gordon M. Nixon, **Royal Bank of Canada**
Ganesh P. Rane, **RRR Industries**
Matthew J. Wright, **Russell Reynolds Associates**
Graham Mackay, **SABMiller plc**
Fred Hassan, **Schering-Plough Corporation**
Rick Waugh, **Scotiabank Group**
Ai Lianghua, **Shanghai Desano Pharmaceuticals Holding Company Ltd**
Pete Ruegger, **Simpson, Thacher & Bartlett**
Christian Jourquin, **Solvay**
Garry Watts, **SSL International plc**
Clive Tasker, **Standard Bank**
Peter Sands, **Standard Chartered Bank**
Hiromasa Yonekura, **Sumitomo Chemical**
Ed Clark, **TD Bank Financial Group**
Cyrus F. Freidheim, Jr., **Times Media Group**
Christophe de Margerie, **Total**
John Noel, **Travel Guard**
Marie-Christine de Saragosse, **TV5**
Patrick Cescau, **Unilever**
Henri Proglio, **Veolia Environment**
Mikkel Vestergaard Frandsen, **Vestergaard Frandsen**
Philippe P. Dauman, **Viacom International**
Sir Richard Branson, **Virgin Group**
Martin Winterkorn, **Volkswagen**
S. Shiryaev, **Vostok-Service**
Mick Davis, **Xstrata**
Lev Partskhaladze, **XXI Century Investments**
Subhi Quraishi, **ZMQ Software Systems**

Stigma stops people from getting tested and from getting life-saving treatment and support.
Ending stigma is one of the most effective ways to stop AIDS.
Won't you join us?

BUSINESS LEADERS UNITED TO END HIV STIGMA

GBC GLOBAL BUSINESS COALITION ON HIV/AIDS, TUBERCULOSIS AND MALARIA

Join the business fight against AIDS at www.gbcimpact.org

GLOBAL BUSINESS BRIEFS

ThyssenKrupp AG

Higher orders and sales boost net profit by 38%

Steelmaker **ThyssenKrupp** AG said higher orders and sales pushed its net profit up 38% in its fiscal fourth quarter, but said it expects a significant drop in sales in the current fiscal year. The German company said its net profit for the quarter ended Sept. 30 rose to €726 million ($922.1 million) from €526 million a year earlier. Sales were up 7.3% at €13.78 billion from €12.83 billion. Earnings before interest and taxes jumped 61% to €956 million, while overall order intake increased 14% to €13.7 billion. ThyssenKrupp warned that the economic downturn would hit sales and profit.

Volkswagen AG

In the latest step in a continuing battle with the European Union, Germany's upper house of parliament approved a controversial law that effectively shields car maker **Volkswagen** AG from takeovers. The Bundesrat passed the so-called VW law one day after the European Commission, the EU's executive arm, gave Germany two months to comply in full with a ruling from the European Court of Justice on the matter. The commission has said the law contravenes the principle of free movement of capital within the EU by retaining a veto right for VW's home state of Lower Saxony, which holds just over 20% of the company. The state's governor Christian Wulff told the Bundesrat Friday that the VW law "complies with EU law without any constrictions."

Deutsche Telekom AG

Deutsche Telekom AG said it has secured employee approval for shutting many of its call centers in Germany after it agreed to close nine fewer facilities than originally planned. Deutsche Telekom said in August it wanted to cut costs by concentrating its activities in 24 call centers, but labor unions had opposed the plan. On Friday, the company said it reached an agreement with its employee council to keep 33 call centers open while closing 30 facilities by mid-2011. Deutsche Telekom pledged to keep the 33 sites open through 2012. None of the 18,000 people employed at its call centers would be cut, said the company, although some may be offered equivalent jobs at other sites. The measures will lead to annual cost savings of about €57 million ($72 million), said a spokesman.

EADS

The German government said the buying organization Occar expects delays of at least 18 months in the delivery of **European Aeronautic Defence & Space** Co.'s A400M military transport plane. Occar doesn't expect the maiden flight of the A400M before the summer of 2009, the government said in response to a query from the opposition Free Democrats. It also said that the A400m contractor consortium AMSL sees problems with the engines and other parts of the plane. Three weeks ago, Germany's Defense Ministry said it expected a delay of more than 12 months to the first flight of the A400M. EADS plans to slow production of the transporter as it battles a series of issues linked to the project. The 2003 order for 180 planes by Occar was Europe's biggest single arms-purchase contract.

Lonmin PLC

Lonmin PLC, one of the world's largest platinum producers, Friday gave official notice to trade unions that 4,000 employees could lose their jobs at the company's Marikana operations in South Africa. The U.K.-based company said it would work with unions to mitigate the job losses. Separately, a spokesman for trade union Solidarity said the move is expected to affect more than 15% of Lonmin's total work force. The union said Lonmin proposes to pay the minimum severance pay, one week's salary for every year of service. The planned cuts follow a sharp decline in recent months in the price of platinum, which is used by the automotive and other industries and in jewelry.

Sacyr Vallehermoso SA

Hit by ballooning financing costs and a crumbling construction market, highly indebted Spanish builder **Sacyr Vallehermoso** SA is struggling to find suitors with cash in hand for its distressed-asset sales, people familiar with the situation said. Sacyr, which embarked on an acquisition spree when liquidity was abundant, is looking to sell its toll-road unit Itinere Infraestructuras SA and its 20% stake in Spanish oil company **Repsol YPF** SA to cut down on debt at a time when cash generation is under pressure as Spain slides into recession. It piled up €18.55 billion ($23.56 billion) in debt while its market value shrank more than 68% year-to-date to €2.31 billion, making it the worst performer of Spain's key IBEX-35 stock market index. Russia's OAO **Lukoil** has expressed an interest in buying a stake in Repsol. If completed, Sacyr's transactions would represent the largest distressed asset sale in the country since the collapse of its real estate market. A Sacyr spokeswoman declined to comment.

Banco Santander SA

Banco Santander SA said its €7.2 billion ($9.15 billion) rights issue was fully subscribed, giving the Spanish bank more firepower to confront the economic downturn at home and abroad. In an effort to bolster capital ratios, Spain's largest bank by assets had offered to sell 1.6 billion shares to shareholders at €4.50 each. Santander was the first Spanish bank to raise fresh capital since the start of the global financial crisis. Before Santander announced the rights issue on Nov. 10, analysts raised concerns that it was adding too much risk to its balance sheet at a time when banks are facing unprecedented liquidity constraints and global recession. Santander said its core Tier 1 capital level—a key measure of a bank's financial strength—is now around 7%, up from 6.3% previously.

Moss Bros

U.K.-based suit supplier **Berwin & Berwin** bought Arcadia tycoon Philip Green's stake in **Moss Brothers Group** PLC for £7.8 million ($12 million), but said it won't make a bid for the menswear retailer. "We would just like to try and bring a period of stability" to Moss, said Managing Director Simon Berwin, whose trust now has a 29.99% stake in Moss. "They're big customers of ours." Moss shares soared 50% at one point Friday, closing up 10%. Mr. Green's investment vehicle Warbeck Holding said on Friday that it sold its stake in Moss at a price of 28.85 pence a share to a trust represented by Mr. Berwin. Warbeck had bought the stake on Nov. 12 for 24.95 pence a share.

OZ Minerals Ltd.

OZ Minerals Ltd. of Australia stunned the market Friday with the revelation that the deadline for refinancing of US$560 million of debt facilities was Sunday and it hadn't been able to secure an extension. The miner has been hit hard by plunging commodity prices and is struggling to refinance its loans in frozen credit markets. Trading in OZ Minerals shares was halted Friday as the company awaited an answer from lenders on its request for an extension of its debt facilities.

AirAsia Bhd.

Low-cost carrier **AirAsia** Bhd. posted a third-quarter net loss because of provisions and a foreign-exchange loss. For the three months ended Sept. 30, the Malaysia-based company posted a net loss of 465.5 million ringgit ($128.5 million), compared with a net profit of 180 million ringgit a year earlier. Revenue rose 43% to 658.5 million ringgit. AirAsia said the ringgit's weakening against the U.S. dollar resulted in a foreign-exchange translation loss of 213 million ringgit. AirAsia also booked a provision of 215 million ringgit amid possible nonrecovery of collateral for trades held by **Lehman Brothers Holdings** Inc., which filed for bankruptcy-law protection in the U.S. this year.

—Compiled from staff and wire service reports.

CORPORATE NEWS

Chip makers shut factories, trim work forces

By Yun-Hee Kim

HONG KONG—Chip makers are shutting down less-productive factories, delaying investment projects and even cutting staff in a sign that the global economic slowdown and the credit crunch are taking a hefty toll on demand and hurting their operations.

The coming few months could be critical for several memory-chip makers in Asia, Europe and the U.S. as they continue to grapple with weak demand and a severe cash crunch amid plunging chip prices, which remain well below their manufacturing costs.

The weak environment has already led to losses for major producers of dynamic random access memory and NAND flash-memory chips, hurting their ability to repay debt and invest in new production technology at a time when lowering manufacturing costs is critical. Some chip makers may be forced to seek government assistance, while others are trying to weather the downturn by strengthening alliances with peers.

"Amid weak market conditions and the credit crunch, cash management has become the most critical issue," said Nam Hyung Kim, chief analyst at California-based market research firm iSuppli Corp.

A handful of chip makers across Asia, Europe and the U.S. have in recent weeks announced cutbacks in spending and production, signaling tough times.

Samsung Electronics Co., the world's biggest memory-chip maker, said Friday it plans to shut down two chip-production lines by the end of next year as part of efforts to cut costs. The chip maker said in October that it plans to trim its capital-spending budget for memory chips for the remainder of this year.

Woosik Chu, executive vice president of investor relations, also said Samsung may have to lower capital-spending plans for 2009 in light of the weak market.

Toshiba Corp., the world's second-largest maker of flash-memory chips after Samsung, is considering postponing construction of two new chip-manufacturing facilities in Japan, according to a person familiar with the company's plans.

MeiYa—a joint venture between Taiwan's **Nanya Technology** Corp. and U.S.-based **Micron Technology** Inc.—and Japan's **Elpida Memory** Inc. have postponed indefinitely plans to build new chip factories.

German chip makers **Qimonda** AG and **Infineon Technologies** AG, as well as Idaho-based Micron, have said they are cutting their work forces.

Industry group World Semiconductor Trade Statistics predicts that global semiconductor sales will likely drop 2.2% in 2009, reversing its May forecast for 5.8% growth. The Semiconductor Industry Association is more pessimistic, forecasting chip sales next year to decline 5.6% from 2008.

Intel Corp., the world's biggest chip maker by revenue, in November slashed its financial fourth-quarter forecast, noting "significantly weaker than expected demand in all geographies and market segments."

ST Microelectronics NV, Europe's biggest chip maker, Friday cut its fourth-quarter revenue guidance, citing a "slowdown in billings, substantial changes in customers' demand and order push-outs for the month of December."

ECONOMY & POLITICS

Deal paves way for Clinton pick

Obama set to name national-security team, including New York senator as secretary of state

A WSJ NEWS ROUNDUP

A deal with Bill Clinton over his post-White House work helped clear the way for Sen. Hillary Clinton to join U.S. President-elect Barack Obama's national-security team as secretary of state, reshaping a once-bitter rivalry into a high-profile strategic and diplomatic union.

Mr. Obama was to be joined by the New York senator at a news conference Monday in Chicago, Democratic officials said, where he also planned to announce that Defense Secretary Robert Gates would remain in his job for a year or more and that retired Marine Gen. James M. Jones would serve as national-security adviser.

To make it possible for his wife to become the top U.S. diplomat, the officials said, the former president agreed:

- to disclose the names of every contributor to his foundation since its inception in 1997 and all contributors going forward.
- to refuse donations from foreign governments to the Clinton Global Initiative, his annual charitable conference.
- to cease holding Clinton Global Initiative meetings overseas.
- to volunteer to step away from day-to-day management of the foundation while his wife is secretary of state.
- to submit his speaking schedule to review by the State Department and White House counsel.
- to submit any new sources of income to a similar ethical review.

"It's a big step," said Sen. Richard Lugar, the top Republican on the Senate Foreign Relations Committee, who said he plans to vote to confirm Sen. Clinton.

Associated Press

U.S. President-elect **Barack Obama** was to name Sen. **Hillary Clinton** as secretary of state after Bill Clinton agreed to disclosures on his post-White House work.

The former president long had refused to disclose the identities of contributors to his foundation, saying many gave money on condition that they not be identified.

Sen. Lugar said there would still be "legitimate questions" raised about the former president's extensive international involvement.

Still to be named are the two top intelligence posts: director of national intelligence and head of the Central Intelligence Agency. Announcements weren't expected Monday on those posts, but retired Navy Adm. Dennis Blair has become the leading contender for director of national intelligence, according to people familiar with the transition.

Adm. Blair, who served for 34 years, isn't the most obvious choice for the post, but he has become the top candidate because of his reputation as a strong manager, according to people familiar with the transition.

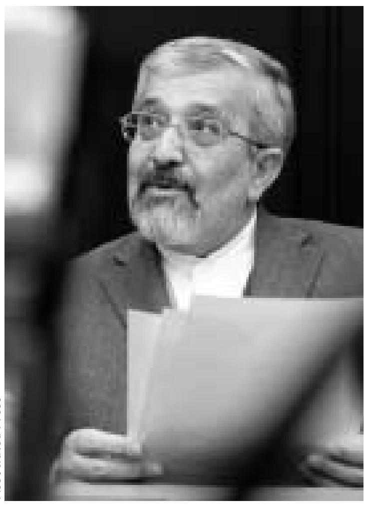
Known to be a straight shooter, Adm. Blair's final military tour was leading the military's Pacific Command, based in Hawaii and responsible largely for Asia.

Choosing Adm. Blair may reignite long-simmering tensions between military and civilian intelligence officials. Some former intelligence officials have expressed frustration that Mr. Obama apparently couldn't find a civilian intelligence professional he deemed qualified to oversee the 16 intelligence agencies. "It's controversial from those within the intelligence community," one former top intelligence official said of Adm. Blair's likely appointment. However, CIA officers have warmed to another military man, Michael V. Hayden, who was a uniformed Air Force general when he took over as CIA director in 2006.

Adm. Blair is free of the baggage that weighed down intelligence officials who were involved with Bush administration programs such as the CIA's harsh interrogations of terrorism suspects and the National Security Agency's warrantless surveillance. However, he likely will be asked to explain the Pentagon inspector general's finding that he violated conflict-of-interest standards because he was involved with a study of a major military contract for the F-22 fighter jet while sitting on the board of the company that produced aircraft. The inspector general found that Adm. Blair didn't seek to influence the outcome for the study.

The episode occurred while Adm. Blair was president of the Institute for Defense Analyses, a nonprofit corporation that provides analyses for the Pentagon. The institute was assisting an Air Force analysis of the procurement plan for the aircraft.

Advisers said Mr. Obama had for several months envisioned Sen. Clinton as his top diplomat, and he invited her to Chicago to discuss the job just a week after the Nov. 4 election. The two met privately Nov. 13 in Mr. Obama's transition office in Chicago.



Associated Press

Ali Ashgar Soltanieh, Iran's envoy to the IAEA, says his country is open to dialogue.

Iranian signals on nuclear issue remain vague

BY JAY SOLOMON

VIENNA—Iran's top diplomat for nuclear issues said his government would welcome a broad dialogue with U.S. President-elect Barack Obama's administration, but offered few signs that Tehran is willing to slow its expanding nuclear program.

Iran's ambassador to the International Atomic Energy Agency, Ali Ashgar Soltanieh, said in an interview that if Mr. Obama makes good on his campaign pledge to drop preconditions on talks with Tehran, it could pave the way for a significant cooling of tensions between the U.S. and Iran.

"If these changes are really genuine, and not cosmetic, then there would be optimism that there would be a change" in U.S. foreign policy, Mr. Soltanieh said at IAEA headquarters here. "We are fully prepared to sit at the negotiating table with all countries provided that there are no conditions and all are on equal footing."

The IAEA reported last month a significant expansion of Iran's nuclear program, which the U.S. believes is for atomic weapons but Tehran says is for peaceful purposes. The IAEA reported that Iran had produced 630 kilograms of low-enriched uranium through the operation of roughly 4,000 centrifuges, and was on the path to produce nuclear fuel on an industrial scale as thousands of additional centrifuges come online in the coming months.

Mr. Obama has repeatedly said that the U.S. should engage Tehran on the nuclear issue without any preconditions, such as Iran's freezing of enrichment activities. If Iran refuses to relent on its nuclear program despite such diplomatic overtures, it would bear the blame for international tensions, he has said.

Low-enriched uranium needs additional processing to be converted into the weapons-grade material used in a nuclear bomb. IAEA officials estimate Iran would need to roughly double its current stockpile of low-enriched uranium, and process it further, to have enough fissile material to produce one atomic weapon.

Mr. Soltanieh said Tehran plans to continue enriching uranium despite United Nations Security Council resolutions demanding a cessation and international economic sanctions. He stressed that IAEA safeguards ensure against any diversion of these materials for military purposes, an argument Washington and other Western nations dispute.

U.K. recession worsens; Poland sets stimulus

BY PAUL HANNON

LONDON—The U.K. economy is sliding deeper into recession, a development that is likely to prompt the Bank of England to slash its key interest rate for the third time in as many months and may prompt the government to launch a second fiscal stimulus package next year.

In Poland, the government on Sunday adopted a stabilization package valued at up to 91.3 billion zlotys ($31.4 billion) to help the economy amid the global financial crisis.

The British economy shrank 0.5% during the third quarter. The government last week said it expects three additional quarters of contraction before signs of a recovery appear in the second half of next year.

The data continue to point to a steady deterioration in the outlook. Hometrack—which provides research and data on the residential-property market—said house prices in November were 1.1% lower than in October and 8.1% lower than in November 2007. That was the largest annual decline on record. "A weak economic outlook and limited availability of mortgages are set to keep prices under downward pressure in 2009," said Richard Donnell, director of research at London-based Hometrack.

Falling house prices likely will lead to a further slowdown in consumer spending, making it even more difficult for retailers over the crucial Christmas shopping period.

Retailing isn't the only business sector to suffer. The Engineering Employers Federation said its quarterly survey indicates manufacturers face the toughest market conditions in two decades. That weakness comes despite the sharp depreciation of the pound against other major currencies, which should make exports more competitive.

The BOE has indicated it will cut its key interest rate when its Monetary Policy Committee meets on Wednesday and Thursday.

Of the 20 economists surveyed by Dow Jones Newswires on Friday, half said they expected the committee to cut the bank rate to 2.0% from 3.0%, a level not seen since October 1939.

The U.K. last week announced a £20 billion ($30.8 billion) package of tax cuts and spending increases designed to ensure the recession is "shorter and shallower" than otherwise would be the case. But it has indicated that it would be prepared to act again if the economy weakens more severely than it expects.

Poland's plan for 2009 to 2010 aims to increase companies' liquidity. Under the plan, the government will increase the limits on state guarantees for corporate credit to 40 billion zlotys in 2009. Poland also hopes to increase investment and consumption by lowering taxes.

—Joe Parkinson, Ilona Billington and Malgorzata Halaba contributed to this article.

Amid soft data, ECB rate cut looks likely

BY PAUL HANNON AND NICHOLAS WINNING

LONDON—A notable decline in euro-zone inflation and rising unemployment pushed market observers to increase their bets that the European Central Bank will cut its key interest rate by more than half a percentage point when its Governing Council meets on Dec. 4.

The European Union's Eurostat statistics agency said Friday that the annual rate of inflation in the 15 countries that use the euro fell to 2.1% in November from 3.2% in October. That was the largest fall over a single month since euro-zone inflation records began in 1997.

The drop brings the inflation rate close to the ECB's target of just below 2%, compared with a high of 4% in July.

Eurostat data Friday showed the rate of unemployment in the euro zone rose to 7.7% in October from 7.6% in September and 7.3% in October 2007. The number of people without jobs rose by 225,000 to 12 million.

The ECB cut its key interest rates by half a percentage point in both October and November and has signaled that a similar move is likely on Dec. 4.

The ECB has thus far been less aggressive in cutting rates than its international peers. While the Bank of England has cut its key interest rate by 2.5 percentage points in 2008 and the U.S. Federal Reserve has cut by 3.25 percentage points, the ECB raised its key rate by a quarter-point in July and has delivered two half-point cuts since early October.

ECB policy makers have stressed that comparisons with other central banks are misplaced, in part because the euro zone's less-flexible labor and product markets make underlying inflation less sensitive to business-cycle swings.

Past crises can guide U.S.

Japan, Sweden took different tacks to stem downturns in 1990s

By Brenda Cronin

In tackling the national economic downturn, U.S. President-elect Barack Obama and his newly appointed economic team might want to study how Japan and Sweden weathered similar storms during the 1990s.

Sweden's response to its crisis is widely considered a model. The Swedish government and central bank in 1992 quickly stabilized the krona and reversed contractions in gross domestic product and a rising unemployment rate by allowing some banks to fail, recapitalizing others and isolating bad assets. In two years, the country's economy was growing again.

THE OUTLOOK

Tokyo's piecemeal steps, meanwhile, ushered in a "lost decade." The economy stagnated until zombie banks propped up by the government finally succumbed. The Japanese economy took almost a decade to right itself, and while most of the country's major banks have shed nonperforming loans dating from the crisis, their profitability today hovers around levels of 10 years ago.

The paramount lessons for nations battered by financial crises are: Act quickly, consolidate the financial sector and pursue the right balance of recapitalizing banks and isolating troubled assets. Sweden did all three and Japan arguably did none, taking timid and unsuccessful measures for years before a new government forced sweeping action in 1998.

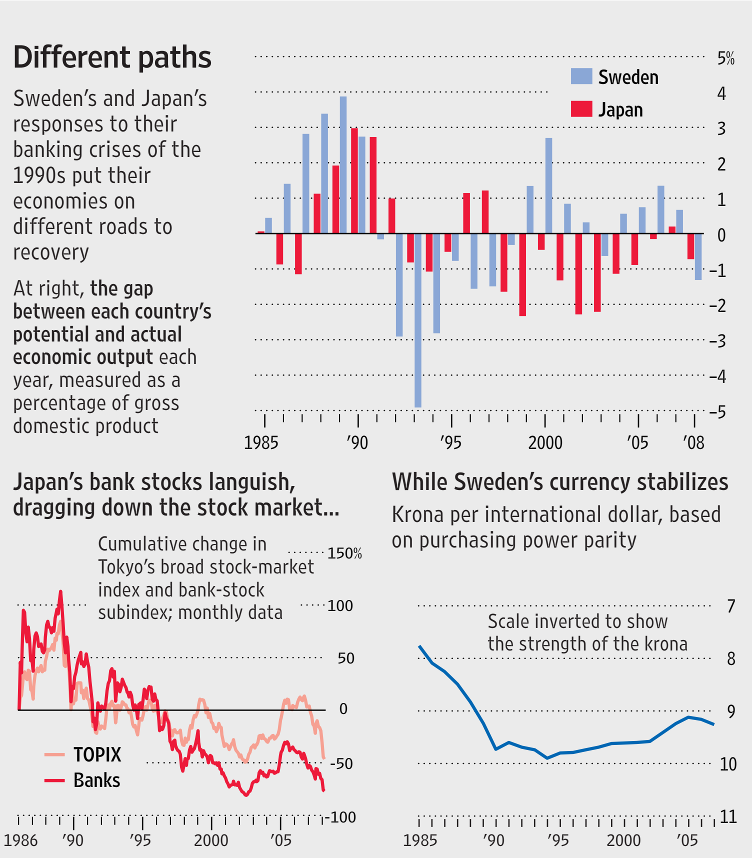
"Some say the Japanese government did nothing for 10 years, but that's not really the case. They tried things and they failed," said Takeo Hoshi, a professor of economics at the University of California, San Diego. Among the failed ideas was establishing asset-management companies that didn't buy enough distressed assets and held on to those they did acquire instead of restructuring and selling them.

In Sweden, authorities took a hard-line policy intended to weed out failing banks. Early in the crisis, the country made substantial capital injections, purchased troubled assets and temporarily nationalized some surviving banks. Sweden disposed of the bad loans briskly, liquidating them by 1997 so they couldn't linger as a drag on the economy.

Stockholm's strategy succeeded in part because policy makers were clear about their goals and demanded transparency in banks' accounting, to identify and contain weak spots.

"The goal in Sweden was to rehabilitate the system quickly by creating a smaller number of viable institutions out of many ailing ones," said O. Emre Ergungor, an economist at the Federal Reserve Bank of Cleveland. In 1988, before the crisis, there were 525 banks in Sweden; in 2000, there were 124.

That the Swedish government proceeded with the same transparency it exacted from banks also was crucial. "The key here was not to play games with investors or taxpayers," Mr. Ergungor said. When Sweden began to sell the distressed assets, "the market didn't think, 'What is the government trying to hide now?' "



Sources: International Monetary Fund (output gap, krona); Thomson Reuters Datastream (stock indexes)

In Japan, officials loath to recognize that banks were failing didn't craft a sweeping coordinated plan as circumstances got worse. The government resisted capitalization measures because using public funds to prop up tottering institutions was hugely unpopular with taxpayers.

Tokyo's indulgence ceased abruptly after a major bank and a securities house collapsed in 1997. The next year, political leaders backed capital injections and determined that the financial sector's survival depended on consolidation. The nation went from having roughly 20 big banks in 1990 to half a dozen today.

In taking on the crisis, the U.S. has advantages that Japan and Sweden didn't, including a strong currency and a low inflation rate. The U.S. also faces liabilities that weren't factors in the 1990s, and that could complicate solutions to today's crisis. Any recovery will have to unfold amid recessionary conditions that began at home and spread around the globe.

The U.S. has acted swiftly but erratically, executing "crisis management on the fly," said Gerald P. O'Driscoll Jr., a senior fellow at the conservative Cato Institute and a former vice president at the Federal Reserve Bank of Dallas. After an initial stumble, the Treasury Department pushed a $700 billion rescue plan through Congress, establishing the Troubled Asset Relief Program to buy toxic assets through a reverse auction. Shortly thereafter, Treasury changed its focus to capital injections, which U.S. officials argue shows flexibility—but which markets may interpret as indecision.

In mid-November, Treasury Secretary Henry Paulson scrapped the plan to buy troubled assets from financial institutions. Mr. Paulson said the government planned to continue capital injections and start assisting consumers through programs such as stepping up student loans and preventing foreclosures. Last week, Mr. Paulson followed through on that plan, announcing $800 billion in assistance—largely from the Federal Reserve—to credit markets.

Mr. Paulson and Fed Chairman Ben Bernanke have "sowed uncertainty repeatedly and serially," Mr. O'Driscoll said. "No one knows if they're going to get bailed out or not." Many banks are wondering whether the institutions that received capital injections will use the public funds to resume lending or to acquire smaller rivals.

The U.S. also hasn't followed Sweden—and ultimately Japan—in taking the politically charged step of forcing comprehensive consolidation in the financial-services industry.

"If we all agree that there was a credit bubble, then there has to be a contraction in credit," said Adam Posen, deputy director of the Peterson Institute for International Economics. Pursuing a policy of consolidation is "a genuinely difficult thing to do. That's why the Swedish political class in '92 and '93 and the Japanese political leadership in 2002 deserve credit."

Thus far, the U.S. crisis has claimed few high-profile casualties, such as Lehman Brothers Holdings Inc., which sought bankruptcy protection in September. Government intervention preserved insurer American International Group Inc., put mortgage giants Fannie Mae and Freddie Mac into conservatorship and blessed J.P. Morgan Chase & Co.'s takeovers of Bear Stearns Cos. and Washington Mutual Inc. At the end of November, the government gave ailing Citigroup Inc. a reprieve through a patchwork of remedies, including injecting $20 billion in capital and guaranteeing some troubled assets.

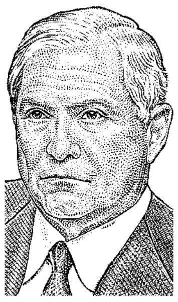
Treasury has said its priority is righting the banking system, not consolidating it, although federal rescue efforts may lead to some thinning of the ranks. Just as members of Congress rejected the first draft of the TARP legislation, they are likely to resist bank closings or takeovers. Mr. Obama has an opportunity to take a step that may exact a short-term political cost and yield a long-term economic gain.

CAPITAL JOURNAL ■ GERALD F. SEIB

With Gates at Defense, Obama is keeping the change

AT A MILITARY facility in Washington, two stately old U.S. Navy officers' houses sit side by side.

In one lives Adm. Mike Mullen, the chairman of the Joint Chiefs of Staff. In the other, just meters away, lives Defense Secretary Robert Gates, so close by that the nation's top civilian and uniformed defense officials sometimes have front-porch chats about the nation's security.



Robert Gates

It looks as if those neighborly chats will continue; President-elect Barack Obama plans to keep Mr. Gates in his Pentagon post. The decision, likely to be announced this week, is widely seen as a stroke of bipartisanship, which it is. But more important, it strikes a blow for pragmatism—the hallmark of both Mr. Gates and Adm. Mullen—and is an indication that the real transition in defense actually occurred back in 2006 and 2007, when those two men moved in.

By picking Mr. Gates, in short, Mr. Obama isn't deciding against change at the Pentagon, but rather buying into the change that already has occurred there. To grasp the nature of that change, it's best to look at Mr. Gates and Adm. Mullen as a tandem, men of similarly unruffled demeanor who have worked closely to change the tenor and the substance of defense strategy.

Mr. Gates, a Kansan by birth and an intelligence analyst by profession, has worked both sides of the partisan divide with skill. He was a protégé to a Democratic national security adviser, Zbigniew Brzezinski, during the Carter administration, when his star began rising. Then he was the nearly inseparable deputy to a Republican national security adviser, Brent Scowcroft, during the first President Bush's time in office. He later became director of central intelligence, and it looked as if that would be the capstone of his career in government.

AS A PRIVATE citizen, he began lending his voice to foreign-policy ideas that were decidedly non-ideological and bipartisan. He teamed up with Mr. Brzezinski to lead a Council on Foreign Relations study in 2004 that pointedly said the American strategy of refusing to talk with Iran was harming American interests. Their report advocated selective engagement with Tehran. And he was enlisted as a member of the commission led by former Secretary of State James Baker and former Rep. Lee Hamilton that, at the request of Congress, was charged with rethinking U.S. strategy in Iraq in 2006.

Then, late that year, the phone call came from President George W. Bush. Republicans had just gotten drubbed in the midterm elections, declining American fortunes in Iraq were viewed as a principal reason, and former Defense Secretary Donald Rumsfeld was seen as the embodiment of that failing Iraq strategy.

So Mr. Rumsfeld was pushed out and Mr. Gates was brought in, his principal attributes being proven competence and the fact that he wasn't named Donald Rumsfeld. That Mr. Gates wasn't enthusiastic about the strategy then being pursued in Iraq was seen as a political plus rather than a minus. No Senate Democrats voted against his appointment.

In sum, he became a symbol of change long before Mr. Obama made that word the focal point of his presidential campaign.

Just how much change became clear a few months later, when Mr. Gates argued against reappointing the chairman of the Joint Chiefs of Staff, Marine Gen. Peter Pace, to the traditional second two-year term. Gen. Pace had become too closely identified with the U.S. strategy in Iraq; his confirmation hearings would have been brutal.

So instead, Mr. Gates reached down and pulled up his own man, Adm. Mullen. He's a graduate of the U.S. Naval Academy, but otherwise an unconventional naval officer. A self-effacing California native, he's the son of a prominent Hollywood press agent, and has framed programs from Broadway shows adorning the halls of his home.

IT'S SAFE TO SAY both Mr. Gates and Adm. Mullen accepted the troop surge in Iraq more than championed it. Indeed, Adm. Mullen, while serving as the chief of naval operations, was initially skeptical about the surge. By the same token, it's also safe to say that neither would have embraced the Obama position on an Iraqi troop withdrawal a year ago, when the new candidate was calling for starting a drawdown right away.

Instead, for the past year and a half, the broader Gates-Mullen goal—one largely achieved—was to find an Iraq troop level that was large enough to succeed, but not so large that it would cause political support in Congress to crumble. Now the evolving circumstances in Iraq, where security has markedly improved and the government is calling for U.S. troops to be out by 2011 anyway, have made most earlier differences on Iraq troop withdrawals seem marginal.

Meanwhile, Mr. Gates and Adm. Mullen are in sync with the president-elect on other key issues. All three want an orderly drawdown in Iraq to make it easier to add troops in Afghanistan. All three worry about the strain both wars are having on the military, especially the Army. All three favor closing the U.S. detention center at Guantanamo Bay.

Mr. Gates and Adm. Mullen aren't always in sync, of course. Together, though, they represent something ideologues of left and right can agree they dislike: the rise of pragmatists in the new Obama world.