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Madoff stayed under radar by keeping air of mystery

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More investors lose faith, clouding U.S. recovery

Past downturns show the flight from stocks may persist long term

By E.S. Browning

One of the hallmarks of the long market downturns in the 1930s and the 1970s has returned: Rank-and-file investors are losing faith in stocks.

In the grinding bear markets of the past, huge stock losses left individual investors feeling burned. Failures of once-trusted firms and institutions further sapped their confidence. Many disenchanted investors stayed away from the stock market, holding back gains for a decade or more.

Today's investors, too, are surveying a stock-market collapse and a wave of Wall Street failures and scandals. Many have headed for the exits, pulling cash out of stock mutual funds in record amounts. If history is any guide, they may not return quickly.

"I don't have any confidence in buying any new stocks," says David Herrenbruck, a 52-year-old New York photographer at the peak of his ability to save and invest. Mr. Herrenbruck was a big believer in stocks in the late 1990s, but he was burned by the tech-stock meltdown. He has since moved much of his money to real estate, and he has recently invested in bonds and certificates of deposit. "If I have some cash lying around, it is going to be in CDs," he says.

Individual investors arguably form the bedrock of the market. It's difficult to pinpoint how much stock they hold, because they own shares through mutual funds, retirement accounts and other vehicles. But once retirement accounts are factored in, individuals likely account for half or more of all U.S. stock holdings, according to data from Birinyi Associates in Westport, Conn.

These investors' discomfort with stocks has been growing for years, since just after the 2000 meltdown of dotcom shares. From 2002 through 2005, investors put an average of $62 billion a year into U.S. stock mutual funds, less than half the annual level of the previous decade. By 2006, investors were pulling money out of U.S. stock funds at a rate of about $40 billion a year.

With this fall's market meltdown, the stream of U.S. stock sales turned into a gusher: Investors pulled a record $72 billion from stock funds overall in October alone,

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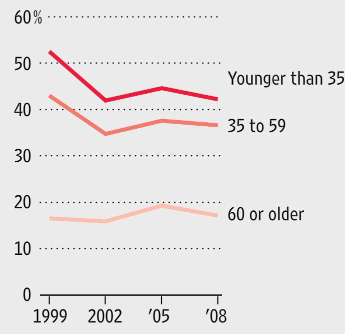
Appetite for risk

Portion of investors who say they are open to above-average or substantial risk



Source: ICI/SIFMA Equity Ownership Surveys

What's News—

Business & Finance

Ireland will bail out three of the country's largest lenders in a series of deals that will give it control of Anglo Irish Bank. The news followed the resignation of top officials at Anglo Irish amid a scandal over borrowing from the bank by its former chairman. Page 3

■ **The oil-price collapse** is shaking the industry but hasn't deterred U.S. lawmakers from pushing for regulation to reduce speculation. Pages 2, 20

■ **The recording industry** is dropping its legal assault on online music piracy after years of ineffective lawsuits. Page 4

■ **Warner Music pulled** music videos from YouTube this weekend after the two failed to renegotiate a licensing deal. Page 4

■ **Swiss firm ABB will book** provisions of about $850 million in the fourth quarter primarily related to allegations of corruption. Page 5

■ **China's wireless carriers** will invest $40.9 billion in faster "3G" networks, which could boost the nation's telecom-equipment industry. Page 5

■ **Caterpillar will cut** more than 800 workers at an Illinois plant that makes engines for construction machinery. Page 7

■ **LG Electronics is shifting** to focus more on appliances sold to businesses and announced management changes. Page 7

■ **Wal-Mart offered** to pay up to $2.8 billion for Chilean supermarket chain D&S, furthering its international expansion. Page 8

■ **The White House said** it would lend $17.4 billion to GM and Chrysler, buying them time but leaving big decisions about the industry to Obama. Page 16

■ **U.S. stocks are** under close watch as year end approaches for clues to what's ahead. Page 19

■ **The Bank of Japan** cut its key interest rate to 0.1% while the Finance Ministry planned a record budget for the coming fiscal year. Page 22

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8579.11	-25.88	-0.30
Nasdaq	1564.32	+11.95	+0.77
DJ Stoxx 600	196.43	-0.88	-0.45
FTSE 100	4286.93	-43.73	-1.01
DAX	4696.70	-59.70	-1.26
CAC 40	3225.90	-8.25	-0.26
Euro	$1.3921	-0.0408	-2.85
Nymex crude	$33.87	-2.35	-6.49

Money & Investing > Page 19

World-Wide

Falling oil prices helped push German factory-gate prices down 1.5% in November, the sharpest monthly drop since records began in 1949. That and slumping business confidence in the euro zone should give the ECB all the cover it needs to lower interest rates again. Also, Denmark cut its key interest rate, and a think tank forecast a sharp economic contraction in Sweden. Page 12

■ **Mumbai reopened sections** of the Taj Mahal and Trident-Oberoi hotels in a symbolic return to business for the city, where 171 people died in last month's terror attacks. Page 1

■ **Taliban militants killed** two Afghan nationals in northwest Pakistan for allegedly acting as spies for U.S. forces fighting the group in Afghanistan.

■ **The U.S. said it will move** troops into southern Iraq early next year to replace U.K. forces. Also, Iraqi parties reached a compromise allowing other foreign troops to stay in Iraq until July.

■ **The U.S. can no longer** support a proposed Zimbabwean power-sharing deal that would leave Mugabe as president, the top U.S. envoy for Africa said.

■ **Russian police clubbed** and detained dozens in Vladivostok in a crackdown on a protest by people angry over an increase in car-import tariffs. Page 12

■ **Belgium's government** offered to resign after a court ruled that cabinet ministers tried to influence a judge to allow the sale of Fortis assets. Page 12

■ **Hamas militants fired** rockets from Gaza, and Israel responded with a missile strike, as violence surged following the expiry of a shaky truce.

■ **Obama named** a free trader as U.S. trade representative, and a free-trade opponent as labor secretary, reflecting a split in his team over the issue. Page 9

■ **Yemeni kidnappers released** three Germans after Yemen's government paid a ransom and agreed to release prisoners.

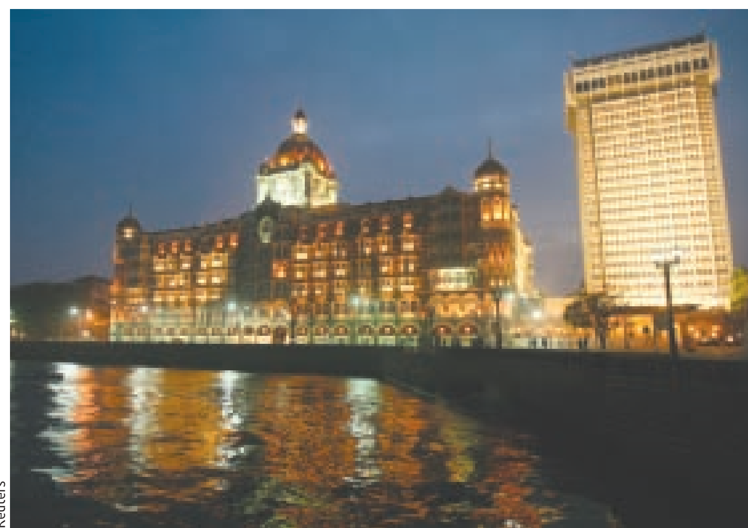
■ **Iranian officials shut** the office of a rights group led by Nobel Peace Prize winner Shirin Ebadi.

■ **The deposed president** of Mauritania was set free after 4 ½ months under house arrest.

Editorial & Opinion

Bush on his record

The U.S. President talks about his past eight years in office. The Journal Interview. Page 14



Reuters

The Taj Mahal Palace & Tower, which reopened on Sunday, is fully lit-up for the first time after the Mumbai attacks in November.

Mumbai hotels reopen amid memory of attacks

By Geeta Anand and Eric Bellman

MUMBAI—The last time banker K.R. Ramamoorthy patronized the Taj Mahal Palace & Tower, he was taken hostage, bound and beaten by the terrorists who took over Mumbai's premier hotel for three days late last month.

On Sunday night Mr. Ramamoorthy joined hundreds of other guests, including other former hostages and members of the city's political and social elite, who turned out for the reopening of the Taj, long a landmark in this city of 18 million.

"I thought I should come back to the place where this happened and show my support for the Taj and my defiance against those who did this to me and to this magnificent city," said 69-year-old Mr. Ramamoorthy, the Bangalore-based nonexecutive chairman of ING Vysya Bank Ltd.

Both the Taj and the Trident-Oberoi hotel complex, Mumbai's other signature hostelry ravaged in the terrorist attacks, reopened sections of their hotels with memorial services on Sunday, after three weeks of frenzied repairs and rebuilding.

The reopening represented a symbolic return to business for this city where 171 people died in November's attacks, allegedly carried out by 10 heavily armed Pakistanis-

Please turn to page 31

Russian tycoon fights to save ailing empire

By Gregory L. White and Dana Cimilluca

MOSCOW—Just before midnight recently, one of Russia's richest businessmen was rushing among the dark-paneled meeting rooms outside his office, cordless phone in hand. Oleg Deripaska was scrambling to save aluminum giant UC **Rusal** and the rest of his industrial empire from its creditors, by selling off big chunks.

Like Russia's other industrial tycoons who flooded the world's rich lists in the past few years, Mr. Deripaska borrowed heavily to gain control over his sprawling holdings. The oligarchs, as they are known in Russia, rode surging world prices for oil, metals and other commodities to snap up assets in Russia and abroad. Now the torrent of revenue has slowed to a trickle, the rivers of easy foreign credit have dried up and the debts are coming due. As the Kremlin steps in with bailouts, many business leaders and bankers fear companies will be renationalized.

Mr. Deripaska, in his first interview since the global credit crunch took hold in Russia this fall, said he is peddling stakes in just about everything he owns to pay off his crushing debts. People close to Rusal, the crown jewel, say talks include Chinese as well as Western investors, who would take equity stakes in return for helping to pay down Rusal's crushing $14 billion debt.

"Naturally the situation is diffi-

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LEADING THE NEWS

Oil producers reassess project investments

As prices plummet, the energy industry throws on the brakes

By Guy Chazan And Russell Gold

LONDON—Plummeting oil prices have rattled the energy industry, leading oil-rich nations and energy companies to cut production and investment in an effort to stop the slide.

Oil prices hit a more than 4½-year low last week, falling 77% in the past five months. On Friday, crude oil for January delivery fell $2.35, or 6.5%, to $33.87 a barrel on the New York Mercantile Exchange. Oil producers who were enjoying record-setting revenue earlier this year are re-examining projects that now are of questionable value. Moreover, recent reports indicate that oil consumption in Europe and the U.S. appears likely to level off for the foreseeable future.

This was the backdrop of a meeting Friday of oil-producing countries and consumers in London. Saudi Oil Minister Ali al-Naimi, perhaps the most influential voice in the oil industry, gave a gloomy assessment, saying tumbling oil prices were "wreaking havoc on the industry." Current and planned investments were under threat, he said, potentially crimping global supplies that could lead to future oil price increases when demand recovers.

"Reprioritization is the buzzword," said Daniel Yergin, chairman of energy consultants Cambridge Energy Research Associates, in an interview. "If you look at the high-cost projects, many of them are on hold."

Nearly across the board, oil companies have begun cutting spending. A survey by Barclays Capital found 2009 capital budgets were 12% lower than 2008 spending plans, and some believe they might head lower. Budgets in the U.S. and Canada are being cut the most, as projects in the high-cost oil-sands and unconventional natural-gas fields now make less economic sense. Companies such as **Chevron** Corp. and **ConocoPhillips** have delayed announcing budgets to spend more time assessing the market.

"It's not just the price, but the uncertainty of where prices are going," said Larry Goldstein, director of the Energy Policy Research Foundation in Washington. "This creates the equivalent of investment paralysis."

Price shock

Price per barrel on Nymex crude-oil futures

Friday: $33.87, down $2.35

Source: Thomson Reuters via WSJ Market Data Group

The last precipitous fall in energy prices, in the late 1990s, unleashed a wave of industry mergers as stronger competitors gobbled up the financially weak. So far, the lack of stability combined with tight credit markets is preventing combinations.

"This market is just jumping all over the place still," **Exxon Mobil** Corp. Chairman and Chief Executive Rex Tillerson said recently

Meanwhile, the volatility of oil prices was a major theme at the London meeting. U.K. Prime Minister Gordon Brown warned that volatility was the energy world's "most pressing challenge" as it called into question investments in new supplies.

At the last meeting, in Jidda, Saudi Arabia, in June, when crude was approaching its intraday peak of $147 a barrel, which it hit in July, delegates from consuming countries begged producers to pump more to calm oil markets. Now, producers are hurting as the global economic slowdown sends oil demand into a tailspin.

Mr. Brown said the surge in prices had shaved $150 billion off global economic output this year, and he issued a call for improved transparency and better regulation of commodities markets. Many observers believe that the large-scale entry by investors into commodities markets beginning in 2005 pushed up prices, and now a selloff is exacerbating falling prices.

There is a lack of consensus, however, on how to deal with price instability. "Of course, everyone agrees the price swings are absolutely mad," said Paolo Scaroni, chief executive of Italian oil company **Eni** SpA. "But to move from this statement to practical action is a different story."

The meeting reflected the shock prevailing among oil producers at crude's steep decline and the apparent inability to stop it. The Organization of Petroleum Exporting Countries announced last week that it would cut output by a record 2.2 million barrels a day, but that didn't prevent crude's slide.

Marketplace

Regal bearing

Prince Jean's ready to rule France, if the French would only let him > **Page 30**

CORRECTIONS & AMPLIFICATIONS

Natural and man-made catastrophes cost the global insurance industry $50 billion in 2008 and caused about $225 billion in damages to the global economy, according to a report from Swiss Reinsurance Co. A headline accompanying an International Investor article Friday incorrectly said the cost to insurers was $225 billion.

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Anglo Irish officials resign in loan scandal

State will bail out nation's top 3 banks by injecting capital

BY QUENTIN FOTTRELL AND SARA SCHAEFER MUÑOZ

DUBLIN—The chief executive of **Anglo Irish Bank Corp.** PLC, a niche corporate lender, resigned Friday amid a loan-accounting scandal that is casting a pall over Ireland's banking sector.

In a related development, the Irish government said Sunday that it will bail out the nation's biggest banks, Anglo Irish, **Bank of Ireland** and **Allied Irish Banks** PLC. The bailout will give the government 75% of the voting rights in Anglo Irish.

An initial total of €5.5 billion ($7.7 billion) will be injected into the three banks, through the government buying new preference shares.

The resignation of CEO David Drumm came only hours after the bank's chairman, Sean FitzPatrick, said that he had switched tens of millions of dollars in personal loans among different banks in moves that obscured the extent of his borrowings from Anglo Irish. Mr. FitzPatrick, a 33-year veteran of the bank who was viewed as a pillar of the Irish financial community, resigned late Thursday.

In a statement, the bank's board called Mr. FitzPatrick's behavior "inappropriate from a transparency point of view," but said it didn't breach any banking or legal regulations. Irish Finance Minister Brian Lenihan expressed his "disappointment" about the matter.

Mr. FitzPatrick, who took over as CEO in 1986, helped turn Anglo Irish Bank from a tiny player with only eight employees into a darling of the Irish stock market. When Mr. Drumm took over in 2005 and Mr. FitzPatrick was named chairman, he was seen as someone honest who would keep the business in line, analysts said.

"I do find it startling," said Alex Potter, an analyst at investment firm Collins Stewart in London. "It will reflect negatively on Anglo Irish for some time to come. It will also reflect negatively on the wider Irish business world."

The news comes at a difficult time for the Irish banking sector, which is struggling as the Irish economy suffers a downturn that is one of the most severe in Europe. The Irish government said this month it was ready to inject €10 billion to rebuild banks' capital, adding to a €440 billion debt-guarantee plan announced earlier this year.

The departures dealt a blow to the share price of Anglo Irish, which, as a commercial-property lender, is viewed as among the most vulnerable to the downturn.

Friday, Anglo Irish's shares closed at 32 European cents (45 U.S. cents), down 18% from Thursday and about 98% since August. Anglo Irish now has the smallest market capitalization of Ireland's four publicly listed banks.

In a statement, Mr. FitzPatrick said that for eight years to 2007 he had switched loans to another bank at year end, which meant that the bank's annual report didn't disclose how much money he had borrowed. His moves came to light during a review of Anglo Irish records by the Irish Financial Services Regulatory Authority, which said it noticed unusual transfers of loans to another financial institution, the **Irish Nationwide Building Society.**

It wasn't immediately clear for what purpose Mr. FitzPatrick had used the loans. Irish Nationwide couldn't be reached to comment.

The loans for the first time will appear in full in the bank's 2008 annual report and will amount to €87 million. The total for loans to directors at the end of September was €150 million, according to Anglo Irish.

When asked if either Mr. Drumm or Chief Finance Director Willie McAteer were aware of Mr. FitzPatrick's loan movements, a spokeswoman for Anglo Irish said she couldn't comment. The bank said all of its other directors have confirmed that they haven't engaged in this or any other inappropriate action in relation to their loans, and that all directors' loans are agreed on normal commercial terms and conditions. Neither Mr. Drumm nor Mr. FitzPatrick was available to comment.

Mr. FitzPatrick will be succeeded by Donal O'Connor, an accountant who was appointed as a nonexecutive director earlier this year.

Nonexecutive director Lar Bradshaw also has resigned. His decision is based on the fact that a loan, which he held jointly with Mr. FitzPatrick, was temporarily transferred to another bank prior to year end. While Mr. Bradshaw was "unaware that this transfer took place, he believes that it is in the bank's best interest that he should resign," Anglo Irish said.

Separately Friday, Ireland's Chartered Accountants Regulatory Board said that it will examine the circumstances around the issue of "inappropriate directors loans at Anglo Irish Bank and the role played by any members of the Institute of Chartered Accountants in Ireland."

Under the government's bailout plan, Anglo Irish will issue €1.5 billion in preference shares, while Allied Irish and Bank of Ireland will each issue €2 billion. Bank of Ireland and Allied Irish may each receive an additional €1 billion, according to a government statement.

The Irish economy is in a downturn that is one of the most severe in Europe.

The preference shares to be issued by Anglo Irish will give the government 75% of the voting rights in the bank. They offer a fixed annual dividend of 10%.

The deal is subject to approval by shareholders. The capital injection is expected to occur following a meeting of shareholders in mid January.

The Bank of Ireland and Allied Irish issues offer 8% dividends. The government will have the right to vote on changes of control and alterations to the banks' capital structures. The banks may redeem the shares at the issue price within five years, or at 125% of the price after five years.

"The banks will be expected to contribute to the economy in a verifiable manner in relation to credit and in relation to the maintenance of a payments system which is socially inclusive," the government said.

—Lilly Vitorovich contributed to this article.

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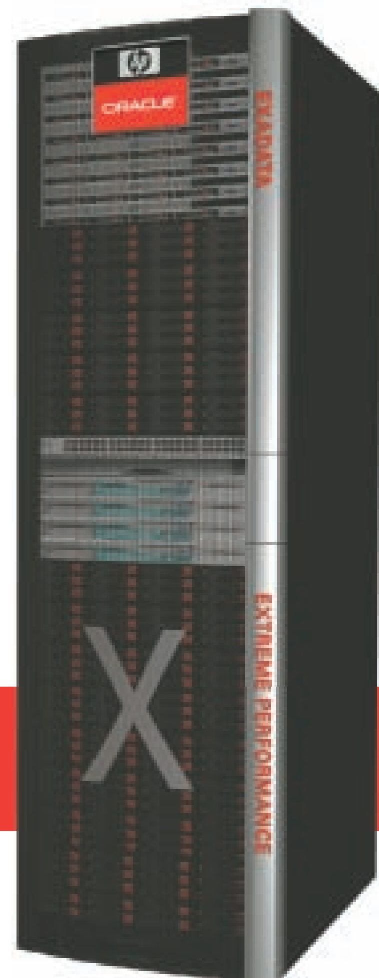

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CORPORATE NEWS

Labels change tack on piracy

Music industry drops legal assault on downloads in favor of deals with Internet providers

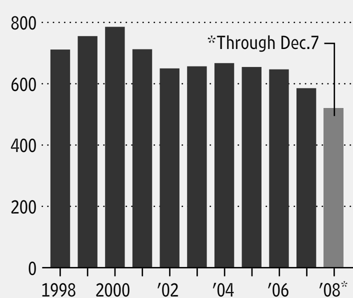
By Sarah McBride
And Ethan Smith

After years of suing thousands of people for allegedly stealing music via the Internet, the recording industry is set to drop its legal assault as it searches for more effective ways to combat online music piracy.

The decision represents an abrupt shift of strategy for the industry, which has opened legal proceedings against about 35,000 people since 2003. Critics say the legal offensive ultimately did little to stem the tide of illegally downloaded music. And it created a public-relations disaster for the industry, whose lawsuits targeted, among others, several single mothers, a dead person and a 13-year-old girl.

Down Beat

Total U.S. album sales, in millions of units



Note: Figures since 2003 include digital track sales, counting 10 tracks as one album

Source: Nielsen SoundScan

Instead, the Recording Industry Association of America said it plans to try an approach that relies on the cooperation of Internet-service providers. The trade group said it has hashed out preliminary agreements with major ISPs under which it will send an email to the provider when it finds a provider's customers making music available online for others to take.

Depending on the agreement, the ISP will either forward the note to customers, or alert customers that they appear to be uploading music illegally, and ask them to stop. If the customers continue the file-sharing, they will get one or two more emails, perhaps accompanied by slower service from the provider. Finally, the ISP may cut off their access altogether.

The RIAA said it has agreements in principle with some ISPs, but declined to say which ones. But ISPs, which are increasingly cutting content deals of their own with entertainment companies, may have more incentive to work with the music labels now than in previous years.

The new approach dispenses with one of the most contentious parts of the lawsuit strategy, which involved filing lawsuits requiring ISPs to disclose the identities of file sharers. Under the new strategy, the RIAA would forward its emails to the ISPs without demanding to know the customers' identity.

Though the industry group is reserving the right to sue people who are particularly heavy file sharers, or who ignore repeated warnings, it expects its lawsuits to decline to a trickle. The group stopped filing mass lawsuits early this fall.

It isn't clear that the new strategy will work or how effective the collaboration with the ISPs will be. "There isn't any silver-bullet anti-piracy solution," said Eric Garland, president of BigChampagne LLC, a piracy consulting company.

Mr. Garland said he likes the idea of a solution that works more with consumers. In the years since the RIAA began its mass legal action, "It has become abundantly clear that the carrot is far more important than the stick." Indeed, many in the music industry felt the lawsuits had outlived their usefulness.

"I'd give them credit for stopping what they've already been doing because it's been so destructive," said Brian Toder, who represents a Minnesota mother involved in a high-profile file-sharing case. But his client isn't off the hook. The RIAA said it plans to continue with outstanding lawsuits.

Over the summer, New York State Attorney General Andrew Cuomo began brokering an agreement between the recording industry and the ISPs that would address both sides' piracy concerns. "We wanted to end the litigation," said Steven Cohen, Mr. Cuomo's chief of staff. "It's not helpful."

As the RIAA worked to cut deals with individual ISPs, Mr. Cuomo's office started working on a broader plan under which major ISPs would agree to work to prevent illegal file-sharing.

The RIAA believes the new strategy will reach more people, which itself is a deterrent. "Part of the issue with infringement is for people to be aware that their actions are not anonymous," said Mitch Bainwol, the group's chairman.

Mr. Bainwol said that while he thought the litigation had been effective in some regards, new methods were now available to the industry. "Over the course of five years, the marketplace has changed," he said in an interview. Litigation, he said, was successful in raising the public's awareness that file-sharing is illegal, but now he wants to try a strategy he thinks could prove more successful.

"We've said lots of times that stealing music is wrong," says Douglas Merrill, president of digital business at No. 4 music company EMI Group Ltd. "But we really need to listen to our fans as well about how they want to listen to music. And it's pretty clear that our fans are following lots of different strategies for listening to music including p2p. And we need to make sure our fans are paying our artists for their music."

Citing data from consulting firm NPD Group Inc., the industry says the percentage of Internet users who download music over the Internet has remained fairly constant, hovering around 19% over the past few years. However, the volume of music files shared over the Internet has grown steadily.

Meanwhile, music sales continue to fall. In 2003, the industry sold 656 million albums. In 2007, the number fell to 500 million CDs and digital albums, plus 844 million paid individual song downloads—hardly enough to make up the decline in album sales.

—Amol Sharma contributed to this article.

Warner pulls YouTube videos in licensing flap

By Ethan Smith
and Jessica E. Vascellaro

Warner Music Group Corp. said it began removing its songs and videos from **Google** Inc.'s YouTube videosharing site this weekend, after the two sides failed to renegotiate a licensing deal. For now, however, the decision doesn't appear likely to escalate into a broader battle between YouTube and the music industry, as people close to the other major labels said they didn't anticipate taking down their content in the immediate future.

Still, the dispute reflects frustration within media companies over how much ad revenue their deals with YouTube generate.

Warner, like two of the three other major-label groups, **Vivendi** SA's Universal Music Group and **Sony** Corp.'s Sony BMG Music Entertainment, licensed its recording and music-publishing catalogs to YouTube shortly before the site's acquisition by Google in 2006. **EMI Group** Ltd. reached its own deal in 2007. In exchange for the use of their music videos and songs, the companies are paid a share of revenue generated by ads displayed alongside both their content and user-generated content that contains their music.

Warner executives have privately expressed frustration with the amount of money they receive from YouTube, saying the site's payment levels are below those of competitors like **Time Warner** Inc.'s AOL or **News Corp.**'s MySpace. (News Corp. also owns Dow Jones, publisher of The Wall Street Journal.)

Like Warner, Universal and Sony BMG are both renegotiating their YouTube licenses, which are up for renewal in the next few months.

While Warner says it removed the content on its own, a statement from YouTube implied that the Web site, not the record label, may have made the decision to remove the content from YouTube.

The dispute suggests that YouTube still isn't generating revenue as fast as some media companies would like. YouTube depends on agreements with these media companies to avoid copyright-infringement lawsuits and to draw professionally produced content to the site, which in turn helps attract users and advertisers. YouTube gives the majority of the ad revenue covered by these deals to the companies that own the rights to the content, people familiar with the matter say, although the splits vary.

Analysts estimate YouTube in 2008 will generate revenue of $200 million or less, from selling advertising displayed alongside videos; Google doesn't break out those figures.

Google has made selling more advertising on YouTube one of its priorities this year, and has in recent months launched a number of new ways to advertise on the site. A YouTube spokesman said in an interview Saturday that the new offerings were "starting to show results."

In the wake of Warner's move, people close to the other major labels said they didn't anticipate taking down their content in the immediate future. These people say they are discussing new, more lucrative ways to do business with YouTube. The four music companies don't necessarily have the same terms with YouTube, which could explain the discrepancy in their stances toward the site.

It similarly isn't clear whether other media companies will follow in Warner's footsteps. A number of them, including **CBS** Corp., have recently broadened their partnerships with YouTube, suggesting they are pleased with the results. YouTube has struck a number of similar pacts with a range of companies, including movie studios.

Warner's record labels, including Atlantic Records and Warner Bros., have 21% of the U.S. recorded music market, and distribute current and classic artists including Led Zeppelin, Linkin Park and Aretha Franklin. Its Warner/Chappell division is the third-largest music publisher in the U.S. A Warner spokesman said in a statement: "We are working actively to find a resolution with YouTube that would enable the return of our artists' content to the site." A posting on YouTube's company blog said: "Sometimes, if we can't reach acceptable business terms, we must part ways with successful partners."

MetLife embraces rules giving firm added flexibility

By Leslie Scism

Thanks to an effort by New York regulators to give life insurers more flexibility in calculating their reserves, **MetLife** Inc. said earlier this month it expects to reduce by about $1.8 billion, or more than 30%, the amount it must post to show it can deliver on guarantees in minimum-return variable annuities.

Meanwhile, the National Association of Insurance Commissioners, a group of U.S. state insurance regulators, continues to assess reserve and capital changes proposed in November by a major trade group that could ease requirements for various insurance products.

Reserve levels and capital cushions of publicly traded variable-annuity sellers have been under a microscope in recent months as analysts and stock investors have feared that regulatory requirements would prompt a round of capital raising on punishing terms.

The requirements kick in as a result of this year's stock-market crash, which ultimately puts the insurers on the hook to make good on guarantees sold to millions of consumers if markets don't rebound. Insurers are seeking changes for the financial statements they must file for this year.

Some consumers, their advocates and academics are alarmed about potential loosening of protections, with attention focused on the relatively high-profile effort at the NAIC.

The move this month in New York shows that state regulators have their own levers to pull that affect companies with life-insurance units based in their states. Under the system of state insurance regulation, insurance departments rely heavily on the NAIC's expertise in solvency matters to guide them in setting rules. But they aren't bound by the NAIC's moves.

David Neustadt, a spokesman for New York's insurance department, says officials agreed to accommodate trade groups that wanted to make it easier for insurers to take advantage of an existing methodology that the groups believe will reduce the reserve requirements for some companies.

The alternate methodology officials are blessing is available only to insurers that demonstrate to regulators they have strong hedging programs and other resources in place, he said.

MetLife's finance chief, William Wheeler, dubbed New York's regulation "the most conservative statutory reserving methodology that any regulator has created in this country" and said the alternate methodology the company intends to use remains "a little more conservative" than what the NAIC currently recommends that states use as of 2009. Mr. Wheeler's comments were made Dec. 8.

MetLife, the nation's biggest life insurer by assets, has "a lot of extra cushion" to protect customers and shareholders, far in excess of what is required for its elite double-A financial-strength rating, and it also uses financial hedges and reinsurance, Mr. Wheeler said on the call. The insurer would have ample capital even if the state's other methodology were used, the company said.

On Wednesday, the NAIC posted assessments on its Web site by actuaries and other technical experts of proposals from the American Council of Life Insurers and invited additional public comment.

ABB to take big provision

Swiss company sets $850 million charge amid investigations

By Hans Schoemaker

Reuters

Engineering company ABB is under investigation in the U.S. for alleged bribery and in the European Union for alleged anticompetitive practices.

ZURICH—Swiss engineering company **ABB** Ltd. said it would book provisions of about $850 million in the fourth quarter. The money set aside is primarily related to allegations by various government authorities of corruption in the U.S. and the European Union.

It said the provisions also included funds set aside for a pending tax dispute, as well as asset write-downs and restructuring charges due to the weaker business environment. It didn't give further details about the tax dispute.

ABB is under investigation in the U.S. for alleged bribery and in the EU for alleged anticompetitive practices.

In April 2005, the company disclosed to the U.S. Justice Department and the Securities and Exchange Commission that it had found evidence of potentially suspicious payments at its network management unit in the U.S. It later disclosed more suspicious payments made by other subsidiaries in the Middle East, Asia, South America and Europe.

The alleged payments may be in violation of the Foreign Corrupt Practices Act or other applicable laws, according to a filing ABB made last year.

In a separate probe, the European Commission, the European Union's executive arm, said last week it had charged several makers of electricity-generation equipment with running a cartel. ABB confirmed it was charged, as did **Siemens** AG of Germany, **Areva** SA of France and **Toshiba** Corp. of Japan.

An ABB spokesman said the majority of the provisions to be booked in the fourth quarter tie in with the legal compliance cases, but declined to give details.

Meanwhile, in a move to cope with the economic downturn, ABB said it is launching a cost-cutting program to reduce its cost base by over $1 billion. It didn't flag job cuts, but said cost reductions will be achieved mainly through sourcing and moving production to lower-wage countries. ABB said more details on the program will be given in February when it reports full-year earnings.

"Given the uncertainty surrounding the global economy, we must be sensible and prudent from an early stage and ensure that ABB's cost base is in line with weaker market conditions," Chief Executive Joe Hogan said.

"This is not about job cuts or shortening working hours," the company spokesman added.

ABB remains confident it will meet its 2008 revenue growth targets of 15% to 20% in power and in excess of 10% in automation, when expressed in local currencies.

Still, the company said its order intake in October and November reflected weakening market conditions.

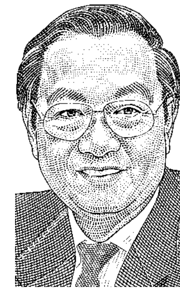
ABB said its operational performance was broadly at the level of the first nine months of 2008, but "the volatility of major commodity prices and exchange rates in the current quarter is again expected to have a negative impact on earnings before interest and tax ... due to the mark-to-market treatment of hedging transactions."

Chinese carriers to invest $40 billion in 3G services

By Loretta Chao

BEIJING—China's wireless carriers will invest $40 billion in advanced third-generation networks over the next two years, a top official said, in what could be a boost for China's domestic telecommunication-equipment industry.

China, the world's largest mobile phone market by number of subscribers, is one of the last major telecom markets to adopt third-generation technology, which has higher data-transmission speeds that enable wireless video and other fancy services. Earlier this month, the government said it would award 3G licenses to its carriers by the beginning of 2009, ending a years-long wait by equipment makers. Speaking Friday, Li Yizhong, minister of industry and information technology, predicted at an industry conference that China will spend 280 billion yuan, or about $40 billion, on 3G networks over the next two years.



Li Yizhong

However, Mr. Li also said that the government would provide "strong support" to China's homegrown 3G technology, known as TD-SCDMA, which is being adopted by China's largest carrier, **China Mobile** Ltd. The other two global 3G standards, WCDMA and CDMA2000, were developed overseas. That statement reinforces expectations that a greater share of sales for the new 3G networks will go to domestic companies than in the past. Analysts say spending is likely to benefit Chinese telecom equipment makers **ZTE** Corp. and **Huawei Technologies** Co., who are the leading suppliers of network equipment to the carriers.

BDA China Ltd., a Beijing-based technology consulting firm, says non-Chinese vendors may struggle to benefit from China's 3G spending. **Telefon AB L.M. Ericsson**, **Alcatel-Lucent** SA and **Nokia Siemens Networks'** total shares together are expected to amount to less than 50% of total spending, BDA says.

Mr. Li's announcement comes as mobile-phone sales are also expected to drop world-wide in 2009, as the global economic decline crimps consumer spending. Research firm Gartner Inc. said last month that global handset sales in the third quarter rose just 6% from a year earlier, compared with 16% in the third quarter of 2007, as fewer consumers purchased replacement models.

Mr. Li said total revenue in China's telecom industry in the first 11 months of 2008 rose 7.6%, but that targets for 2009 have been pared down.

—Kersten Zhang contributed to this article.

Investment bank Natixis to reduce work force by 15%

A WSJ News Roundup

PARIS—French investment bank **Natixis** SA said Friday it plans to shed 840 jobs, or 15% of its work force, in what it called a "radical" transformation aimed at stemming losses and reducing risk.

The cuts, which will reduce total head count at the corporate and investment bank to 4,860 by the end of next year, represent 40% of staff in its more complex capital-markets activities, said Natixis.

The bank is also halting most of its capital-markets activities in Asia and equity-derivatives trading in the U.S., running down and then removing from its balance sheet €19 billion ($26 billion) of risky assets.

In all, Natixis is cutting operations that would have brought in about €400 million in revenue next year, said spokeswoman Victoria Eideliman. Last year, its investment-banking revenue fell by nearly half to €1.83 billion, largely because of write-downs from the financial crisis.

Natixis said the cuts would put it "in a position to adapt to the new economic environment resulting from the subprime crisis and the collapse of Lehman Brothers," and would help it achieve its 2009 goal of "reducing sources of losses as soon as possible."

Investors reacted positively to the news. In Paris trading, shares in Natixis were up 4.1% at €1.32. However, the stock has shed around 85% of its value since the beginning of the year.

"It was what they had to do, so there are no surprises in today's announcement," Kepler analyst Pierre Flabbée said about the cuts. "But it's perhaps taken the bank a bit long to get here."

Natixis has been battered by multiple headwinds in 2008, notably its exposure to toxic assets, which forced it into a €3.7 billion rights issue. Last month , the bank posted a third-quarter net loss of €234 million, compared with a net profit of €437 million a year earlier.

French savings banks Banque Fédérale des Banques Populaires and Caisse Nationale des Caisses d'Epargne together own around 70% of Natixis and have repeatedly denied reports that they would delist the investment bank.

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CORPORATE NEWS

U.S. auto bailout caps flawed relationship

Detroit's close ties to Washington fueled Big Three's troubles

By Mike Spector
And Joseph B. White

The news of the once-mighty Big Three auto makers getting a financial lifeline from the federal government is a fitting climax to the long and rocky relationship between Detroit and Washington.

Detroit's car makers helped America win World War II by churning out tanks and planes. They then powered the rise of the blue-collar middle class. More recently, **General Motors** Corp. helped jump-start the U.S. economy after the Sept. 11, 2001, attacks by promoting zero-interest financing on cars and trucks—though that move artificially boosted sales, which forestalled painful restructuring moves and left executives unprepared when market conditions contracted.

Over the years, Detroit's auto makers also irritated powerful Washington constituencies by fighting efforts to boost fuel efficiency and vehicle safety, and resisting calls to do more about climate change.

Now, the companies may have no choice but to focus on smaller, more fuel-efficient cars and alternatives to gasoline-fueled motors, as a condition of their rescue by Washington. President-elect Barack Obama, whose administration will pass judgment on GM and **Chrysler** LLC's restructuring plans, shot a warning at Detroit's management on Friday following the announcement of President George W. Bush's rescue plan.

"I do want to emphasize to the Big Three auto makers and their executives that the American people's patience is running out, and that they should seize on this opportunity over the next several weeks and months to come up with a plan that is sustainable," Mr. Obama said. Mr. Obama has long been a supporter of shifting Detroit's emphasis toward alternative fuels and more efficient technology.

Associated Press

William Clay Ford Jr. introduced his company's P2000 Prodigy Hybrid Electric Vehicle in 2000. Washington's policies often worked against the changes auto makers needed to make to compete with foreign car companies.

How Detroit's auto makers will be able to stabilize financially in the short run is unclear, since it takes years to redo their product lines. The fastest way to profitability for the Detroit Three, beyond giving haircuts to bondholders and slashing workers wages, would be to take advantage of falling gas prices to sell more of the gas-hungry sport-utility vehicles and large pickup trucks that Mr. Obama and congressional Democrats don't like.

The public ups and downs overshadow a more complex interdependence that has contributed to the troubles now faced by GM, Chrysler and **Ford Motor** Co.

The Detroit Three's post World War II business strategies—which relied on large, powerful cars built by richly paid union workers—were doomed from the day in 1982 when the first Honda Accord rolled off a nonunion assembly line in Ohio. Since then, in good years and bad, the companies missed opportunities to overhaul themselves.

Washington's policies, and the way the government exerted regulatory control over the auto makers, often worked against the profound changes the companies needed to make to compete with foreign makers.

Consider GM Chief Executive Rick Wagoner's concession in recent congressional testimony that GM has "made mistakes," and that one of them was relying for too long on sales of comparatively gas-thirsty pickup trucks and sport-utility vehicles.

Up until this year, Detroit had few reasons not to lean on trucks and SUVs for profits—and government policy all but invited them to do so. Since the 1980s, Washington's de facto energy policy has been to keep gasoline prices, and gasoline taxes, low. By contrast, European nations for years have boosted fuel prices to around $6 a gallon through taxes, which pushed consumers toward small cars.

The result: U.S. consumers gravitated toward ever larger and more powerful vehicles because the costs to fuel them were relatively low. In 1987, the average American vehicle got 22 miles to the gallon, weighed 3,221 pounds and accelerated from 0 to 60 miles per hour in 13.1 seconds. By 2007, the average car weighed 4,144 pounds, accelerated to 60 miles per hour in under 10 seconds—and averaged 20 miles per gallon.

Federal fuel-economy rules allow car makers to average the fuel usage of most of their products. They could sell fuel-efficient small cars and trucks at little or no profit to make up for the high-profit, gas-hungry luxury cars and big SUVs they promoted.

Federal tariffs imposed on imported trucks and other quirks in Washington's fuel-economy regulatory scheme also encouraged U.S. auto executives to push trucks and SUVs.

In recent years, GM, Ford and Chrysler made money on trucks—with profits of as much as $8,000 a vehicle—and lost money on cars. Detroit made enough money to forestall painful reckonings with spiraling health-care and pension costs.

Federal rules caused Detroit "to cede the car market and make all their money in trucks," said Mike Jackson, chief executive of **AutoNation** Inc., the nation's largest dealership chain. "If they had been forced to compete up front much sooner, they would not have become overdependent on trucks."

Some in Detroit had misgivings about a strategy that relied on relatively inefficient vehicles. In late 2000, Ford Chairman William C. Ford Jr., great-grandson of automotive pioneer Henry Ford, addressed top executives at the company's product-development center. The topic: Why Ford should invest in hybrids and other fuel-efficient technology to prepare for an era of high oil prices.

Mr. Ford opened the floor for questions, and received just one from the cadre of executives, according to a person who attended the meeting: How could Mr. Ford justify spending billions on unproven technology amid healthy profits in trucks, SUVs and new, powerful luxury brands? Japan's **Toyota Motor** Corp. and **Honda Motor** Co. had hybrids on the road, but gas prices were only about $1.50 a gallon and Ford has just posted a profit of more than $7 billion in 1999. The group chuckled.

Mr. Ford briefly reiterated his vision and, after a long silence, left the room.

A Ford spokesman wouldn't confirm the meeting and declined to comment further.

Now, Ford's current chief executive, Alan Mulally, is aggressively trying to shift Ford's lineup toward smaller, fuel-efficient cars, despite the recent slump in pump prices.

"We adopted a point of view that fundamental demand for fuel would outstrip capacity," pushing gas prices up long term, Mr. Mulally said in a recent interview. Unlike GM and Chrysler, Ford said it doesn't need immediate government aid.

Exxon delays plant's opening

By Russell Gold

Recently uncovered hurricane-related damage at **Exxon Mobil** Corp.'s $1 billion natural-gas import terminal under construction in southeast Texas will postpone the facility's scheduled start-up next year.

The delay will keep a large amount of gas off the market longer and deprive Exxon and its partners of revenue at a time when plunging commodity prices are putting pressure on energy producers.

The liquefied natural gas, or LNG, facility near the Texas-Louisiana border was inundated by seawater during Hurricane Ike in September, and assessing the damage has taken months. People briefed on the matter confirmed the scheduled mid-2009 commissioning of the terminal will be delayed.

Exxon spokeswoman Kimberly Brasington declined to provide any estimate of costs or when the facility would be ready for business. "Our assessment of the hurricane impact is under way and includes evaluation of timetable and costs. It would be premature to speculate on the outcome of the ongoing assessment work," she said.

Exxon Mobil is building the Golden Pass LNG terminal to take shipments from Qatar, a Middle Eastern nation that is one of the world's largest suppliers of natural gas and a business partner of Exxon, of Irving, Texas. State-run **Qatar Petroleum** will own 70% of the terminal, with Exxon owning 17.6% and **ConocoPhillips** the remaining 12.4%.

The setback for Exxon's terminal project comes at a critical juncture. Oil and natural-gas prices have sunk to their lowest level in years, and energy companies are trying to avoid additional costs in this difficult economic environment. Friday, natural gas for January delivery fell 21.4 cents, or 3.9%, to $5.334 a million British thermal units, down 29% this year.

Natural-gas demand and prices have fallen this year, so the additional imported gas likely would have added to oversupplies next year and helped push prices down further.

The terminal will be the third-largest U.S. LNG import facility and be capable of adding about two billion cubic feet of gas daily, or about 3% of current consumption.

The impact of the September storm underscores the vulnerability of the energy infrastructure along the U.S. Gulf Coast to hurricanes.

Exxon previously had said it sustained "some hurricane impacts," but hasn't disclosed the extent of the seawater damage.

ConocoPhillips declined to comment. Qatar Petroleum couldn't be reached.

Lender CBA defends stance on its bad-debt disclosures

By Lyndal McFarland

MELBOURNE—**Commonwealth Bank of Australia** Ltd. defended its decision not to disclose its bad-debt outlook to shareholders before going ahead with a share placement, saying it didn't consider a forecast for a rise in loan impairments to be material.

But the Australian Securities Exchange still is "taking a close look" at the Sydney bank's disclosure of the news, a spokesman for the exchange said.

The bank said Tuesday that it expects 0.6% of its total loans to be impaired in the year ending June 30, which comes to about 2.5 billion Australian dollars, or US$1.7 billion. It had previously said that 0.4% to 0.5%, or about A$1.7 billion to A$2.1 billion, of loans were likely to be impaired.

But neither the bank nor its adviser, **Merrill Lynch** & Co., told investors—which had just hours earlier signed up to buy A$1.65 billion of shares in a placement—of the deteriorating loan position.

CBA was forced to scrap that placement and Wednesday dumped Merrill Lynch, blaming the broker for failing to tell investors of the higher impairments as set out under the agreement between the two. Merrill disputes CBA's version of events. CBA then hired **UBS** AG to sell shares.

CBA said it first became aware last Tuesday that 0.6% of loans could be impaired, but didn't make the information public as it didn't view the information as material to its outlook. The lender said the estimate was made in the context of continuing uncertainty in the economic environment and noted that its exposure to various distressed companies—including **ABC Learning Centres** Ltd., **Allco Finance Group** Ltd., **Babcock & Brown** Ltd. and **Centro Properties Group**—are known to the market.

Under Australian listing rules, companies are required to disclose material information to the exchange as soon as they become aware of the situation.

CORPORATE NEWS

Caterpillar cuts 800 jobs

U.S. manufacturer of heavy equipment reports 6% sales drop

By Ilan Brat

Caterpillar Inc. will cut more than 800 workers at a plant in Illinois that makes small engines for construction machinery and for trucks that haul freight and other goods, the U.S. company said.

The indefinite layoffs, scheduled to start in February, mark the first time the company has cut full-time workers on a large scale and for an indefinite period since early this decade. The news is the latest sign of strain at the Peoria, Ill., maker of engines and earth-moving machinery as mining companies, truck makers, housing builders and others slash spending globally.

"These decisions are never easy," said Gary Stroup, Caterpillar vice president with responsibility for the Large Power Systems divisions. The laid-off workers are members of the United Auto Workers union and work in Mossville, Ill.

The company said Thursday that sales of its machinery through dealers world-wide fell 6% in the three months through November, compared with a year earlier, reflecting a sharp slowdown in growth in Latin America and Asia.

The job cuts come as the company has been laying off workers hired through employment agencies and idling workers temporarily at several plants around the world. It also follows an announcement by the company in June that it would soon move engine production from the Mossville plant to a new facility and shift other production into the nearly two million-square-foot facility. A spokesman for the company said Caterpillar hasn't decided what will be made in Mossville. The 814 job cuts represent more than half of Caterpillar's production work force in Mossville.

Starting in 2003, Caterpillar's work force and annual revenue began to surge amid a boom in commodities, housing and infrastructure development. As the housing crisis hit the company in North America, sales for mining and other large projects, as well as sales to markets outside the U.S., helped to boost profit and sales.

Also on Thursday, Texas Gov. Rick Perry said Caterpillar would build a manufacturing facility near San Antonio, creating more than 1,400 jobs. The facility will build midsize engines and house some paint and testing operations. Caterpillar will receive some subsidies from Texas for building the plant.

Electronic Arts to pare publishing facilities

By Yukari Iwatani Kane

Electronic Arts Inc. plans to cut more jobs and consolidate or close at least nine of its game-development and publishing facilities.

The publisher of Madden football and other popular titles said it will cut a total of 1,000 jobs, or 10% of its work force. This includes job cuts that the Redwood City, Calif., company announced in October.

EA, which has more than 50 facilities, didn't name all of the studios it plans to eliminate. EA expects to save about $120 million annually from cost-cutting measures.

"EA is implementing a plan to narrow its product portfolio to focus on hit games with higher margin opportunities," the company said.

Though the videogame industry has long been considered relatively insulated from economic turmoil because games provide inexpensive entertainment, the recession has made retailers selective about the games they stock.

In November, only one of EA's games, a survival horror game called Left 4 Dead, was a top-10 seller in the U.S., according to market-research firm NPD Group. That game still sold far less than blockbusters such as **Microsoft** Corp.'s Gears of War 2 and **Activision Blizzard** Inc.'s Call of Duty: World at War.

EA's development costs are among the industry's highest. The company warned this month that it will miss its financial forecasts for the fiscal year through March.

LG Electronics plans to focus on businesses

By SungHa Park

SEOUL—**LG Electronics** Inc. reorganized its operations to place more emphasis on appliances sold to businesses, and shuffled its top management.

LG Electronics, South Korea's second-largest electronics company after **Samsung Electronics** Co., said next month it will rearrange its business groups into five units, from four. A new unit will focus on products sold to other businesses, such as commercial monitors and television sets for hotels.

LG also created a unit dedicated to air-conditioners for commercial and residential customers. The other business units are home entertainment, home appliances and mobile communications.

LG named Simon Kang, 54 years old, as president and chief executive of the home entertainment business, which will focus on TV sets, plasma-display-panel modules, and audio-video products. He was formerly executive vice president and CEO of the digital-display unit.

Skott Ahn, 51, former executive vice president and CEO of the mobile-communications unit, was promoted to president and CEO of the unit.

Nho Hwan-yong, 52, will run the new air-conditioning unit.

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CORPORATE NEWS

Electronics sector on sale

Discounted offer to buy Sanyo shows industry's troubles

By Daisuke Wakabayashi

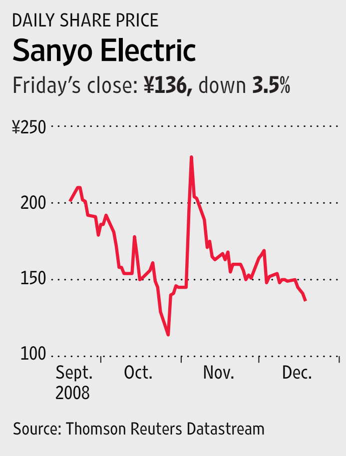
TOKYO—**Panasonic** Corp.'s decision to launch a tender offer for a majority stake in **Sanyo Electric** Co. at a discounted price highlights the electronics industry's increasingly bleak prospects.

The move, which values the company at $9.1 billion, follows agreement by three major Sanyo shareholders representing 70.5% of its voting stock to sell their shares at a price below the company's current price.

Panasonic said it will commence a tender offer by the end of February for Sanyo shares at 131 yen ($1.47) each, a 3.7% discount to Sanyo's Friday closing price of 136 yen. Panasonic plans to issue as many as to 400 billion yen in debt starting next year to finance part of the acquisition.

Panasonic is targeting Sanyo's promising battery and solar-energy businesses. But while the two companies would create an electronics company with $126 billion in annual revenue, there will be significant overlap in home appliances, television sets and digital cameras.

The deal comes at a time when Panasonic is facing significant challenges. A global consumer-spending slowdown has hurt sales of TV sets and other electronics, while a strong yen has cut into already-sluggish overseas revenue.



Our management is not just about today," said Panasonic President Fumio Ohtsubo. "We are looking ahead to next year and the year after and we see the alliance with Sanyo as a growth engine."

Panasonic said Friday that it aims for operating profit at the two companies to increase by 80 billion yen in the fiscal year ending March 2013 as a result of the deal. It expects to recoup the investment in Sanyo in five to seven years.

For Panasonic, the deal comes down to Sanyo's green-technology products. Sanyo, the world's largest producer of rechargeable batteries for laptop computers, digital cameras and mobile phones, is well-positioned to capitalize on the auto industry's shift to hybrid and electric cars.

Sanyo is also the world's seventh-largest solar-panel manufacturer. By combining Panasonic's strong finances and manufacturing prowess with Sanyo's solar-cell technology, the two companies could become a major competitor in the rapidly growing solar-panel industry.

The two companies have a long and intertwined history. Sanyo founder Toshio Iue, the brother-in-law of Panasonic founder Konosuke Matsushita, started the company to build bicycle lamps using an idle Panasonic factory.

Sanyo's consumer-television and home-appliances division, the business with the most overlap with Panasonic, posted a loss in the first half of its fiscal year ending in March. Mr. Ohtsubo said he would be willing to eliminate certain businesses that aren't complementary.

The announcement of a tender offer came after several weeks of negotiations between Panasonic and Sanyo's three major shareholders: **Goldman Sachs** Group Inc., **Sumitomo Mitsui Banking** Corp. and **Daiwa Securities SMBC** Co.

Goldman rejected Panasonic's first two offers, including a second offer of 130 yen per share earlier this month. Goldman eventually agreed to an offer that was just a yen per share more. It was concerned that deteriorating market conditions could push Sanyo's price lower, said a person familiar with the matter.

Goldman and Daiwa each would own a 29% stake in Sanyo, while Sumitomo Mitsui would own 11.6%, if the companies convert all of their Sanyo preference shares into ordinary shares.

—Alison Tudor contributed to this article.

Wal-Mart bids for Chilean chain

By Miguel Bustillo

Wal-Mart Stores Inc. offered to buy a major Chilean retail chain in a move that would make the American company Chile's largest grocer and further Wal-Mart's international ambitions.

Wal-Mart said Friday it will make a cash tender offer to acquire all outstanding common shares of **Distribución y Servicio D&S** SA for 41 cents a share, a 33% premium to where D&S stock closed Thursday before rumors of a deal caused an 8% rise in the company's stock and a halt in trading. D&S shares trade on the Santiago Stock Exchange in Chile and as American depositary shares on the New York Stock Exchange.

At 41 cents a share, Wal-Mart would pay $2.8 billion if all D&S shares were tendered, though that isn't likely. Wal-Mart, based in Bentonville, Ark., said it will cancel the offer if the company fails to acquire at least 50.01% of D&S's stock. The tender offer is set to begin Tuesday.

D&S's controlling shareholder, the Ibáñez family, has agreed to tender at least 23% of its D&S shares. The family plans to enter into an agreement with Wal-Mart in which the chain would operate with its current management, workers and store brands.

Santiago-based D&S is Chile's largest grocery chain, with more than 140 locations. It posted net income of 52.7 billion pesos ($82.9 million) last year, up 24% from 2006.

People familiar with the deal said the company's various supermarket formats and a credit-card business fit Wal-Mart's strategy of buying established national companies to quickly gain market share, a plan it has executed in Brazil, Japan and China. Wal-Mart said the offer most resembled its acquisition of a majority stake in the Central American Retail Holding Co. from Guatemala's Paiz family earlier this decade, which eventually turned Wal-Mart into Central America's largest retailer.

Wal-Mart, which declared this autumn that international growth will command most of its capital spending over the next five years, long has been sizing up strategies to enter Chile, where Wal-Mart currently has no stores. The country has one of the healthiest economies in Latin America and is expected to continue expanding this year despite the global economic downturn.

U.S. agency deals setback to J&J drug

By Shirley S. Wang

The U.S. Food and Drug Administration declined Friday to approve **Johnson & Johnson**'s ustekinumab psoriasis drug because the agency wants additional information on the company's plan for informing physicians and patients about potential risks.

Regulators didn't ask for more clinical data, which could have meant a delay until possibly lengthy testing was performed. Instead, the agency requested that J&J establish a medication guide and "communications plan" to explain risks and benefits of the medication. The company must also provide details on how it will assess the effectiveness of its communication strategies.

J&J, based in New Brunswick, N.J., said components of the plan could include sending physicians so-called Dear Doctor letters, distributing brochures and providing risk language on the drug's label. Such details are currently being discussed with the FDA.

"We are confident that we can expeditiously address" the FDA's questions, Jerome Boscia, a clinical-research and development executive at Centocor, the J&J subsidiary that would make the medicine, said in a statement. "We anticipate responding to the FDA in January 2009," he said.

Psoriasis, an immune-system-related skin condition, affects more than 17 million people in the U.S. and Europe. Three of the four treatments on the market for it and related inflammatory diseases produce annual sales of $1 billion or more. Ustekinumab peak sales could grow to $500 million or more, Cowen & Co. analyst Sara Michelmore estimated in a research note.

Ustekinumab is the first anti-inflammatory medication to work by inhibiting a type of protein called interleukin.

GLOBAL BUSINESS BRIEFS

Actelion Ltd.

EU panel supports drug's use to treat rare gene defect

Swiss pharmaceutical company **Actelion** Ltd. said Friday that a panel of the European Union drug regulator had backed its drug Zavesca to treat patients with a very rare gene defect. The panel recommends that Zavesca be approved for use in Niemann-Pick disease, a genetic disorder that leads to neurodegenerative symptoms. The regulator usually follows panel recommendations, although it isn't obliged to do so. Actelion already sells Zavesca to treat Gaucher's disease. The news is important to the 1,000 to 1,500 patients with the disease, said Andrew Weiss, analyst at Vontobel. Mr. Weiss expects Zavesca sales to reach between 50 million Swiss francs and 100 million francs, or about $45 million to $90 million.

Dassault Aviation SA

Alcatel-Lucent SA said Friday it has agreed to sell its remaining 2% stake in defense contractor **Thales** SA to plane maker **Dassault Aviation** SA for €1.57 billion ($2.19 billion). The telecommunications-equipment maker had been in talks with Dassault, the builder of Mirage and Rafale fighters, since last month. The deal still requires the approval of antitrust regulators and is expected to be completed in the spring, said Alcatel-Lucent. Dassault will pay €38 per Thales share, a big premium to the contractor's stock, which closed Friday at €29.14 in Paris. Thales's largest shareholder is the French state, which owns a 27% stake.Together, France and Dassault Aviation will control 53% of Thales's capital and 6% of its voting rights, the French Finance Ministry said.

UniCredit SpA

UniCredit SpA of Italy said Thursday that it expects to end 2008 with a net profit of €4 billion ($5.57 billion). UniCredit has been hit hard by the financial crisis because of the bank's exposure to foreign markets. The bank in October already had revised its full-year net-profit target downward to €5.2 billion from a previous €7 billion. UniCredit also said its board decided Thursday not to pursue the disposal of the bank's property fund as originally planned, citing adverse market conditions. It said it would look at a smaller deal. In October, UniCredit shareholders approved a €3 billion capital increase, part of a €6.6 billion capital-strengthening plan, aimed at boosting the bank's capital ratio to 6.7% in 2008.

RWE AG

Energy company **RWE** AG of Germany said Friday it would invest €2.8 billion ($3.9 billion) to build its first wind farm off the German North Sea island of Juist. Essen-based RWE said its renewable energy arm, RWE Innogy, had acquired the project company ENOVA Energieanlagen, part of Bunderhee-based **ENOVA**, which specializes in wind energy. RWE said the wind farm, Nordsee 1, would have a capacity of 960 megawatts—enough to supply electricity to 780,000 households every year. The company expects approvals in 2009 and plans to begin construction in 2010. The first turbines should start running in 2011. It is "the largest single project RWE has undertaken so far in the area of renewables," said Jürgen Grossman, RWE's chief executive.

Aer Lingus PLC

Irish carrier **Aer Lingus** PLC opened a new base at London's Gatwick airport on Friday and rejected criticism from suitor **Ryanair Holdings** PLC about its business forecasts in an increasingly hostile takeover battle. Aer Lingus Chief Executive Dermot Mannion said he rejected Ryanair's accusation that the carrier was making contradictory forecasts. Aer Lingus expects its financial performance to improve next year on a cost-cutting deal with unions and a falling oil price. It previously forecast an operating loss for next year and has not yet given specific forecasts for 2009. Ryanair said comments made by Aer Lingus following the launch of its takeover offer were much more upbeat than those made in Aer Lingus's Nov. 11 interim management statement.

Roche Holding AG

U.S. government health officials said Friday that a leading flu medicine, Tamiflu, might not work against all cases of the flu this year. The most common flu virus right now is overwhelmingly resistant to the **Roche Holding** AG drug, they said. If the trend continues, doctors may need to change how they treat patients this flu season, said Dr. Julie Gerberding, director of the U.S. Centers for Disease Control and Prevention. Early tests indicate that 49 of 50 samples of the main flu virus circulating this year—H1N1—were resistant to Tamiflu. Health officials said their concerns are lessened because it isn't clear this strain will dominate through the flu season. A Roche spokesmansaid it is too early to draw conclusions.

Teva Pharmaceuticals Inc.

The U.S. Federal Trade Commission on Friday approved **Teva Pharmaceutical Industries** Inc.'s acquisition of rival generic-drug maker **Barr Pharmaceuticals** Inc. but required the companies to divest assets in several generic drugs. The FTC said the companies must sell the rights to manufacture and market generic drugs that treat acid-reflux disease, bacterial infections, certain types of cancer, diabetes and depression. Those rights will be divided between **Watson Pharmaceuticals** Inc. and **Qualitest Pharmaceuticals.** Teva, based in Israel, and Barr, based in New Jersey, accepted the FTC's terms. The deal also received antitrust approval from the European Commission on Friday. The commission said the companies agreed to divest 15 cancer drugs in the Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia, and two other drugs in Poland.

Qimonda AG

Qimonda AG of Germany will get a cash infusion of €325 million, or about $450 million, from major stakeholders. Qimonda warned this month that it could run out of cash early next year if it failed to find an investor or strategic partner. Qimonda said Sunday it will get a €75 million loan from parent company **Infineon Technologies** AG, which has a 77.5% stake; a €150 million loan from the German state of Saxony, where Qimonda employs 3,200 employees in the city of Dresden; and a €100 million loan from an unnamed financial institution in Portugal. The company employs 1,800 in Porto, Portugal.

—Compiled from staff and wire service reports.

Democrats offer a reality check

Party that's about to control Washington lowers expectations of a quick economic turnaround

BY NAFTALI BENDAVID

WASHINGTON—Even as they depict a massive stimulus package as indispensable to turning the economy around, U.S. Democratic leaders are aggressively lowering expectations that the package will yield dramatic accomplishments quickly.

Rep. David Obey, who is playing a key role in assembling the stimulus plan, which is expected to approach $800 billion, said recently that an infusion of federal spending is "the only game in town." But the Wisconsin Democrat, who is chairman of the House Appropriations Committee, was careful to add: "The downward momentum appears too strong to end the recession anytime soon."

House Majority Leader Steny Hoyer's office said recently that "Congress needs to pass an economic recovery package to prevent any further decline in the economy"—but cautioned, "recovery will not be immediate."

The expectations game is always tricky in politics. To win power, candidates promise to enact sweeping change. But once victory is in hand, they often scramble to lower those expectations so they won't be perceived as falling short.

Democrats are facing an especially precarious version of that dilemma. In crafting a package that will sink hundreds of billions of taxpayer dollars into the economy, they are apprehensive about the fallout if the economy merely continues sputtering along for several years.

And lawmakers are already mindful of how they will face voters less than two years from now, in November 2010. The ruling party almost always loses seats in midterm elections, and that trend could be exacerbated for the Democrats if voters think they threw billions of dollars at the economy with little to show for it.

Associated Press

Democratic Wisconsin Rep. David Obey played down expectations that the stimulus plan he helped assemble will bring about a quick end to the recession.

"Elections are run in two-year cycles, and we're in an economic cycle that we can't turn around in two years," said Rep. Jerrold Nadler (D., N.Y.). "It's a political problem. But I don't know that there is a way out of it."

Mr. Obama, asked how voters will be able to judge whether his economic package is helping, said it would create at least some jobs immediately by funding "shovel ready" construction projects.

The Democrats could also get credit if they produce concrete results in areas such as providing mortgage relief or extending unemployment benefits, even if those aren't part of a broader economic recovery.

Still, the political challenge is daunting, given that economists expect this recession to last for years.

"The stimulus package will keep it from getting as bad as it would otherwise be, but that is very hard to measure," said Alice Rivlin, former director of the Congressional Budget Office, who addressed House Democrats last week. "All you can say is, 'It's probably not as bad as it would have been.' But that is very hard to prove."

That is why Democrats are trying to lower expectations now. "The only way to deal with it is to be upfront and say, 'It's not salvation. It will limit the damage. What's been built up for years won't be solved overnight,' " Rep. Nadler said.

Congressional leaders, conferring with Mr. Obama's team, are pushing to have the stimulus plan ready by early January. They hope the new Congress will pass it by Inauguration Day, Jan. 20, so Mr. Obama can sign it quickly.

One aspect of the Democrats' strategy is to stress that the recession was the Bush administration's fault, not theirs. "President Bush will leave behind a legacy of debt, transforming the biggest surpluses in history into the biggest deficits and affecting our ability to confront the current economic crisis," Rep. Hoyer's office said recently.

Democrats also have begun speaking of the long term, emphasizing that their goal isn't merely to end the current downturn but also to change society and strengthen the economy for generations.

That may be a difficult point to make politically. But Democrats hope that voters understand the severity of this recession and don't expect them to work miracles immediately.

They take some hope in that regard from the performance of President Franklin D. Roosevelt, to whom they are increasingly looking as a role model. Mr. Roosevelt didn't rapidly end the Great Depression, but voters supported him because he seemed to care so deeply, taking aggressive action and trying everything at his disposal.

"I think people know this is a serious recession, and they don't expect it to turn it around quickly," Ms. Rivlin said. The Democrats "don't have to produce a turnaround. But they have to produce action."

Clean-coal group banks on Obama to revive project

BY SIOBHAN HUGHES

WASHINGTON—Backers of a big "clean coal" project scuttled by the Bush administration are banking on President-elect Barack Obama to revive their venture, setting up a fight with the anti-coal wing of Mr. Obama's base.

The FutureGen Alliance, a coalition of utility companies and coal producers, is hoping to build the first commercial-scale project to capture and store emissions from coal-burning power plants. In one sign of its confidence, FutureGen Alliance, along with a development group for Coles County, Ill., recently bought a 400-acre site for $7 million. The coalition includes **American Electric Power** Co., **Consol Energy** Inc. and **Peabody Energy** Corp., which had originally agreed to contribute 26% of the cost, with the U.S. paying the rest.

The Bush administration pulled out of the project, to be based in Mattoon, Ill., in early 2008 after the project's costs almost doubled, to $1.8 billion, threatening to expose taxpayers to even higher costs in the future.

"There's been extensive reaching out to the Obama administration and I think we've gotten a strong reception," said Mike Mudd, chief executive of FutureGen Alliance. "We think it would be an excellent fit for a stimulus package."

A big supporter of putting FutureGen Alliance's project in Illinois is Sen. Dick Durbin (D., Ill.), an Obama ally who threatened to hold up the nomination of any new Bush appointees to the Department of Energy when the project was pulled.

The FutureGen Alliance is touting the carbon-capture-and-storage project as something that would create jobs immediately, a criteria that Mr. Obama has established for determining what to fund in a stimulus package.

Illinois estimates that the project could create 1,300 construction jobs and 150 permanent jobs. Over the four-year construction period, the project could create 1,225 other jobs in areas such as manufacturing, as parts are needed in order to begin construction.

Coal is a divisive issue within the coalition that lifted Mr. Obama to the White House. While cheap and abundant in the U.S., scientists say coal is a major source of the greenhouse gases linked to climate change. Government forecasters say that mandatory cuts in greenhouse gases, which Mr. Obama endorses, would force a decrease in U.S. coal use. Technology to take the carbon dioxide out of the exhaust from a coal-fired power plant could take 10 to 15 years to develop on a commercial scale, and even then would be costly.

Mr. Obama's choice for energy secretary, Nobel Prize winning physicist Steven Chu, called coal "my worst nightmare" in a 2007 speech. Mr. Chu said carbon capture technology is "not a guarantee that we have a solution." He emphasizes conservation, along with a greater reliance on renewable energy.

Environmental groups, which threw their weight behind Mr. Obama in the election, have also been coming out against coal. A coalition that includes the Sierra Club is running ads charging that "there's no such thing as clean coal."

Incoming U.S. cabinet shows split on trade

BY BOB DAVIS AND LAURA MECKLER

WASHINGTON—U.S. President-elect Barack Obama named former Dallas Mayor Ron Kirk, a longtime free trader, as U.S. trade representative, and Rep. Hilda Solis, a free-trade opponent, as labor secretary, Obama advisers said, reflecting the split in the incoming administration over trade.

During the presidential campaign, the only trade deal that the Obama camp spoke positively about was the proposed Doha global trade pact, which has been marked by failure to conclude a deal. Negotiators now have largely suspended work while they wait to see what position the new Obama administration will take. Many trade specialists figure that Mr. Obama, who views himself as an internationalist, will find a way to back trade liberalization.

By naming Mr. Kirk, Mr. Obama nodded to the free-trade wing of the Democratic Party, which is small but has important ties to business. As Dallas's first African-American mayor, between 1995 and 2001, Mr. Kirk promoted Dallas on trips overseas and extolled the benefits of the North American Free Trade Agreement.

Associated Press (2)

Rep. Hilda Solis, a free-trade opponent, and former Dallas Mayor Ron Kirk, a free-trade proponent, will offer dissenting views in the Obama administration.

In 2001, for instance, he championed plans to build a "Nafta Freeway" between the U.S. and Mexico to speed cross-border shipments. At the time, he called such a road a "true river of trade between our communities."

For Mr. Obama's labor allies, however, Nafta has become a symbol of job destruction, as cheap wages attracted U.S. manufacturers to set up operations across the border. During the presidential campaign, the unions won commitments from Mr. Obama to renegotiate Nafta to include labor and environmental provisions—if not pull out of the deal entirely—and to oppose pending trade deals with South Korea, Colombia and Panama.

The naming of Rep. Solis, of California, sends a reassuring message to anti-free-trade Democrats. First elected to Congress in 2000, she represents portions of East Los Angeles, including a large portion of the Hispanic community. She opposed the Central American Free Trade Agreement and rallied support for her position from Latino groups against the pact, which passed by a two-vote margin. Democratic former Rep. David Bonior of Michigan, who was a vociferous opponent of Nafta, said Rep. Solis "will be a great champion for working people." Mr. Obama's first choice for trade representative, Rep. Xavier Becerra, a California Democrat, said earlier this week that he wanted to remain in Congress.

Rep. Solis has served on the House Energy and Commerce Committee as well as the Education and the Workforce Committee. The daughter of naturalized citizens, Rep. Solis's father organized immigrants at a battery recycling plant in the San Gabriel Valley for the Teamsters Union. In the California Legislature, she championed "environmental justice" to stop the dumping of toxic waste in poor neighborhoods. On the trade issue, Mr. Obama has named another free trader, New Mexico Gov. Bill Richardson, as commerce secretary.

Trade-finance squeeze hurts the healthy

Drying credit keeps emerging Europe from leading recovery

By John Lyons

The global financial crisis is drying up the financing that firms depend on for trade. That is making the global recession nastier and deeper than it otherwise would be.

As with all kinds of credit these days, financial institutions are making less trade finance available and charging more for it. But the squeeze in trade stands out because it pinches otherwise healthy companies that should be driving a recovery in global commerce. Already, the World Bank predicts trade will contract next year for the first time since 1982.

THE OUTLOOK

With the U.S. and Japan already in recession, trade finance is shrinking fastest in the few regions with the potential to boost global growth: the emerging economies of Asia, Eastern Europe and Latin America. The World Bank forecasts that developing countries will grow 4.5% next year while rich countries contract by 0.1%, producing an overall 0.9% rise in the global economy.

Despite better growth prospects in developing countries, many lenders are pulling back drastically from these regions. The institutions are cutting exposure to economies traditionally perceived as more risky in order to patch up holes in their balance sheets. Other big players in trade finance, such as Wachovia Corp., have disappeared.

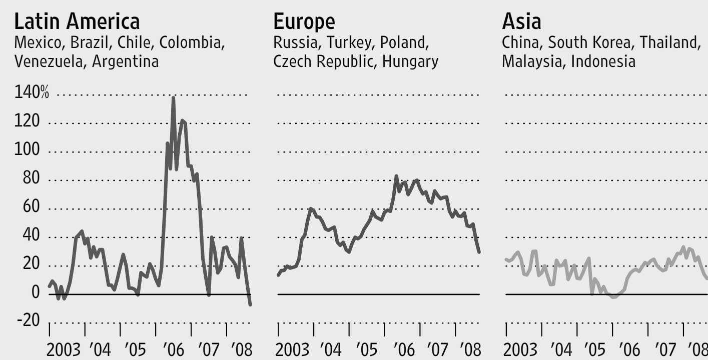
"For emerging markets, the deleveraging process is extensive, and dollar sources have dried up," says Hung Tran, an economist at the Institute of International Finance, a Washington association of international financial firms.

Dating back to ancient commercial hubs such as ninth-century Baghdad, trade finance is the collection of hard-currency credit lines, insurance policies and guarantees that allows firms in different countries to do business with each other. It's the oil that lubricates $14 trillion of global trade.

"The trade-finance business globally is under significant stress," says John Ahearn, the global head of trade finance at **Citigroup** Inc., one of the world's biggest trade-finance sources. Some repricing is expected as the globe readjusts from a period where credit flowed too freely. "We are coming out of an incredibly benign credit environment when trust levels were too high," says Stuart Nivison, head of trade and supply chain at **HSBC Holdings** PLC.

Even big lenders such as Citigroup and HSBC that have expanded international credit lines to some markets recently are hitting obstacles. A big part of these banks' business is setting up trade lines that are offloaded to smaller banks in a secondary market. These days, however, the smaller banks aren't buying.

Consider what's happening in Brazil, an emerging export power that sells the world everything from soy and beef to iron ore and jets. Brazilian companies need dollar-denominated credit to finance the sales. The cost of these credit lines—the bread and butter of trade finance—has soared, doubling in many cases. The phenomenon hits smaller firms the hardest: Some no longer qualify for the lines and others are squeezed out of shrinking market by credit-hungry giants like state oil company Petroleo Brasileiro SA.



But even Brazil's blue-chip companies are feeling the pinch. Executives at Brazilian jet maker Embraer, the world's fourth largest, are jetting to the Middle East and elsewhere to scare up new sources of credit, says Paulo Cesar de Souza e Silva, the company's senior vice president for finance.

At times, credit is available, but the higher cost of it exceeds the profit margins, so the deals collapse. That's especially the case in commodities transactions.

It is a frustrating scenario for executives who once thought they would be immune to the financial crisis. Herminio Freitas, the chief executive of Curitiba, Brazil-based **Providencia** SA, figured his company would emerge unscathed. Providencia exports materials used in disposable diapers. And people keep buying diapers, even in a crisis.

But the cost of dollar-denominated credit lines Mr. Freitas uses to finance exports has risen by 45%, enough to price him out of the credit market for now. Instead of paying such high premiums, Providencia is running through its own cash in hopes that borrowing costs decline early next year.

The government is pitching in. Brazil's massive development bank has increased lending for trade finance. And the central bank has deployed billions of dollars of reserves to help local banks provide dollar-denominated credit lines.

But sooner or later the local banks are going to reach their capacity for lending safely, says Sandro Kohler Marcondes, managing director for international business at Banco do Brasil, a state-owned bank that provides about a third of the available export credit lines in the country. "The market will require others to step back in, otherwise we are going to reach a credit crunch," Mr. Marcondes said.

In November, Pascal Lamy, head of the World Trade Organization, convened a meeting of senior government officials to discuss the problem. Some financing sources had frozen altogether, and after the private meeting, Mr. Lamy estimated that demand was outstripping supply by some $25 billion. He urged governments to step in.

Since then, central banks across the emerging markets have promised billions in reserves to boost companies' access to dollars. The U.S. Federal Reserve is also acting as a backstop by opening up $30 billion swap lines to central banks in Brazil, Mexico, South Korea and Singapore.

Government-backed credit agencies are pitching in, too. The U.S. Export-Import bank, a giant insurer of trade deals, set up a $2.9 billion facility to boost Korean banks and is considering getting back into direct-lending itself. The World Bank has tripled its trade-finance program to $3 billion. But such measures only go so far.

"We can, ourselves, do relatively little," says Bernard Hoekman, Director of the World Bank Trade Department. "One of our roles is to publicize that this is a particular problem that has a solution."

The World Bank and others argue that because the credits are most often backed by real goods, trade finance carries relatively low risk. What's more, with premiums rising, trade finance has become a more profitable business for institutions still doing it. That could attract money on the sidelines into the business. Most importantly, executives say, lenders may start to get their confidence back.

"I think it will start to become clear which companies are going to survive and which aren't," Mr. Freitas, the Brazilian exporter, says. "Once that becomes clear, lending should come back. We hope."

Unions see champion in labor pick

By Kris Maher

While labor leaders praised the selection of California Rep. Hilda Solis to be U.S. President-elect Barack Obama's labor secretary, business groups worried that a new union-friendly approach at the department could increase costs for employers at a time when the economy is struggling.

Ms. Solis is expected to push for a piece of legislation many business groups abhor, the Employee Free Choice Act, which would make it easier for unions to organize workers. Ms. Solis co-sponsored the bill in the House, and unions have pledged to make passing it a top priority.

Hilda Solis

In a news conference Friday announcing her selection, Ms. Solis said she would emphasize enforcement of federal labor laws and strengthen pay regulations. "I'll work to strengthen our unions and support every American in our nation's diverse work force," Ms. Solis said. Analysts noted, however, that such initiatives could be limited by tight budgets.

To many observers, Ms. Solis was a surprise choice, and some wondered how large a role she will play in an Obama cabinet filled with prominent figures, some of whom have past White House experience.

Others considered for the job included Michigan Gov. Jennifer Granholm, former Michigan Congressman David Bonior, Connecticut Rep. Rosa DeLauro, Democratic National Committee Chairman Howard Dean and Mary Beth Maxwell, who is executive director of worker-advocacy group American Rights at Work, according to people familiar with the process.

"She's clearly not as well-known and doesn't have a track record," compared with some people who were considered for the position, said Peter Kirsanow, a Cleveland attorney and former member of the National Labor Relations Board during the Bush administration. "Cabinet picks need to have a certain amount of stature so they're not buffeted by various interests."

Mr. Bonior, a member of the Obama economic transition team, defended Ms. Solis. "She was a very strong candidate from the start," he said. Mr. Bonior, who is chairman of American Rights at Work, said he actively supported Ms. Maxwell and didn't know Ms. Solis, who sits on the group's board, was being considered. He said Ms. Solis is "as passionate about social and economic justice as you can find."

Ms. Solis, whose father was a Teamster, is well-known in labor circles as an advocate for low-wage workers who has supported strikes and helped boost the minimum wage in California. Last year, Ms. Solis was co-author of the Green Jobs Act, which provided federal funds for job training in environmentally friendly jobs like solar-panel installation.

She has collected $888,050 in contributions from labor groups since 1999, and at least 15 of her top 20 contributors are labor unions, according to the Center for Responsive Politics.

Despite those close ties, business groups said Ms. Solis doesn't have the same clear track record on issues that other candidates had, which could provide an opening for business to reach a compromise with her on some issues.

"Because she hasn't taken a hard stance on labor issues, perhaps she'll have more of an open door," said Randel K. Johnson, vice president of labor policy at the U.S. Chamber of Commerce.

Meanwhile, many union leaders expect a sea change at the Labor Department. They argue that over the past eight years, the department has focused on assisting companies in meeting safety requirements over stricter enforcement and has stalled implementation of new safety regulations.

—Melanie Trottman contributed to this article.

Obama report on contact with Blagojevich arrives

By Jonathan Weisman

Barack Obama has counseled patience to reporters hounding him for a full disclosure of contacts between his staff and the entourage of Illinois Gov. Rod Blagojevich.

Monday, the wait is over. That's when the president-elect's office says it will release the promised report giving a full accounting of those contacts. Journalists, readers and viewers may be busy wrapping presents, lighting their menorahs or just eating—while Mr. Obama is in Hawaii and out of public view.

It's an ideal time for the release of potentially embarrassing information, though Obama aides say the timing was set by U.S. Attorney Patrick Fitzgerald, who had asked for more time for interviews and to build a case for a possible indictment against the already-arrested governor.

Nobody has accused Mr. Obama or his staff of legal wrongdoing, and Obama aides say the results of their internal probe will be boring. But the transition's sometimes awkward handling of the issue has raised anticipation of just what the report might say—and what the fallout might be.

The day of Mr. Blagojevich's arrest, the president-elect said he couldn't comment on the governor's alleged efforts to sell Mr. Obama's vacated Senate seat. The next day, he did comment, calling for Mr. Blagojevich's resignation and offering assurances that neither he nor his aides were involved in any deal making.

Then he promised to account for any and all contacts between his staff and the governor's, setting a release within days. Finally, he said the account was complete, but he wouldn't release it until Christmas week.

The slow dribble "hurt him slightly," because it made him look like an ordinary politician in scandal mode, not the antipolitician people believed they voted for, said Ron Bonjean, a Republican consultant who dealt with scandals affecting then-Senate Majority Leader Trent Lott and then-House Speaker Dennis Hastert.

Joe Lockhart, a former White House press secretary who dealt with Clinton-era scandals, said Mr. Obama was right to play it safe with the release of the contacts, to make sure the accounting is complete.

"At this point, they have the benefit of the doubt when they say, 'We don't think we know anything, but we'll look,' " Mr. Lockhart said.