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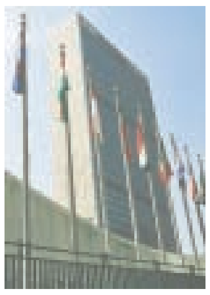

A drive to curb misconduct at the U.N. is faltering

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In a German village, residents pray for bankers

MARKETPLACE | PAGE 26

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Business & Finance

Bernard Madoff used middlemen such as Thierry Magon de La Villehuchet to persuade others to invest in an alleged Ponzi scheme. Mr. de La Villehuchet's family members said they have no doubt he committed suicide out of a "sense of honor." Page 17

■ **Investigators are turning** their attention to the middlemen who attracted investments for Bernard Madoff. Page 20

■ **Russia's Norilsk elected** a former top Kremlin official as chairman in a tactical victory for tycoons vying to keep control over the metals giant. Page 17

■ **Sony's PS3 sales fell** 19% in the U.S. last month, setting back a company banking on its videogame unit to offset a weak electronics business. Page 4

■ **Kuwait canceled** a major venture with Dow Chemical that would have provided $9 billion to the company. Page 7

■ **Price-slashing failed** to rescue a bleak holiday season for U.S. retailers as sales plunged. Many retailers are rethinking business plans. Page 5

■ **Buying defensive stocks** is a traditional bear-market tactic, but utilities, health care and consumer staples aren't clear winners this time. Page 17

■ **Goldman Sachs** lost its top spot in a key mergers and acquisitions ranking after years as the undisputed leader. Page 19

■ **Chrysler is slashing costs** in an effort to show Washington it is a viable company. Page 6

■ **The weak U.S. labor market** is compressing consumer incomes and spending, though falling gas prices are offsetting those troubles for now. Pages 3, 8

■ **Turkey's parliament cut** the budget allocations of most ministries as the country seeks a loan deal with the IMF. Page 9

■ **GMAC's bonds rose** after the U.S. Federal Reserve approved the auto-financing concern's application to become a bank-holding company. Page 19

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8515.55	+47.07	+0.56
Nasdaq	1530.24	+5.34	+0.35
DJ Stoxx 600	192.42	Closed	
FTSE 100	4216.59	Closed	
DAX	4629.38	Closed	
CAC 40	3116.21	Closed	
Euro	$1.4054	+0.0033	+0.24
Nymex crude	$37.71	+2.36	+6.68

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World-Wide

Israeli jets attacked Hamas targets for a second day across the Gaza Strip, as the death toll in an aerial assault against the Islamic militant group escalated to over 290. The ferocity of the assault threatens wider regional instability, just months after Israel appeared to be making progress at peace-making with several of its neighbors and longtime enemies. Page 1

■ **Demonstrations erupted** in the Mideast in response to the Israeli attacks. Iran's Khamenei issued a religious directive calling on Muslims to defend Palestinians against Israel. Page 27

■ **Belgium's king asked** Christian Democrat Herman Van Rompuy to form a government, after more than a week of negotiations with the nation's fragmented political parties. Page 2

■ **Voters in the Indian state** of Jammu and Kashmir turned out in large numbers to participate in elections, but no single party won a clear majority. Page 9

■ **A suicide bomber killed** 36 in northwest Pakistan, underscoring U.S. fears that a move by Islamabad to redeploy some troops in the region could encourage more militant attacks.

■ **Fourteen children** and two other people died when a suicide bomber trying to attack tribal elders blew himself up near an Afghan school, the U.S. said.

■ **A Swiss man suspected** of involvement in a large nuclear smuggling ring was released from prison after more than four years of investigative detention.

■ **Labor union activists** blockaded shops in Athens that were trying to open Sunday to make up revenue lost in three weeks of rioting in the Greek capital.

■ **Chinese dairy companies** will compensate families of some 294,000 children sickened by tainted milk. Page 10

■ **Coup leaders in Guinea** issued a declaration saying all military generals of the former regime had been demoted. Loyalists mourned dictator Conte.

■ **Ghanaians returned** to the polls for a presidential runoff.

■ **Died: Harold Pinter**, 78, British playwright and Nobel laureate, after a battle with cancer.

Editorial & Opinion

Fighting Hamas

Israel is following Obama's advice to stop the Gaza terrorists. Review & Outlook. Page 11

Israel continues attacks against Hamas targets

Calls for retaliation grow in Gaza Strip; death toll escalates

By Charles Levinson And Joshua Mitnick

Israeli jets attacked Hamas targets for a second day across the Gaza Strip, as the death toll in an aerial assault against the Islamic militant group escalated, along with international calls to halt the violence.

The ferocity of the Israeli air assault over the weekend threatens wider regional instability, just months after Israel appeared to be making progress at peace making with several of its neighbors and longtime enemies. It also poses a fresh diplomatic challenge for the incoming administration of Barack Obama, who has vowed to pursue U.S.-brokered peace talks between Israel and the Palestinians. (Please see related articles on page 27.)

The military action is also likely to sharpen the divide in the Middle East between moderate, Western-leaning Arab leaders like Palestinian President Mahmoud Abbas, and their Iranian-backed rivals, including Hamas and Lebanon's Hezbollah. Tehran has significantly increased its influence in the region through these proxies.

Hezbollah, the Iranian-backed Shiite organization, emerged militarily and politically stronger after

Please turn to page 27

Reuters

An Israeli border policeman chased a Palestinian boy in the West Bank suspected of throwing stones, as tensions rose following the Israeli strikes in Gaza.

Tiny Iceland rattles world as bubble pops

By Charles Forelle

REYKJAVIK, Iceland—A boy charged to the front of an angry crowd here recently and tossed a carton of *skyr*, a local yogurt-like snack, at the Parliament building. It splattered on the rough-hewn stone.

He and thousands of Icelanders were protesting one of the strangest economic failures of the global financial crisis. This past fall, every bank that matters in this tiny nation—that is, all three of them—failed. Iceland's currency, the krona, became worthless beyond its shores. The country's financial system stopped working.

"We are pissed off at the government," said one young man, pausing between fusillades of eggs. A roll of toilet paper arced across the Nordic sky.

Iceland is an extreme casualty of an era in which it became extraordinarily easy to borrow money. But it was more than that: An examination of the nation's banking system, which collapsed over about 10 days this autumn, reveals the degree to

Please turn to page 14

Weak dollar hits Europe, helps emerging markets

By Joanna Slater

The dollar's sharp turn weaker toward the end of the year is threatening to create winners and losers in global trade amid the toughest economic conditions in decades.

For countries like Japan and Germany, the decline is a source of anxiety because a stronger currency makes exports less competitive as global demand shrinks. For the U.S., it's a more welcome development, and might also help counteract declining prices.

In today's environment, no country wants to be the last one standing with a strong currency. Some economists worry that countries could seek to weaken their currencies to gain an advantage over their trading partners, setting off a round of devaluations that ultimately damage world trade.

Until recently, the dollar was one of the most robust currencies around, surging against everything save the Japanese yen. But in recent weeks—and particularly after the Federal Reserve slashed a key interest-rate target to near zero—the dollar has abruptly changed course.

On Friday, the dollar slipped against the euro, with one euro buying $1.406 late in New York. The dollar has weakened about 10% versus the euro and 8% against the yen since the start of November.

That is good news for U.S. exporters, but it is raising concerns in places like Japan and Germany, which are both gripped by recession.

In Japan, officials are so concerned by the strengthening yen that they have sent signals they might intervene to stop it. Earlier this month, Honda's president warned that the pumped-up yen could cause the "hollowing out of Japanese industry."

"Both countries are very dependent on exports, with very little domestic growth," says Adam Posen, an economist at the Peterson Institute for International Economics. "Bad news is coming, and the dollar going down is additional bad news for them."

Of course, there are upsides to having a stronger currency in some corners of the globe. The dollar's turn lower has brought a modicum of relief in emerging markets, where currencies have been battered in recent months. That is easing the bur-

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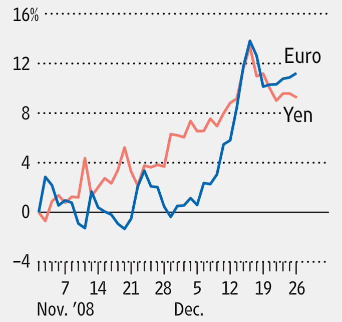
Off-peak

Performance of the euro and Japanese yen against the dollar



Source: Thomson Reuters via WSJ Market Data Group

LEADING THE NEWS

Front-runner emerges as next head of Belgium

King asks leader of the lower house to form government

BY JOHN W. MILLER

BRUSSELS—Belgium's King Albert II on Sunday named a probable successor to Prime Minister Yves Leterme, who resigned recently amid a scandal related to one of the earliest major bank bailouts of the global credit crisis.

After more than a week of negotiation with Belgium's fragmented political parties, King Albert asked Herman Van Rompuy to form a government. While the person chosen for this role doesn't always get the top job, "in this case, it's absolutely clear Mr. Van Rompuy will become prime minister in a few days," said Olivier Alsteens, a government spokesman.

Mr. Van Rompuy, 61 years old, is president of the lower house of Belgium's parliament and a member of the Christian Democrats, the same party that Mr. Leterme belongs to. He earned plaudits as a finance and budget minister in the 1990s when he gradually reduced Belgium's national debt so that the country would meet the criteria to adopt the euro in 1999.

Importantly, given that the last government took nine months to form after elections in 2007, Mr. Van Rompuy will govern with the existing coalition, Mr. Alsteens said. The new prime minister will have to find one new cabinet minister, to replace former Justice Minister Jo Vandeurzen, who also resigned amid the banking scandal.

Belgian politics are complicated by the division of parties along both ideological and linguistic lines in a country sharply divided among Dutch and French speakers. With a sinking economy poisoning public approval ratings, the parties were loath to call early elections.

Belgium's next government will have to approve a new budget and figure out how to spend a €2 billion ($2.81 billion) stimulus package. The country's economy is expected to shrink by 0.5% next year, as measured by gross domestic product.

The government must also try to complete the deal that Mr. Leterme crafted as part of a bailout of **Fortis** NV in October, under which the bank's Belgian assets would be sold to **BNP Paribas** SA of France for €14.5 billion. Mr. Leterme resigned following allegations he tried to influence a Dec. 12 court decision. That decision delayed the sale of Fortis pending a shareholder vote in February. A no vote would mean finding an alternative solution.

Belgium's next government also will have to try to resolve a bitter feud between the country's two main language groups over the future of the country. The more prosperous Dutch-speaking northern region, Flanders, wants more autonomy—but not complete independence—from poorer French-speaking Wallonia in the south and Brussels, the capital. While both are Flemings who want more autonomy for the north, Mr. Van Rompuy is known as taking a softer line on the issue than Mr. Leterme.

The ruling coalition, however, is riven with divisions. The parties spent the week after Mr. Leterme's resignation torpedoing each other's nominations for prime minister. King Albert appointed a special emissary, Wilfried Martens, a prime minister in the 1980s, who managed to forge a consensus around Mr. Van Rompuy.

Lower dollar may ease deflation

Continued from first page

den on companies with debts to pay in foreign currencies.

For the U.S. in particular, a weaker currency could be a welcome help on another front—avoiding a cycle of declining prices.

"There is a pretty compelling argument both in theory and in history that if your problem is deflation, then pushing down the exchange rate is an effective way of addressing that problem," says Barry Eichengreen, an economist at the University of California, Berkeley.

Mr. Eichengreen notes that during the Great Depression, it was difficult to use a weaker currency to export more because of protectionist policies in place around the globe. However, it was a useful way to change people's expectations about prices, since imports become more expensive. When the U.S. devalued the dollar in 1933, he said, the prices of some commodities, which had been spiraling lower, suddenly began to go up.

One fan of this line of thinking: Federal Reserve Chairman Ben Bernanke. In a 2002 speech, Mr. Bernanke noted that the devaluation of the dollar and the rapid increase in the money supply in 1933 and 1934 "ended the U.S. deflation remarkably quickly." He described the episode as an illustration of what can be achieved "even when the nominal interest rate is at or near zero."

That, of course, describes where the Fed's key interest-rate target sits today. The fact that the Fed has been willing to embrace unconventional and aggressive lending measures carries an implicit message—that "a weaker dollar in an orderly way is certainly a desired outcome," says David Gilmore of Foreign Exchange Analytics, a Connecticut research firm. He adds that in recent months, the Treasury Department has avoided its usual mantra in which it reiterates its support for a strong dollar.

The problem at the moment, Mr. Gilmore says, is that "every country on the planet needs a weak currency right now, and not everybody can have one."

In late November, China briefly pushed its currency, the yuan, sharply lower against the dollar, raising fears that it could be seeking a competitive leg up. Since then, the yuan has recovered those losses.

In Vietnam, where the local currency, the dong, is pegged to the dollar, the central bank devalued the currency on Wednesday for the second time this year. The move will help facilitate exports and control the trade deficit, the central bank noted in a statement.

In the late 1990s, a number of emerging markets from Asia to Russia faced financial crises and were forced to devalue their currencies. Eventually, that helped spur economic recoveries by touching off export booms at a time of buoyant demand elsewhere. Today, though, the whole world is reeling, making it difficult for a country to export its way out of trouble.

"The world can't depreciate [its currency] against Mars and export to the rest of the solar system," says Simon Johnson, a former chief economist for the International Monetary Fund.

Some experts say the prospect of beggar-thy-neighbor devaluations is remote, at least among major economies. Preventing such an outcome is one of the main reasons that financial officials from the Group of Seven industrialized nations have regular meetings, says Jens Nordvig, a currency strategist at Goldman Sachs.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

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LEADING THE NEWS

In U.S., retraining of workers falls short

Job search, not skills, are often the focus of career services

By Brenda Cronin

Many American workers idled by the 1.9 million layoffs this year are trying to re-enter a shrinking pool of jobs. It won't be easy for them.

THE OUTLOOK

There are 3.3 unemployed individuals available for every vacancy—a ratio that likely will worsen as the recession deepens. Research suggests that workers let go during a recession face job hunts that last at least four months, and when they do find work, they accept a 20% to 30% pay cut, on average.

Unemployment insurance is cushioning the blow for some workers, but many states' reserves are dwindling. The unemployment-insurance program was designed in 1935, when most layoffs were temporary and full-time workers tended to keep jobs for decades. The program was never meant to sustain the rigors of today's recession. Since June, Congress twice has authorized extensions of the 26 weeks of benefits, tacking on additional weeks in states with high unemployment.

Downturns tend to winnow jobs that would have hung on longer in flush times. For many workers, this rapid shakeout "will plausibly lead to a kind of downward mobility," said David Autor, a Massachusetts Institute of Technology economist. To climb back to their former wage level, some workers must not only find another job but also retrain for a new occupation.

They generally won't find that help at the almost 3,000 "One Stop" career centers run by states and municipalities. Rather than vocational and technical training, the centers provide career counseling, access to computers and job listings. Some have classes in office skills and English as a Second Language.

"Essentially what we have now is job-search assistance, which has been found to be effective, especially for workers who haven't prepared a résumé or haven't gone on a job interview in many years," said Alan Krueger, an economist at Princeton University.

Community colleges do a considerable amount of vocational training, through courses that lead to certifications for positions such as paralegal, medical-office clerk or computer-network technician. For the past four years, the U.S. Department of Labor has awarded $125 million annually in Community-Based Job Training Grants, most of which goes to community colleges.

Unions also play a role, working with companies to create retraining programs. However, "the challenge is, 'training for what?' " said Jane McDonald of the AFL-CIO. "We don't want to make federal investments in training programs for low-wage...jobs. We want those training programs to lead to good jobs."

Enrolling in a one- or two-year certification program isn't an option for job seekers who need to find work quickly. Tuition also is a hurdle for some newly laid-off workers, whose recent earnings make them ineligible for Pell grants or other forms of financial aid. In addition, while many schools offer placement assistance, they can't guarantee every student a job in the field for which he or she has just prepared.

Confronted with the choice of training for a future job or returning to work right away—even at a lower wage—many individuals are signing on with temporary-help firms. For decades, staffing companies were seen by many as repositories for dead-end jobs. That perception has changed as firms have expanded their portfolios to include higher-paying positions, many in specialized services such as health care, law and accounting.

"Temporary" is a relative term in staffing. In 2001, Agapito Soto, an Irvine, Calif., information-technology consultant, signed on with Sapphire Technologies, a temp agency that specializes in high-tech work. The agency placed the 55-year-old Mr. Soto in a full-time slot with the Orange County Sheriff's Department, which continues to this day. Mr. Soto says he has notched on-the-job learning in his seven years at the Sheriff's Department.

He has even passed up permanent jobs that would match his salary because he figures those positions would be vulnerable to cuts that don't affect temps. "With the current climate, employers are looking at spending less," he said. "There is no employer-employee loyalty and vice versa."

Many companies use staffing firms to screen applicants, trying out several workers in succession and then offering a permanent job to one. About 60% of temps who sign on with Manpower Inc., one of the nation's largest staffing agencies, get a permanent assignment through the company, said Chairman Jeffrey Joerres.

Most large staffing firms provide temporary workers benefits such as health insurance and vacation pay. They also offer a form of training through online and classroom courses on computer skills, project management and other subjects. In a 2006 survey by the American Staffing Association, more than 88% of the roughly 13,000 current and former temporary workers polled said their stints as temps—with firms that are members of the trade association—made them more employable. Twenty percent of all workers surveyed said they improved their skills with training provided by the staffing firm.

But there are limits to what a short-term job can provide. While temp workers may be the first to be hired when business heats up, they are also the first let go when it slows. Manpower itself ran into trouble recently and lowered its fourth-quarter-earnings estimate because of a drop in demand for temps. Employment at temporary-help agencies in November fell 15.4% from a year earlier to 2.2 million, according to the Bureau of Labor Statistics. That's far steeper than the 1.3% decline across the economy.

Overhauling unemployment and training programs into a comprehensive and reliable whole will be a challenge for the incoming administration. President-elect Barack Obama backed the most recent extension of unemployment benefits, in mid-November, and said his economic stimulus package will be the administration's top priority. The package's emphasis on creating jobs through infrastructure projects evokes New Deal-era programs. Some of those programs included not career counseling but training workers—an aspect ready for revival.

CORPORATE NEWS

Exxon could gain from emissions work

Technology for capturing and storing greenhouse gas puts oil giant in unusual favor with environmentalists

By Russell Gold

While **Exxon Mobil** Corp. has been among the most vocal skeptics of man-made causes of climate change, the company has spent the last two decades forging an expertise in one of the key technologies to combat the problem: capturing and storing carbon-dioxide emissions.

Since the 1980s, an Exxon natural-gas processing plant in Wyoming has been doing just what many environmentalists say needs to happen on a global scale: capturing carbon dioxide and storing it underground instead of venting it into the air. Indeed, Exxon's La Barge, Wyo., facility, for years has captured more carbon dioxide—the most abundant greenhouse gas—than any other facility in North America.

Now Exxon, at the insistence of state officials, is spending $70 million to expand by 50% the plant's capacity to capture carbon dioxide, brought to the surface along with the natural gas. The plant separates the natural gas from impurities. And the Texas oil giant is spending an additional $100 million to test new technology to make it easier and less expensive to strip carbon dioxide out of the natural gas.

Both investments could secure a place for Exxon in the emerging marketplace aimed at lowering emissions of greenhouse gases into the atmosphere. There is also a growing market for carbon dioxide itself, because it helps produce more fossil fuels.

Carbon dioxide is a key tool in the growing work of rejuvenating worn-out oil fields. The gas is pumped into old reservoirs and helps the remaining oil flow out.

Much of the carbon dioxide worrying environmental regulators comes from burning fossil fuels, which is why coal-fired power plants and automobiles are major emitters. But the global hunt for natural gas to heat homes and generate electricity also contributes.

About one-third of the world's natural-gas reserves are mixed with high levels of carbon dioxide, according to Exxon Mobil. That means producing more natural gas will lead to even more carbon dioxide being vented into the air. In Exxon's natural-gas fields near La Barge, about 65% of the gaseous mixture from the wells is carbon dioxide. Natural gas is only 22%.

Exxon Mobil

Technology at Exxon Mobil's La Barge, Wyo., facility strips carbon dioxide from natural-gas wells and reinjects the greenhouse gas underground.

Wyoming officials have urged Exxon for years to capture more carbon dioxide. "In a world that is very concerned about too much carbon dioxide, we are actually carbon dioxide short. We could use a lot more carbon dioxide right now," says Rob Hurless, energy adviser to Wyoming Gov. Dave Freudenthal.

Exxon's carbon-dioxide efforts have earned the company grudging respect from environmentalists.

"Certainly, Exxon isn't usually thought of as being in the forefront of environmental progress," says A. Scott Anderson, a senior policy adviser with the Environmental Defense Fund, "but the fact is they are deeply involved in carbon capture and storage technology."

Exxon has recently turned a corner in its views on global warming. The company, which once funded a think tank that argued carbon-dioxide emissions were helpful to human life, today acknowledges that burning fossil fuels is a significant source of greenhouse-gas emissions and increases the risks of climate change—although it remains unsure about the exact role of human activity in global warming.

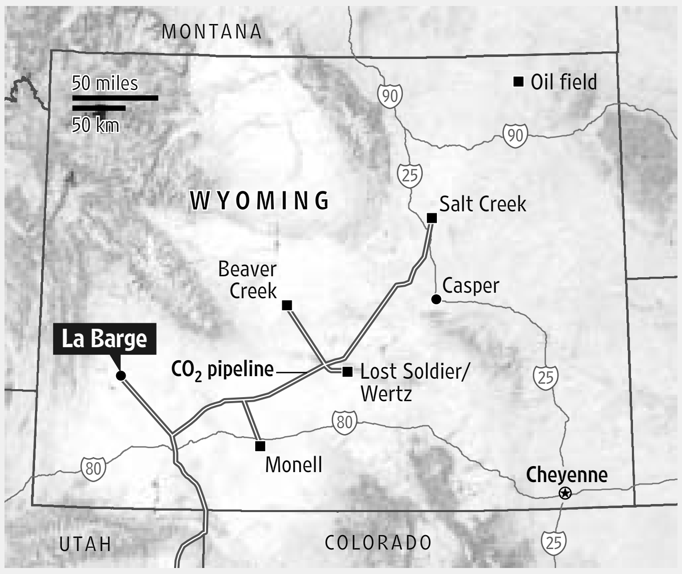
Exxon currently captures about four million metric tons a year of carbon dioxide at La Barge, the equivalent of tailpipe emissions from 600,000 cars. The plant's expansion, scheduled to be completed in 2010, will increase that to six million tons a year.

Exxon spokesman Len D'Eramo said the company's goal is "to safely and efficiently extract additional CO_2 for sales as market conditions warrant. La Barge CO_2 has been extensively utilized by producers in Colorado and Wyoming."

Outside of the Rockies, oil producers in West Texas also are using carbon dioxide to boost recovery in the Permian Basin's aging fields. A new $1.1 billion natural-gas-processing plant in West Texas scheduled for start-up in 2010 will capture about 13.5 million metric tons of carbon dioxide a year—twice as much as the expanded La Barge facility—according to **SandRidge Energy** Inc., which is developing the project with **Occidental Petroleum** Corp.

Capturing CO_2

Exxon Mobil's gas-processing plant in La Barge captures carbon dioxide and ships it to several oil fields where it is injected into the ground to help boost oil recovery.



Source: Wyoming Pipeline Authority

None of the companies would disclose the price at which carbon dioxide is sold.

More carbon dioxide for use in old oil fields could be a boon for oil production. A 2006 report to the U.S. Energy Department, by industry consultants Advanced Resources International, noted that with enough carbon dioxide 210 billion additional barrels could be recovered from worn-out U.S. oil fields—enough oil to satisfy U.S. consumption for 29 years.

As an added bonus, the same rock formations that trapped oil for thousands of years can be used to store the carbon dioxide.

About half of the carbon dioxide that Exxon Mobil pulls from the ground at La Barge is captured and then sold. The other half is vented into the atmosphere, according to state records, one reason Wyoming officials insisted that the plant's capacity to capture carbon dioxide be expanded. After the expansion, about 75% of the carbon dioxide will be captured.

The demand for carbon dioxide for enhanced oil recovery far outstrips current supply, says Michael Moore, executive director of the North American Carbon Capture and Storage Association. Future projects to capture carbon dioxide emitted by industrial facilities or power plants could increase the supply of gas to be injected into oil reservoirs.

Plano, Texas-based oil company **Denbury Resources** Inc., is planning to build a large pipeline from Mississippi to Texas to transport carbon dioxide that it can inject into the historic Hastings oil field, which has been producing since 1935. The company would tap into a large natural source of carbon dioxide in Mississippi, and is negotiating with industrial plants along the pipeline route to acquire more captured gas.

Sony is dealt a blow as PS3 sales hit a wall

By Daisuke Wakabayashi

TOKYO—For most of this year, **Sony** Corp.'s PlayStation 3 videogame console seemed finally to be taking off after a slow start. The PS3, trailing **Nintendo** Co.'s Wii and **Microsoft** Corp.'s Xbox 360 consoles, was closing in on the No. 2 Xbox 360, with a new games and quarterly sales growth at twice the speed of last year.

But early results from this holiday season aren't promising. U.S. sales of the PS3 fell 19% last month from a year earlier, while sales doubled for the Wii console and rose 8% for the Xbox 360, according to research firm NPD. Analysts say they expect PS3 sales for this month to be flat or lower than last year, while sales for its rivals are likely to rise. And Sony may not reach its goal of selling 10 million PS3 consoles in the fiscal year through March, analysts say.

The sales decline is a heavy blow to Sony, which was banking on the videogame division to provide a silver lining as its core electronics business is hit by the global economic downturn. Sony in May forecast that its games division would turn a profit this fiscal year after two years of losses since launching the PS3 in 2006. Meanwhile, poor sales of television sets and digital cameras are forcing the company to lay off thousands of staff and close factories.

Sony's strategy of selling a pricey game machine with advanced features and cutting-edge components appears to be backfiring as a deepening recession has U.S. consumers more price sensitive than ever.

If Sony doesn't close the gap with its rivals, it could risk making the PS3 an afterthought to game publishers, who focus most of their resources on the machines with the most users. At the end of September, the Wii had a wide lead with nearly 35 million units sold since its launch in 2006 compared with about 22 million Xbox 360 consoles and 17 million PS3 machines. Nintendo last month sold 2 million Wii machines in the U.S., while Microsoft sold 836,000 Xbox 360s and Sony sold 378,000 PS3s, according to NPD.

Sony said earlier this month that it was happy with the "strong momentum" of the PS3 and focused on the machine's 60% rise in the year-to-date sales. A spokesman at Sony's game division declines to comment further, saying it is working hard to close the quarter strong.

A key factor behind the dip in sales may be the PS3's high price. At $399, the entry-level PS3 model costs at least $150 more than the Wii or the least expensive Xbox 360. Sony emphasizes that the PS3 comes with a Blu-ray high-definition video player and an 80-gigabyte hard drive, features not available with the Wii or Xbox 360.

Part of Sony's strategy hinged on selling the PS3 as a relatively inexpensive Blu-ray player. But prices of Blu-ray players have fallen so sharply recently—new players are available for less than $200—that it's possible to buy a Blu-ray player and an Xbox 360 for less a PS3.

Industry watchers say they were surprised Sony didn't cut PS3 prices to boost sales before the holidays. One reason may be Sony Chief Executive Howard Stringer's commitment to making the games division profitable after heavy investment in the PS3 machine. Console makers hope to eventually recoup development investment with game sales and production cost reductions.

"With Stringer saying, 'We will be profitable,' you can't cut price," says Michael Pachter, a research analyst at Wedbush Morgan Securities in Los Angeles. He expects Sony to cut prices at the start of its new fiscal year in April, which could help boost sales.

Sony also is suffering from a lack of attractive titles that are exclusive to the PS3. Microsoft has hit the jackpot with two action-adventure game franchises, Halo and Gears of War, which are only available on the Xbox 360. Most of Nintendo's top games are made in house and playable only on the Wii.

Associated Press

U.S. sales of the PlayStation3 videogame console fell 19% last month.

U.S. retailers prepare for major changes

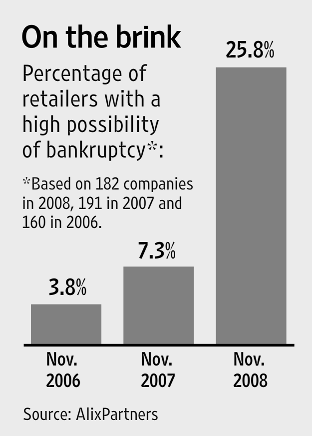
Business strategies face likely revisions; closings are expected

The good news for U.S. retailers reeling from the holiday sales season is that 2008 is almost over. The bad news: The fallout in 2009 could be worse.

This year's retailing slide—when stores were forced to cut prices to persuade wary consumers to spend—

*By **Rachel Dodes, Ann Zimmerman** and **Jeffrey McCracken***

promises to have a lasting impact on the way the retail industry operates. Many retailers are rethinking how they do business, as others prepare for a large number of bankruptcy filings and store closures.



Goody's Family Clothing appears ▶ to be the first retail casualty of a tough holiday season.

The first retail casualty of the weak holiday season could be **Goody's Family Clothing** Inc., an apparel retailer in the Southeast. The 287-store chain emerged from bankruptcy court in October but its holiday sales were below plan and financing it was counting on didn't materialize, according to a person familiar with the situation. The retailer is negotiating with lenders to avoid potential liquidation, say two people familiar with the matter.

A representative for Goody's was unavailable to comment. But in October, Chief Executive Paul White was upbeat about the retailer's prospects, saying "we are energized by the opportunity in front of us and are focused on continuing to fulfill the Goody's mission."

Other retailers are saying they will trim inventory and reduce the number of suppliers. That, in turn, is likely to cause a ripple effect, prompting weaker manufacturers, small brands and underfunded fashion labels to fail. New retail formats and concepts stores are likely to be curtailed in the coming year. And luxury-goods makers already are working to cut the long lead times between orders and store delivery as a way to reduce risk.

"We will have a lot fewer stores by the middle of 2009," says Nancy Koehn, professor of business administration at Harvard Business School. "It's happening very, very quickly because of the financial crisis and the recession."

There were exceptions to the slump. **Amazon.com** Inc. said Friday its holiday sales exceeded all prior years. Still, analysts say online retail as a whole is down slightly from the year-earlier holiday season.

Retailers and their suppliers are assessing the fallout to their industry. They and other retail watchers are forecasting big changes ahead:

■ **More bankruptcies:** Corporate-turnaround experts and bankruptcy lawyers are predicting a wave of retailer bankruptcies early next year, after being contacted by retailers either preparing to file for bankruptcy protection or scrambling to avoid that fate.

Analysts estimate that from about 10% to 26% of all retailers are in financial distress and in danger of filing for Chapter 11 under the U.S. Bankruptcy Code. **AlixPartners** LLP, a Michigan-based turnaround consulting firm, estimates that about 25% of 182 large retailers it tracks are at significant risk of filing for bankruptcy or facing financial distress in 2009 or 2010. In the previous two years, the firm had estimated 4% to 7% of retailers then tracked were at a high risk for filing. Retailers are vulnerable to a recession because of their high fixed costs. The most vulnerable retailers are those with debt coming due, says AlixPartners Chief Executive Fred Crawford.

Several turnaround experts said retail lenders including **General Electric** Co.'s GE Capital, **CIT Group** and **Wachovia** Corp. are dialing back lending to retailers.

CIT, which lends money against vendors' receivables, recently withdrew coverage for orders to **Bon-Ton Stores** Inc., of York, Pa. Bon-Ton spokeswoman Mary Kerr said, "We are in the process of contacting those affected vendors with whom we have good relationships in order to work directly with them." A CIT spokesman declined to comment.

■ **Store closings:** The International Council of Shopping Centers estimates that 148,000 stores will close in 2008, the most since 2001, and it predicts that there will be an additional 73,000 closures in the first half of 2009.

This underscores a sea change in retailers' business strategy. "Generally speaking the way retailers have grown is to get more volume, and open more stores," says Greg Maloney, chief executive of the retail practice at real-estate-services firm **Jones Lang LaSalle**.

Despite the closures, the U.S. is still likely to see a net gain in square footage mostly because of projects under way before the credit crisis hit. Barclays Capital analyst Jeff Black says growth in retail square footage will slow to 5% in 2009 from 8% in 2008.

Already a number of retailers have said they are closing stores, including **AnnTaylor Stores** Corp., **Talbots** Inc. and **Charming Shoppes** Inc. Those that aren't closing stores will likely curtail expansion to conserve capital. **J. Crew Group** Chief Executive Mickey Drexler said that the company is "revisiting all new store openings" and plans to cut square-footage growth in half in 2009, excluding a new concept. **Liz Claiborne** Inc. is postponing store expansion until the economy improves.

■ **Less selection:** Several department stores, including **Saks** Inc. and **Neiman Marcus Group** Inc., already have announced that they would narrow the range of merchandise they carry and drop vendors that don't perform. The cutbacks will hurt the companies that are most exposed to the wholesale channel. Companies such as **Jones Apparel Group** Inc., for example, generate 50% of sales from department stores. Other manufacturers, such as **VF** Corp., are less vulnerable because they have rolled out their own retail stores and realize only 10% of sales from department stores, according to J.P. Morgan Chase & Co.

"We are so used to using history to guide our future," says Brendan Hoffman, chief executive of the 48-store Lord & Taylor chain. Setting inventory levels "will be a challenge until we get to some level of economic stability," he adds.

Meanwhile, Lord & Taylor, a unit of **Hudson's Bay Trading** Co., is buying conservatively, preferring to be out of stock on key items than overstocked.

■ **Fewer concept stores:** Many retailers invented new brands to spur rapid growth in recent years. But many such concepts already are being abandoned or cut back. Neiman Marcus said it would postpone plans to expand its Cusp store concept. **Pacific Sunwear of California** Inc. closed down its d.e.mo. stores earlier this year, and AnnTaylor abandoned plans for a "modern" baby-boomer concept.

—Jennifer Saranow and Cheryl Lu-Lien Tan contributed to this article.

Stores' holiday sales fall sharply

Price-slashing failed to rescue a bleak holiday season for beleaguered retailers in the U.S., as sales plunged across most categories on shrinking consumer spending, according to data released Thursday.

Despite a flurry of last-minute shoppers lured by the deep discounts,

*By **Ann Zimmerman, Jennifer Saranow** and **Miguel Bustillo***

total retail sales, excluding automobiles, fell over the year-earlier period by 5.5% in November and 8% in December through Christmas Eve, according to **MasterCard** Inc.'s SpendingPulse unit.

When gasoline sales are excluded, the fall in overall retail sales is more modest: a 2.5% drop in November and a 4% decline in December. A 40% drop in gasoline prices over a year earlier contributed to the sharp decline in total sales.

But considering individual sectors, "This will go down as the one of the worst holiday sales seasons on record," said Mary Delk, a director in the retail practice at consulting firm Deloitte LLP. "Retailers went from 'ho-ho' to 'uh-oh' to 'oh-no.' "

The holiday retail-sales decline was much worse than the already-dire picture painted by industry forecasts, which had predicted sales ranging from a 1% drop to a more optimistic increase of 2.2%.

Luxury goods were hardest hit, with sales falling 21.2%, compared with a rise of 7.5% a year earlier, when the economy had just begun to sputter. Including jewelry sales, the luxury sector fell 34.5%.

During the same period last year, overall retail sales rose a modest 2.4%, helped by late-season discounting that enticed procrastinating shoppers. But this year, after a moderate uptick in shopping activity boosted by steep promotions the Friday after the Thanksgiving holiday, shoppers closed their wallets and reopened them only cautiously, worried by job losses, a sinking stock market and a recession stretching into its second year.

"There has been a major contraction in consumer spending," said Michael McNamara, vice president of research and analysis for MasterCard Advisors, in an interview.

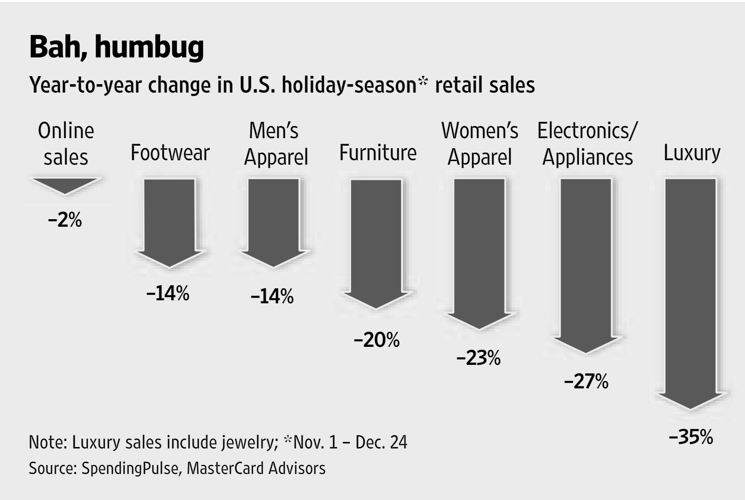
This spells a bitter disappointment for companies that had hoped the holidays would offset a year when sales have been sliding steadily, draining profits and, in many instances, undermining the ability to pay down debt. The industry already has seen a parade of retailers entering bankruptcy proceedings, such as **Circuit City Stores** Inc., and liquidating, including **Mervyn's** LLC and **Linens 'N Things** Inc. The weak holiday sales mean more chains are likely to follow suit next year.

To be sure, there was a glimmer of positive economic news last week as well, as the Labor Department released figures showing inflation-adjusted consumer spending edged up slightly in November as gas prices fell steeply. The personal savings rate also climbed in November. Socking away more in the bank leaves less for splurging at the mall.

"It's all about restoring confidence in the buying climate and declining prices help to bring us there, but we're not there yet," said Michael Niemira, chief economist at the International Council of Shopping Centers.

A final burst of spending retailers hoped for in the weekend before Christmas never came. Shopper traffic fell 27% compared with the same time last year, while sales declined 5.3%, according to ShopperTrak RCT Corp., which tracks sales in retail outlets across the U.S. Bad weather on both coasts combined with economic factors to slow sales, the company said.

Few retailers were counting on the holidays being robust when they placed conservative orders for merchandise last summer. Most worried that high gas prices and the continuing housing slump would cause a lackluster year. But even that conservative approach wasn't enough to insulate them when the bottom fell out of the stock market in September. By October, retail sales were declining faster than expected amid the turmoil on Wall Street, the credit crunch and the steady drumbeat of bad economic news.



No retail sector was spared. Among the biggest losers were electronics and appliances, which fell a combined 26.7% versus a 2.7% gain last year. Women's apparel slid 22.7% compared with a 2.4% drop. E-commerce showed the most resilience, with online sales falling just 2%. But it was still a disappointment compared with last year when online sales posted a 22.4% gain.

The season's dismal results have left stores with mountains of inventory to clear, prompting many to move up their typical January clearance sales to help salvage what they can of the season.

Retailers were stung by a shorter holiday-shopping season this year—just 27 days between Thanksgiving and Christmas in 2008 compared with 32 in 2007.

—Rachel Dodes, Nicholas Casey and Ben Casselman contributed to this article.

CORPORATE NEWS

For Detroit auto show, glitz is gone

Scaled-back displays and fewer big parties hurt local businesses

By Mike Spector
And Alex P. Kellogg

Agence France-Presse/Getty Images

At last January's auto show in Detroit, GM was able to strut its stuff, hiring the band Maroon 5 to perform as fashion models walk in front of the Saturn Astra Tuner concept car. GM has nixed the '09 show's 'GM Style' fashion party.

DETROIT—The North American International Auto Show usually gives this downtrodden city an annual chance to celebrate with glitzy parties and celebrity sightings. But with two of the three U.S. auto makers on financial life-support from Washington, 2009's show is shaping up to be a scaled-back affair.

The show, which opens to the media Jan. 11, comes amid further signs of gloom in what already ranks among America's most depressed cities. Cultural institutions are cutting back. Charities are facing bleak times as big backers including Detroit's car manufacturers become pinched for cash. Detroit's struggling local newspapers plan to stop home-delivery soon on most days of the week.

But perhaps the most visible sign of drearier times will come in January at the car show. Carpenters and caterers are feeling the brunt as manufacturers scale back exhibits and parties. The show's economic impact on Detroit will be about $350 million—some $100 million less than 2008's show, predicted David Sowerby, portfolio manager and market analyst for Loomis, Sayles & Co., an investment-management firm.

Tony Hines, a 54-year old carpenter from Detroit's west side, lamented the city's troubles during a break from preparing auto-show exhibits at the Cobo Hall convention center. "We had like 700 tradesmen here last year. This year, we have maybe 200," he said. "You see your job just kind of dwindling away."

General Motors Corp., which like **Chrysler** LLC has won loans from the government, plans to use more carpet instead of more-costly tiles and hardwood floors for its exhibit. The company also will use reuseable aluminum wall supports instead of steel, said Timothy Peters, GM's assistant director of auto shows and operations.

BMW AG, like some other exhibitors, won't build a traditional second-floor hospitality area at its show-floor stand this year, a spokesman said. Auto makers use such areas to serve food and beverages and attract journalists for interviews. **Honda Motor** Co. plans to reveal its new Insight hybrid car but won't hold a dramatic news conference with flashy lighting and graphics, said Ed Miller, a spokesman. "We'll still have steak, but we won't have the sizzle," he said.

Auto makers declined to say how much they would save by scaling back their displays and new-model unveilings. But a person familiar with show-planning costs said GM could save more than $1 million alone by using carpet for its entire 120,000 square-foot exhibit instead of wood or tile.

GM also has nixed its annual "GM Style" fashion party, traditionally held on the eve of the show's media preview. The party in years past has drawn celebrities including Carmen Electra, Kid Rock and Mary J Blige. Chrysler will forgo its annual tradition of converting a downtown firehouse into a beer hall and party hub during the auto show's initial press days, a spokesman said.

The pullback on show events is hitting food vendors hard. "This year is somewhat of a nightmare," said Rob Katz, vice president of Cateraid Inc., which provides gourmet wholesale food to caterers who work the auto show. Spending on food service for the show is "almost nonexistent," he said.

Mr. Katz drew about $65,000 in sales for the 2008 show but expects that to be off as much as 50% for the 2009 show. His overall business, which posts annual sales around $3 million, is off 25% this year.

One reason for the malaise is that many car makers decided not to attend January's show. **Nissan Motor** Co. was the most high-profile withdrawal, forcing area dealers to lend their own cars to take up the company's reserved convention-floor space.

The show's annual black-tie Charity Preview, which sells seats for $400 a head and raised $6 million for children's charities last year, is running slightly behind its ticket-sales goal. But Douglass Fox, a local car dealer who serves as the auto show's co-chair, said he hoped a coming announcement about the event's entertainers would boost interest enough to reach the event's goal of 15,000 sales.

Detroit has pockets of optimism. The Book-Cadillac hotel, a historic but blighted building, recently was renovated as a Westin and hasn't had any booking cancellations for the auto show.

Toyota family member vies for the top job

By Norihiko Shirouzu

Akio Toyoda, a leading candidate to succeed **Toyota Motor** Corp. President Katsuaki Watanabe, is a member of the famed family that founded the company and still holds considerable sway, but hasn't been in the driver's seat since 1995.

Mr. Toyoda, one of Toyota's five executive vice presidents, is a grandson of Kiichiro Toyoda, who created Toyota in 1937. According to people familiar with the matter, a group of influential Toyota elders is leaning toward selecting 52-year-old Akio Toyoda as Mr. Watanabe's replacement.

Since the late 1960s, Toyota's founding family dominated in steering the company. Kiichiro Toyoda's cousin, Eiji Toyoda, served as president from 1967 to 1982. Shoichiro Toyoda, Kiichiro Toyoda's eldest son, was president from 1982 to 1992, and his brother, Tatsuro Toyoda, served that role from 1992 to 1995.

But that changed in 1995, when Tatsuro Toyoda suffered a stroke and had to be replaced. In part because there were no suitable senior family members available, Toyota chose Hiroshi Okuda, the first outsider to run the company in almost three decades.

He swiftly turned around the company, which had struggled under Tatsuro Toyoda's watch. Mr. Toyoda struggled to fend off attempts by foreign investors to take over some of Toyota's affiliates, and Mr. Okuda quickly boosted stakes in Toyota's related companies to protect the group against hostile bidders.

The whole experience in the mid-1990s led to internal soul-searching about whether the Toyoda family should automatically be handed the reins to a public company when the clan collectively owns less than 2% of the stock.

To be sure, some of the senior Toyoda family members, such as Akio's father, Shoichiro Toyoda, still wield influence by retaining a seat on the board.

Akio Toyoda, one of just a handful of family members serving as senior executives in the Toyota group, has been groomed by some in the company to take over Toyota one day. When asked several years ago whether he aimed to be president, he demurred but made clear he had big ambitions. "It's the founding family's mission to keep setting direction for the company," he said.

Akio Toyoda certainly has a long track record at Toyota. He joined the company in 1984 at age 27. Armed with an MBA from Babson College near Boston, he moved after a few years to the Production Research Office to work with the elite engineers who developed the lean manufacturing methods that made Toyota so competitive.

In 1992, he transferred to Toyota's sales arm, where he began asking questions like Why does it take a factory just 20 to 30 hours to make a car, but it takes 40-plus days for a dealer to sell and get paid for one? Why not apply its lean-production insights at Toyota's 5,000 Japanese dealerships?

What is unusual about Mr. Toyoda's quest is that for the first time for a Toyoda family member, a considerable obstacle stands in his way. That is Mr. Okuda, who still yields enormous influence in Toyota's strategy as the company's elder statesman and a key board member.

Mr. Okuda has vocally opposed allowing Toyoda family members back into power unless they are exceptionally qualified. "Nepotism just doesn't belong in our future," Mr. Okuda said in an interview in 2000. He made it clear that Akio Toyoda would have to do something never asked of the other Toyodas: fight for the keys to what had been seen as the family car.

"Akio-class talents are rolling around all over Toyota, like so many potatoes," Mr. Okuda said then. Individuals knowledgeable about Mr. Okuda's thinking say he is trying to assemble a team of executives and advisers that could back Mr. Toyoda in case he is chosen as the next leader.

Chrysler to slash costs to justify receiving bailout

By Neal E. Boudette

Chrysler LLC is rushing to slash costs further in a bid to show the government the company can be viable, senior executives told dealers in an Internet broadcast last week.

The auto maker, which is receiving $4 billion in emergency loans from Washington, aims to submit a restructuring plan by March that shows how Chrysler will shrink in response to the steep decline in auto sales, the executives said, according to a person who saw the presentation.

"We have to size down for the industry we have," Vice Chairman Jim Press said in the Webcast, this person said. Mr. Press added this means a "massive reduction" in fixed costs, this person said.

Mr. Press's comments indicate Chrysler and its majority owner, **Cerberus Capital Management** LP, are going to try to keep the company going as a stand-alone business at least in the short term. Cerberus had talks this fall about merging the company with **General Motors** Corp., and recently sought to revive those discussions. GM is also getting billions of dollars from the federal government and needs to show it can continue operating and make progress toward profitability.

Mr. Press's comments gave a glimpse into the strategy and financial challenges at Chrysler, which as a private company doesn't publicly report results. Under the terms of the loan program unveiled by President George W. Bush earlier this month, Chrysler has to show it can be viable by March 31 to keep the money it gets to that point and to qualify for additional loans.

"We have to make concessions from the whole organization to make this loan work," Mr. Press said, noting that employees, suppliers, the auto workers' union and creditors will have to accept sacrifices, according to the person who saw the Webcast.

A Chrysler spokesman said the company has been working for more than a year to downsize. Mr. Press was reiterating what the company said on previous occasions, the spokesman said.

Earlier last week, in a letter sent to employees, Chief Executive Robert Nardelli wrote that Chrysler will work to identify and achieve cost savings. During the Webcast to dealers, Mr. Press said the loans from Washington are "not the end of the battle but the beginning."

Although Chrysler cut its salaried work force by 25%, or about 5,000 jobs, in November, and shut a Newark, Del., plant that made sport-utility vehicles, it needs additional belt-tightening because the dramatic slowing of sales has eroded the company's finances, Mr. Press said.

Among other cuts Chrysler is likely to seek are additional concessions from its suppliers and unionized workers. It already has slashed spending on developing new models .

In the year's first six months, Chrysler managed to make a small profit, Mr. Press said. Then high gas prices and the financial crisis weakened demand dramatically. He said the sales slowdown in the second half cost Chrysler $7.6 billion in business and caused the company to "run short of cash."

Mr. Press didn't elaborate on the company's losses in the second half. Chrysler previously said it had about $9 billion in cash at the end of June, and expected that to decline to just $2.5 billion at the end of the year.

CORPORATE NEWS

Kuwait scraps Dow deal

Parliament sours on $7.5 billion stake in chemicals venture

By Jeffrey Ball and Chip Cummins

Kuwait scuttled its multibillion-dollar joint-venture deal with **Dow Chemical** Co. that was set to take effect Thursday, in a major blow to the chemical giant. The move is also the latest sign of how plummeting energy prices are roiling the global economy.

Dow said Kuwaiti officials informed the company Sunday that the country is scrapping a deal under which a state-owned Kuwait petroleum company was to pay Dow $7.5 billion for a 50% stake in several basic-chemicals plants.

The decision by Kuwait's top petroleum-policy council came less than a week before the Kuwaiti company, **Petrochemical Industries** Co., or PIC, was due to pay Dow; both companies were also planning to collect $1.5 billion apiece from the joint venture, which was known as K-Dow Petrochemicals.

That money was supposed to help finance Dow's $15.3 billion purchase of **Rohm & Haas** Co., which makes coatings and electronic materials. Analysts have said for some time that if the Kuwait deal was cancelled, it would call into question the Rohm & Haas acquisition, which is slated to close in early 2009.

Dow said in a statement that it is "extremely disappointed" with Kuwait's decision and is "evaluating its options" under the agreement it had with PIC, a subsidiary of Kuwait Petroleum.

The apparent unraveling of the massive deal is the latest sign of how roller-coaster energy prices are whipsawing industry. Dow announced the Kuwaiti joint venture about a year ago, when soaring energy prices were forcing the company to search farther afield for affordable supplies of natural gas, which Dow consumes in huge quantities to make its chemicals. But energy prices have cratered since then—leading countries like Kuwait, which hold vast stores of hydrocarbons, to reconsider whether now is the best time to be undertaking big deals.

Kuwait's decision is a serious setback to Dow, which saw the joint-venture deal as crucial to improving the company's long-term profitability. For several years, Dow Chief Executive Andrew Liveris has been trying to reposition the company, moving it away from producing low-margin commodity chemicals and into the higher-margin specialty chemicals business.

Earlier this year, Mr. Liveris described the Kuwait joint venture as "truly a partnership for the ages."

But Kuwaiti members of Parliament had recently raised objections to the deal, worrying it would prove less profitable than the country had anticipated given the recent drop in energy prices.

Kuwait's state news agency, Kuna, reported Sunday that the sheikhdom's top petroleum-policy council, which is chaired by the prime minister, decided to cancel the deal. The government didn't give any more details about its decision.

In an interview this summer, Mr. Liveris described the day he announced the Kuwait deal, on live television, as one of the best in his long career at Dow.

It wasn't long after that, though, that ominous signs emerged. Earlier this month, Dow renegotiated the deal with Kuwait and agreed to accept a total of $9 billion, including the money borrowed by K-Dow, or about $500 million less than Dow Chemical originally planned.

Mr. Liveris said in an interview at the time that the reduced price reflected the turmoil in the chemical industry as the global economic slowdown slashed demand for chemical products.

A week later, Dow announced major cutbacks amid the weak economy. It said it was cutting 5,000 jobs, or about 11% of its work force, and reducing the number of contractors it hires by about 6,000, or 30%. In addition, Dow said it would shut 20 plants and idle 180—about a third of its plants globally—and try to sell several businesses.

India's print media retrench

By Romit Guha

BANGALORE, India—India's print-media industry is being forced to delay expansion plans, lay off staff, freeze hiring and cut the number of pages as companies reduce the amount they spend on advertisements to cope with a softening economy.

The tough times are a reversal in fortune for the world's third-largest news-daily market, which had until recently been booming with new dailies launching every month.

A decline in newsprint prices has offered some succor to the industry, but it isn't enough to offset the effects of slowing advertisement revenue, which contributes more than three-fourths to a newspaper's total revenue, analysts say.

"These are very uncertain times, a very challenging environment. The cumulative effect of the [current] times is that the advertisement industry is experiencing a volume slowdown," said Rajiv Verma, chief executive at **HT Media** Ltd., which publishes the popular English language daily the Hindustan Times. Mint, a business newspaper from HT, has an exclusive agreement with Wall Street Journal publisher Dow Jones & Co. to publish Journal-branded news and information in India.

The dynamics of India's newspaper sector are different from those of saturated markets in the West, with India's benefiting from growing readership because of an increasing literacy rate, as well as a relatively low penetration rate of the Internet.

"The current problems are more to do with the overall [Indian] economic situation," said Anand Shah, an analyst at Mumbai-based brokerage Angel Broking, who added that circulation is still expected to grow about 5% to 8% a year for the next few years.

India's economy, which has expanded an average of 8.8% over the past four years, is showing signs of fatigue as the global economy slumps.

Advertising revenue, in turn, is expected to grow an average of 10% to 12%, much slower than the 18% average growth the industry has seen in the past two years, Mr. Shah said.

Sectors such as realty, automobiles and financial services have "almost stopped" advertising, while travel and tourism have slowed, said another Mumbai-based analyst. Together, these sectors contribute more than 30% to total advertising spending.

Total ad spending in India is 190 billion to 200 billion rupees, or about $4 billion, with the print media accounting for half, according to Mr. Shah.

Disney gets out of Narnia franchise

By Lauren A.E. Schuker

Walt Disney Co. said it won't be involved in a third "Chronicles of Narnia" movie, pulling out of a long-standing partnership with co-producer **Walden Media** to finance the children's franchise that once represented one of the most promising film properties in the Disney stable.

Disney cited "budgetary considerations and other logistics" as reasons for not financing the film. But the studio's decision comes in the midst of a sharp downward turn for the franchise, based on the popular fantasy books by C.S. Lewis. The series' first film, "The Chronicles of Narnia: The Lion, the Witch and the Wardrobe," grossed $745 million world-wide in 2005, and Disney made plans to participate in a fleet of sequels.

However, the second film in the series, "The Chronicles of Narnia: Prince Caspian," brought in just $419 million world-wide when it was released earlier this year. Reports at the time of the film's May release estimated that it cost as much as $200 million to produce, not counting marketing costs.

Disney's move comes in the wake of major cutbacks at the Hollywood studios, as financing deals dry up with the credit crisis on Wall Street. Overall budgets are tighter, forcing studios to trim the number of films they are releasing each year, especially movies that have a poor prognosis in the marketplace.

Some of Walden Media's recent films, such as "Nim's Island" and "Mr. Magorium's Wonder Emporium," have also stumbled at the box office, though its 3-D film "Journey to the Center of the Earth" performed well this summer. A spokesman for Walden Media, owned by Phil Anschutz, said the company remains committed to the "Narnia" franchise.

It isn't clear what Disney's move will mean for future "Narnia" movies, but Walden plans to actively shop the project to other partners. The third installment of the fantasy series, called "The Voyage of the Dawn Treader," was set to shoot early next year for a planned May 2010 release. A director and actors were already attached.

GLOBAL BUSINESS BRIEFS

Cadbury PLC

Asahi Breweries will buy Australian drinks business

Cadbury PLC reached a conditional agreement Wednesday to sell its Australian drinks business to **Asahi Breweries** Ltd. of Japan for £550 million ($806 million), barely a week after the unit was put on the market. A sale of the unit will end a process begun more than three years ago that leaves the U.K. maker of Dairy Milk chocolate and Trident chewing gum focused purely on the confectionery market—a category recognized as among the most resilient in a consumer downturn. The net cash proceeds of the sale will be used to repay the €600 million bond that matures in June 2009. Asahi has been keen to grow outside its home market.

Hypo Real Estate Holding AG

German prosecutors said Saturday they have launched several investigations into suspected insider trading at troubled lender **Hypo Real Estate Holding** AG. Investigators were looking at the sale of large numbers of shares in the company before it first warned of troubles during the global financial crisis, said Anton Winkler, a spokesman for Munich prosecutors. Mr. Winkler said the inquiries started in February but declined to name any of those being investigated. In August, Hypo Real Estate reported a 28% drop in second-quarter net profit, then-Chief Executive Georg Funke said that the company's commercial real-estate and public-finance businesses were "strong." The bank ran into trouble in September as credit froze. It received a government rescue package.

Adams Childrenswear Ltd.

U.K.-based Adams Childrenswear Ltd. said Sunday it has taken a step toward filing for bankruptcy protection. The 75-year-old retailer submitted court papers last week, indicating it planned to appoint administrators. Adams is the latest addition to a growing list of U.K. retailers to run into trouble as the country heads into a prolonged recession. On Christmas Eve, Zavvi Retail Ltd., which sells music, games and DVDs, filed for administration, blaming the collapse of Woolworths Group PLC's distribution arm. With 125 stores and about 2,400 permanent employees, Zavvi is Britain's largest independent entertainment retailer. It was created by a management buyout of the Virgin Megastores unit from Virgin Group Ltd. just over a year ago.

AstraZeneca PLC

AstraZeneca PLC said Wednesday that the U.S. Food and Drug Administration has asked for more information regarding the drug Seroquel, which AstraZeneca is trying to get approved for use by people suffering from depression. Seroquel XR, one of AstraZeneca's best-selling drugs, is currently approved in the U.S. only for the treatment of schizophrenia or bipolar disorder, a disease characterized by dramatic and severe mood swings. But AstraZeneca has applied to the FDA to market the drug for the treatment of major depressive disorder in adult patients. The London-based drug maker said the FDA has sought more information in a so-called complete response letter, or a CRL, to that application. The company said it didn't know if, or when, the drug would get approval for treating depression.

Fortis NV

Fortis NV incurred a loss of €295 million ($411 million) as the company sold dollars and pounds it had bought to prepare for BNP Paribas SA's now-stalled acquisition of certain Fortis assets. Fortis said Wednesday that the loss reduced its pro forma net cash position at the end of September to €1.8 billion from the €2.1 billion previously reported. Shareholders' equity, pro forma, fell to €6.4 billion from the €6.7 billion it had reported. The euro has gained about 8% against the dollar since Dec. 8, the day Fortis said it bought the currency. "Given the current uncertainty, Fortis decided to sell the U.S. dollars and pounds sterling again," the Brussels-based company said. A spokesman for French lender BNP Paribas declined to comment Wednesday. The loss is equivalent to 10 European cents a share, KBC analyst Dirk Peeters said.

PepsiCo Inc.

Football star David Beckham has ended a 10-year deal with **PepsiCo** Inc. "David's football legacy will live on and everyone at Pepsi will continue to be as passionate about his success as we have been over the last 10 years," the soft drinks manufacturer said. "We wish David well with the many projects he is pursuing and look forward to the possibility of partnering together with him again someday." The 33-year-old England midfielder, who is playing for AC Milan in Italy on loan from Major League Soccer's Los Angeles Galaxy, enjoys global renown and still has lucrative sponsorship deals with major brands like Adidas AG and Giorgio Armani SpA. "I have nothing but good memories of my association with Pepsi," said Mr. Beckham. "I've played a gladiator, a cowboy, a surfer, and worked alongside Beyoncé and Jennifer Lopez as well as some of the biggest names in world football."

Deutsche Bank AG

Deutsche Bank AG reacted angrily last week to a criticism of its Chief Executive Josef Ackermann by Protestant Bishop Wolfgang Huber, calling it a personal attack. In an article published on Christmas Eve in the German newspaper Berliner Zeitung, Mr. Huber singled out Mr. Ackermann as a negative example in an era in which "money has become God." Mr. Ackermann earlier this month said he still sees the investment-banking business as attractive and expects it to contribute significantly to Deutsche Bank's earnings. Citing an "ethical duty" to "long-term values and stability," Mr. Huber criticized Mr. Ackermann's forecast. "What could [these values] mean concretely?" he said.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.N. push to stem misconduct flounders

Three years on, organization lacks unified ethics policy, faces allegations of retaliation against whistle-blowers

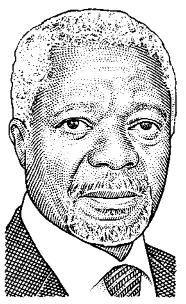
By Andrew Higgins
And Steve Stecklow

An American-backed drive to curb misconduct at the United Nations is faltering, blighted by bureaucracy and accusations of retaliation against whistle-blowers.

Launched in December 2005 with advice from U.S. officials, the reform initiative was supposed to protect U.N. employees who exposed wrongdoing. The U.N. pledged this would ensure the "highest standards of integrity."

Since then, the organization has been hit by many allegations of misconduct, from claims that U.N. peacekeepers in Congo traded guns for gold with rebels to accusations of corruption by U.N. employees in Kosovo.

Instead of a streamlined system to process complaints, the U.N. has set up no fewer than eight separate ethics offices, each with its own guidelines, deadlines for claims and jurisdiction. Other parts of the U.N. also handle allegations of misconduct, including an ombudsman's office.



Kofi Annan

"The U.N. isn't serious about cleaning up its act," says James Wasserstrom, a former U.N. official in Kosovo who, after becoming a whistle-blower himself last year, was placed under investigation by the U.N. A 25-year veteran of the U.N., Mr. Wasserstrom, an American, was eventually cleared of any wrongdoing and recently filed a retaliation complaint with a U.N. appeals panel.

The U.N., says Mr. Wasserstrom, "uses the whistle-blowing program to get its most ethical staff to stick their heads above ground in order to chop them off."

The U.N. denies this and says it doesn't tolerate retaliation against staff members who report misdeeds. The U.N. is "very, very diligent in pursuing" wrongdoing, says Angela Kane, the organization's under-secretary-general for management. She says there has been a "great culture change" in the organization.

The U.N. declined to discuss individual cases of whistle-blowers who have alleged retaliation. On the issue of misconduct in general, the organization says some senior officials have been punished after reports of wrongdoing by colleagues.

The system for rooting out misconduct mirrors the organization as a whole—a sprawling array of fiefdoms. U.S. officials have been frustrated by the plethora of separate bodies monitoring what they hoped would be a unified ethics policy.

Canadian attorney Robert Benson says that when he arrived at the U.N. in May 2007 he assumed that his New York-based Ethics Office had jurisdiction over the entire organization. But he soon learned it oversaw only the U.N. Secretariat—the U.N.'s main administrative body. Assorted agencies and funds opted to set up their own ethics bureaus. "I wasn't a student of the United Nations," says Mr. Benson. "Would it be better to have one office? Absolutely."

The U.N. says it has no immediate plans to consolidate the various ethics bureaus, but it is finalizing one set of ethical standards to be followed by all its agencies.

While the U.N. is supposed to start up in January a new internal justice system staffed by professional judges, so far judges haven't been appointed. The U.N. blames this in part on member states, which delayed approving rules that would govern the new arrangement.

In February of last year, Mr. Wasserstrom, the American whistle-blower, began making reports to New York about mismanagement and possible corruption in Kosovo's energy sector on the part of senior U.N. officials in the formerly Serbian-controlled region.

He provided no concrete evidence of graft. But in communications with the Office of Internal Oversight Services, the U.N.'s main investigative unit, Mr. Wasserstrom passed on information relating to a proposed new power plant known as Kosovo C. This included claims that U.N. officials were taking kickbacks. He says he had "no way of knowing if the information was true or not, but it was at the very least very worrying and needed to be investigated."

Reuters

Flags fly in front of the United Nations Headquarters in New York. The U.N. has no fewer than eight separate ethics offices, each with its own guidelines, deadlines for claims and jurisdiction. Other parts of the U.N. also handle allegations of misconduct.

At the time, Mr. Wasserstrom was the head of a U.N. office in Kosovo that monitored the electricity utility and other publicly owned enterprises. He also alleged that the U.N. Kosovo mission was colluding with local politicians to undermine the independence of publicly owned enterprises.

The OIOS declined to comment on the outcome of an investigation into the corruption and mismanagement concerns raised by Mr. Wasserstrom.

At the same time that OIOS was looking into Mr. Wasserstrom's allegations, the U.N.'s personnel department in Kosovo announced what it said was a long-scheduled decision: Mr. Wasserstrom's job was about to be eliminated.

Facing unemployment, he signed a contract to work as a private consultant for Kosovo's main airport and the region's telecommunications agency. Senior U.N. officials in Kosovo—the same people he wanted investigated—accused him of violating procedure and placed him under investigation for conflict of interest.

Detained at the Kosovo border by U.N. police in June last year, Mr. Wasserstrom says he had his American passport seized and car searched. His apartment in the Kosovo capital Pristina was also searched. Investigators sealed off his office, confiscated his computer and placed a "wanted poster" at entrances to the U.N. mission's Kosovo headquarters. It featured a mug shot of Mr. Wasserstrom and an order barring the American from the premises. Official U.N. documents on the matter reviewed by The Wall Street Journal confirm this account.

"They treated me like a common criminal," says Mr. Wasserstrom. After an investigation lasting nearly 11 months, he was cleared earlier this year of any wrongdoing. Mr. Wasserstrom in the meantime filed a retaliation complaint with Mr. Benson's Ethics Office in New York. The U.N. says that 45 people similarly complained of retaliation over the 12-month period up to this July and that 18 of these cases warranted preliminary review.

In a letter to Mr. Wasserstrom in April, Mr. Benson said that while some of the measures taken against him "appeared to be excessive" and involved "investigative failures," a detailed study of his treatment by U.N. investigators "did not find any evidence that these activities were retaliatory."

Mr. Benson says he isn't allowed to comment on individual cases. The OIOS, which investigated Mr. Wasserstrom's claims, says that retaliation is a "very specific type of conduct" and differs from other forms of mistreatment. In response to written questions, it didn't address Mr. Wasserstrom's case directly but noted that "abuse of authority and harassment" can also flow from "interpersonal problems" and other issues unrelated to retaliation.

Gasoline prices ease pain in U.S.

By Sudeep Reddy

The weakening U.S. labor market is compressing consumer incomes and spending, though the sharp decline in gasoline prices is offsetting those troubles for now.

Companies shed jobs at a quickening pace in the week of Dec. 15, pushing initial unemployment claims to 586,000, up 30,000 from a week earlier, the Labor Department said.

New jobless claims are at their highest level since November 1982. Continuing claims for unemployment compensation edged slightly lower to 4.37 million in the latest report but remained historically high, underscoring the difficult environment for job hunters.

Troubles in the labor market are expected to restrain consumer spending. Consumption fell 0.6% in November from a month earlier, the Commerce Department said Wednesday. That marked the fifth straight monthly decline.

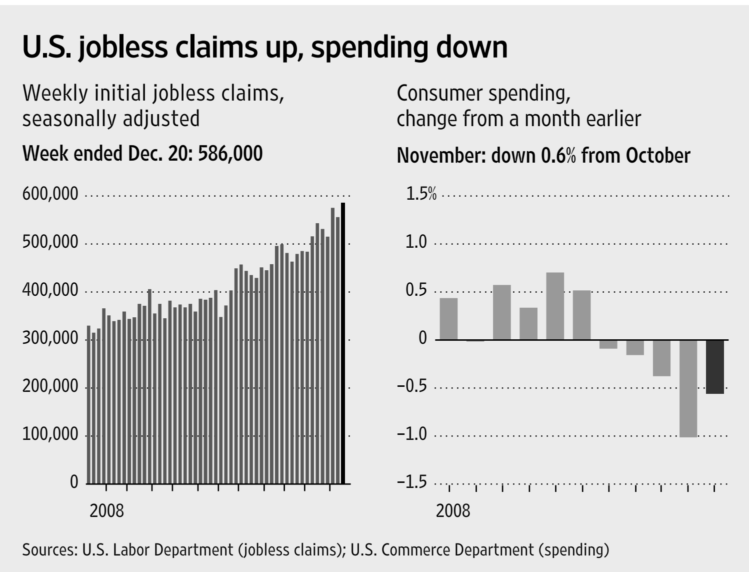
But spending adjusted for inflation rose 0.6%—the first gain since May—as gasoline prices tumbled, one of the few positive developments for consumers in recent months. The decline in fuel prices also pushed inflation-adjusted disposable income up 1% for the month, as nominal disposable income dipped 0.1% and overall personal income fell 0.2%.

Consumers are growing more cautious despite the relief from lower energy prices, pushing the nation's personal saving rate to 2.8% in November from 2.4% in October. The rising saving rate—the difference between disposable income and consumption—is partly due to tighter credit, which limits borrowing capacity, and consumers trying to restore losses from falling home values and tumbling stock prices. That is expected to hurt overall spending, which drives more than 70% of economic activity, even more in the coming months.

Consumers will face "much weaker income growth over the next few months, and this will cause even more conservative behavior and less spending," said BNP Paribas economist Brian Fabbri.

Economists expect consumer spending to decline in the fourth quarter, though falling energy and food prices are likely to make the drop less severe than the third-quarter decline.

The Commerce Department's price index for personal-consumption expenditures, a closely watched inflation gauge, fell 1.1% in November, with the year-over-year increase at 1.4%. The "core" measure, which excludes energy and food prices, remained unchanged on a monthly basis and posted a 1.9% gain from a year earlier. Federal Reserve officials generally define price stability as an annual inflation rate between 1.5% and 2%.



The economy is still expected to contract sharply in the current quarter and the first quarter of 2009, but the softening prices are offsetting the decline slightly. After the report, Morgan Stanley economists said fourth-quarter economic output is now on track to drop at a 5.9% annual rate instead of the 6.4% decline estimated earlier.

Talk of U.S. collapse lifts Russian academic

Former KGB analyst becomes media star with breakup theory

By Andrew Osborn

MOSCOW—For a decade, Russian academic Igor Panarin has been predicting the U.S. will fall apart in 2010. For most of that time, he admits, few took his argument—that an economic and moral collapse will trigger a civil war and the eventual breakup of the U.S.—very seriously. Now he has found an eager audience: Russian state media.

In recent weeks, he has been interviewed as much as twice a day about his predictions. "It's a record," says Prof. Panarin. "But I think the attention is going to grow even stronger."

Igor Panarin

Prof. Panarin, 50 years old, isn't a fringe figure. A former KGB analyst, he is dean of the Russian Foreign Ministry's academy for future diplomats. He is invited to Kremlin receptions, lectures students, publishes books and appears in the media as an expert on U.S.-Russia relations.

But it is his bleak forecast for the U.S. that is music to the ears of the Kremlin, which in recent years has blamed Washington for everything from instability in the Middle East to the global financial crisis. Mr. Panarin's views also fit neatly with the Kremlin's narrative that Russia is returning to its rightful place on the world stage after the weakness of the 1990s, when many feared that the country would go economically and politically bankrupt and break into separate territories.

A polite and cheerful man with a buzz-cut, Mr. Panarin insists he doesn't dislike Americans. But he warns that the outlook for them is dire.

"There's a 55-45% chance right now that disintegration will occur," he says. "One could rejoice in that process," he adds, poker-faced. "But if we're talking reasonably, it's not the best scenario—for Russia." Though Russia would become more powerful on the global stage, he says, its economy would suffer because it currently depends heavily on the dollar and on trade with the U.S.

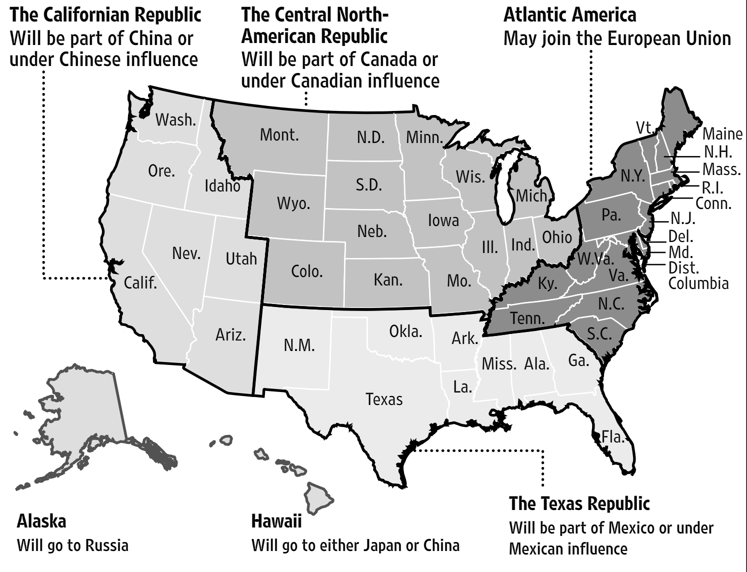
Prof. Panarin posits, in brief, that mass immigration, economic decline and moral degradation will trigger a civil war next fall and the collapse of the dollar. Around the end of June 2010, or early July, he says, the U.S. will break into six pieces—with Alaska reverting to Russian control.

In addition to increasing coverage in state media, which are tightly controlled by the Kremlin, Mr. Panarin's ideas are now being widely discussed among local experts. He presented his theory at a recent roundtable discussion at the Foreign Ministry. The country's top international-relations school has hosted him as a keynote speaker. During an appearance on the state TV channel Rossiya, the station cut between his comments and TV footage of lines at soup kitchens and crowds of homeless people in the U.S. The professor has also been featured on the Kremlin's English-language propaganda channel, Russia Today.

Prof. Panarin's apocalyptic vision "reflects a very pronounced degree of anti-Americanism in Russia today," says Vladimir Pozner, a prominent TV journalist in Russia. "It's much stronger than it was in the Soviet Union."

Mr. Pozner and other Russian commentators and experts on the U.S. dismiss Prof. Panarin's predictions. "Crazy ideas are not usually discussed by serious people," says Sergei Rogov, director of the government-run Institute for U.S. and Canadian Studies, who thinks Prof. Panarin's theories don't hold water.

Divided states | A Russian professor's prediction of how the U.S. will split



By some measures, Prof. Panarin has an impressive résumé, including many years in the Soviet KGB, an experience shared by other top Russian officials. His office, in downtown Moscow, shows his national pride, with pennants on the wall bearing the emblem of the FSB, the KGB's successor agency. It is also full of statuettes of eagles; a double-headed eagle was the symbol of Czarist Russia.

The professor says he began his career in the KGB in 1976. In post-Soviet Russia, he studied political science and U.S. economics, and worked for FAPSI, then the Russian equivalent of the U.S. National Security Agency. He says he did strategy forecasts for then-President Boris Yeltsin, saying the details are "classified."

In September 1998, he attended a conference in Linz, Austria, devoted to information warfare, the use of data to get an edge over a rival. It was there, in front of 400 fellow delegates, that he first presented his theory about the collapse of the U.S. in 2010.

"When I pushed the button on my computer and the map of the United States disintegrated, hundreds of people cried out in surprise," he remembers. He says most in the audience were skeptical. "They didn't believe me."

At the end of the presentation, he said many delegates asked him to autograph copies of the map showing a dismembered U.S.

He based the forecast on classified data supplied to him by FAPSI analysts, he added. He predicts that economic, financial, and demographic trends will provoke a political and social crisis in the U.S. When the going gets tough, he says, wealthier states will withhold funds from the federal government and effectively secede from the union. Social unrest up to and including a civil war will follow. The U.S. will then split along ethnic lines, and foreign powers will move in.

California will form the nucleus of what he calls "The Californian Republic," and will be part of China or under Chinese influence. Texas will be the heart of "The Texas Republic," a cluster of states that will go to Mexico or fall under Mexican influence. Washington and New York will be part of an "Atlantic America" that may join the European Union. Canada will grab a group of northern states Prof. Panarin calls "The Central North American Republic." Hawaii, he suggests, will be a protectorate of Japan or China, and Alaska will be subsumed into Russia.

"It would be reasonable for Russia to lay claim to Alaska, it was part of the Russian Empire for a long time." A framed satellite image of the Bering Strait that separates Alaska from Russia like a thread hangs from his office wall. "It's not there for no reason," he says with a sly grin.

Interest in his forecast revived this fall when he published an article in Izvestia, one of Russia's biggest national dailies. In it, he reiterated his theory, called U.S. foreign debt "a pyramid scheme," and predicting China and Russia would usurp Washington's role as a global financial regulator.

Americans hope President-elect Barack Obama "can work miracles," he wrote. "But when spring comes, it will be clear that there are no miracles."

The article prompted a question about the White House's reaction to Prof. Panarin's forecast at a December news conference. "I'll have to decline to comment," spokeswoman Dana Perino said amid much laughter.

For Prof. Panarin, Ms. Perino's response was significant. "The way the answer was phrased was an indication that my views are being listened to very carefully," he says.

The professor says he is convinced that people are taking his theory more seriously. People like him have forecast similar cataclysms before, he says, and been right. He cites French political scientist Emmanuel Todd. Mr. Todd is famous for having rightly forecast the demise of the Soviet Union—15 years beforehand. "When he forecast the collapse of the Soviet Union in 1976, people laughed at him," says Prof. Panarin.

Voters in Kashmir defy boycott

By Niraj Sheth

Voters in the troubled Indian state of Jammu and Kashmir turned out in large numbers to cast ballots in the state elections, dealing separatists a setback.

The voters defied a boycott called by Kashmiri Islamic militant leaders who oppose Indian rule in the disputed territory, which is also claimed by Pakistan.

Still, the election results indicate that forming an effective state government will be difficult. No single party won a clear majority in the balloting, and the plurality of seats in the 87-member state legislature went to the National Conference Party, which won 21 of the 69 posts for which results were announced Sunday night.

The National Conference Party, which opposes Kashmiri independence, is likely to form a ruling coalition with the Congress Party, which heads India's ruling federal coalition government in New Delhi. The incumbent People's Democratic Party, which ran on a platform calling for greater self-rule in the predominately Muslim state, won 18 assembly seats, according to initial polling results.

Analysts say the fragmented election results shouldn't greatly influence relations between India and Pakistan, which have become increasingly tense since the deadly terrorist strikes in Mumbai last month.

"For that part of Pakistan that wants to stoke [the] separatists, this is something of a letdown," said Seema Desai, an Asia analyst with the New York-based Eurasia Group.

The results are also a poor gauge for India's national elections, expected to be held as early as April. Jammu and Kashmir, the focal point of a long-running territorial dispute with Pakistan, faces a set of issues unique from the rest of India, analysts note.

With about 80% of the state's districts reporting results, this election's turnout of more than 60% of voters exceeded the 44% that cast ballots in the previous state election held six years ago. The higher turnout is the latest sign that separatist groups have lost wide public support in Kashmir, where militant attacks were once a daily occurrence. Now, Indian officials say as few as 600 armed Islamic insurgents remain in the state.

"It doesn't mean separatists are over in Kashmir," said Ms. Desai. "It's just that their agenda has been taken over by more mainstream parties."

The installation of a new state government will mark the end of almost six months of federal rule that followed conflicts between Hindu protesters and police that left more than 50 people dead. The religion-based rioting was sparked by a dispute over control of land set aside for a Hindu pilgrimage site.

If it successfully forms a majority coalition, the National Conference Party will be returning to power for the first time since voters threw it out in 2002 after nearly two decades of continuous rule. The party is led by Omar Abdullah, who gained national fame when he delivered a strong speech supporting the ruling Congress Party coalition in the Indian Parliament in July, when the federal government faced a no-confidence vote.

The country's lone Muslim-majority state, Jammu and Kashmir is the only state to have special provisions granting it a high degree of autonomy built into the India's federal constitution. Almost all national laws can take effect in Jammu and Kashmir only with the state legislature's approval.

Turkey cuts budgets by 16% as it seeks to win IMF loan

Associated Press

ANKARA, Turkey — Turkey's parliament on Saturday cut the budget allocations of most ministries by as much as 16% as the country seeks a loan deal with the International Monetary Fund.

Parliament voted 324-117 to save around 5.5 billion liras ($3.6 billion) in the 2009 budget. That is expected to please an IMF delegation due to arrive in Ankara early January. The IMF has long been urging Turkey to cut spending.

The budgets of the defense, justice and transportation ministries were excluded.

Central Bank Gov. Durmus Yilmaz on Saturday said Turkey's banking sector was sound thanks to an overhaul of the banking system following a deep financial crisis in 2001. But authorities were pondering how to address a sharp slowdown in the economy amid layoffs and production halts particularly in the country's leading automotive and textile industries.

Turkey hopes to complete the talks with the IMF in January and secure a loan of some $25 billion. Turkey has to repay around $50 billion of foreign debt within a year.

The slowdown may push the central bank to further cut interest rates. The overnight lending interest rate between banks now stands at 17.5%.

However, the Parliament didn't revise some key official projections for 2009, including a target of a 27% rise in exports and an ambitious 4% growth in gross domestic product. A recent report by the Organization for Economic Cooperation and Development said Turkey's growth rate is expected to decline to below 2% next year.

Turkey's economy has been plagued by a current account deficit, and GDP growth slowed in the third quarter to a rate of only 0.5%. Still, the growth rate in the first nine months reached 3%. The jobless rate stood at 10.3% in September.

Inflation has also fueled protests. Thousands carried torches in 14 cities on Saturday to protest against the government, the state-run Anatolia news agency reported.

Dairies to offer payments

China seeks to help tainted-milk victims and allay discontent

Advocates for families in China whose children were sickened by tainted milk in one of China's worst product-safety scandals cautiously welcomed an industry plan to offer compensation, but some expressed concern that the payments would be inadequate to cover hefty medical expenses.

By **Loretta Chao** in Beijing and **Gordon Fairclough** in Shanghai

China's Dairy Industry Association said 22 Chinese dairy companies will make one-time cash payments to the families of some 294,000 children sickened by milk products adulterated with the industrial chemical melamine, the state-run Xinhua news agency reported on Saturday. The report didn't specify the amount or timing of the payments, and association officials declined to comment.

The poisoned-milk scandal, which surfaced more than three months ago, has aroused widespread public discontent, and the dairy industry and the government appear to be stepping up efforts to resolve the issue. The compensation plan was announced a day after Chinese prosecutors launched the first criminal trials in the scandal, targeting six people in several cities.

At least six babies have died as a result of kidney damage from milk powder tainted with melamine, a chemical used in plastics and adhesives. Melamine can be misread in lab tests as protein, and authorities believe it was added to milk to inflate readings of nutritional value. Of the 294,000 children under three years old who were sickened by tainted milk, 861 were still in the hospital as of Nov. 27, according to the latest estimates from China's Ministry of Health. (Children older than three may have been affected by the tainted milk, but they weren't included in the ministry's tally.)

Parents have filed dozens of lawsuits against the milk producers, but the Chinese courts have yet to accept or reject their complaints, lawyers involved say. It's unclear how the compensation plan will affect those suits.

Chen Beiyuan, a Guangzhou-based lawyer who has consulted several victims' families, said that if the terms of the compensation are reasonable, "it should be most effective and the least expensive choice for most people." Mr. Chen said he has spoken to one family he represents that has filed a lawsuit against a milk producer, and that the parents plan to wait for more details before deciding whether to pursue the case in court. Such lawsuits in China are generally difficult for plaintiffs to win, and it's unclear how successful the families will be in court.

Some parents are concerned that a blanket compensation plan won't be adequate. Zhang Ping, in the southeastern province of Fujian, says his one-year-old daughter had surgery for melamine complications in June, before news of the scandal spread and free treatment was offered to victims. Mr. Zhang's family so far has spent 90,000 yuan, or about $13,000, and he worries the family will incur further costs for treatment.

Xu Zhiyong, a Beijing lawyer who is part of a group of attorneys volunteering to help victims' families, said he intends to recommend continuing with lawsuits against milk producers. "This is a plan forcibly imposed on the victims, and it cannot ultimately resolve the problem."

Xinhua quoted the dairy association Saturday as saying the compensation money "is in place now and will soon be handed" to guardians of the affected children.

The 22 companies include **Shijiazhuang Sanlu Group** Co., the Hebei-based company whose high concentrations of melamine in its milk powder sparked investigations in September. Sanlu petitioned for bankruptcy last week, after having borrowed 902 million yuan to contribute to victim compensation, according to the government of Shijiazhuang, the city where it is based. Sanlu couldn't be reached for comment.

The government's widening legal battle against those allegedly responsible for the milk contamination appears to be an effort to reassure consumers that regulators will protect them. Aggressive prosecutions would send a message that the government is serious about product safety.

In one of the trials that took place Friday, police alleged that Zhang Yujun, a defendant, produced a mixture of melamine and a starch derivative that he and an associate, Zhang Yanzhang, sold to dairy farmers as "protein powder." Farmers added the powder to milk to fool dairy-company quality tests.

Zhang Jinlong, the attorney representing Zhang Yujun, said that his client's "behavior did jeopardize society and form a crime." But, he said, "We think there can be a more proper charge against him." He declined to elaborate. The lawyer said he believes the two defendant Zhangs aren't related to each other. Zhang Yanzhang's attorney couldn't be located for comment.

—Ellen Zhu in Shanghai and Kersten Zhang in Beijing contributed to this article.

Xinhua/Landov

Sanlu Group, which has its headquarters, above, in Shijiazhuang, is one of 22 dairy companies that will offer families compensation for China's tainted-milk scandal.