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TUESDAY, DECEMBER 2, 2008

Small, chic European cars are riding out a downturn

CORPORATE NEWS | PAGE 4

China may wield yuan as weapon against slowdown

HEARD ON THE STREET | PAGE 20

India demands Pakistan give it 2 terror suspects

Relations will suffer without swift action, New Delhi warns

BY MATTHEW ROSENBERG AND ERIC BELLMAN

MUMBAI—With evidence of a Pakistani link to the attack on Mumbai growing, India demanded on Monday that Islamabad hand over two important terror suspects and warned that relations between the nuclear-armed rivals would suffer if swift action isn't taken.

Indian officials told Pakistan's senior envoy to New Delhi of the demands after summoning him to the foreign ministry, said an official familiar with the meeting. "He was informed that the recent terrorist attack on Mumbai was carried out by elements from Pakistan," the foreign ministry said in a statement after the meeting. India "expects that strong action would be taken against those elements, whosoever they may be, responsible for this outrage."

The two men India is pressing Pakistan to turn over have long topped New Delhi's most-wanted list. They are Dawood Ibrahim, a onetime Mumbai gangster with ties ranging from Bollywood power brokers to Islamic militants, and Maulana Masood Azhar, the leader of the banned Pakistani militant group Jaish-e-Mohammed, who was once

Please turn to back page

Associated Press

Despite Germany's slowing economy, **Chancellor Angela Merkel** told members of the Christian Democratic Union she would continue to strive for a balanced budget.

Merkel's budget course for Germany draws fire

BY MARCUS WALKER

BERLIN—German Chancellor Angela Merkel dismissed growing calls for Germany to slash taxes or greatly boost spending, though Europe's industrial powerhouse is sliding into what could become its worst recession in decades.

While policy makers in the U.S. and elsewhere in Europe are drawing up ever-larger fiscal stimulus proposals, Ms. Merkel told her center-right Christian Democratic Union's annual conference that she would continue to strive for a balanced budget.

The speech came as European Union finance ministers began a two-day meeting in Brussels on Monday to discuss the EU's call for member nations to provide fiscal stimulus of about 1.5% of the 27-nation bloc's gross domestic product.

European countries including the U.K., Spain and Italy revealed extra stimulus measures last week, and France has said it will do so in coming weeks. Germany's government has been vocally skeptical about whether debt-fueled spending plans will work. But many of Ms. Merkel's conservative colleagues, as well as German business groups, economists and international organizations, are complaining that Germany is doing too little to lift its economy, which is contracting fast amid a slump in global exports.

Neighboring European countries

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What's News—

Business & Finance

U.S. stocks fell sharply, breaking a five-day rising streak, as data on manufacturing both in the U.S. and elsewhere added to concern that the global downturn will be worse than expected. Key indexes fell in Europe, led by declines in resource stocks. **Pages 1, 19**

■ **Oil futures tumbled** 9.5%, to $49.28 a barrel in New York, amid a steep drop in manufacturing activity in November and a selloff in U.S. stocks. **Page 6**

■ **The U.S. recession began** last December, and Fed Chairman Bernanke said it shows signs of getting deeper. **Page 2**

■ **Aer Lingus rejected** rival Ryanair's new $950 million takeover bid, calling the offer underpriced and unworkable. **Page 5**

■ **The yuan fell** sharply against the dollar leading up to the twice-a-year China-U.S. economic summit that begins Thursday in Beijing. **Page 24**

■ **Sacyr-Vallehermoso agreed** to sell highway operator Itinere to a Citigroup infrastructure fund, in a $3.65 billion deal. **Page 3**

■ **Ford Motor is re-evaluating** a sale of its Volvo luxury-car business as sales of the brand continue to slump. **Page 4**

■ **GM is trying** to craft a viability plan to present to U.S. lawmakers as it attempts to secure a federal rescue loan. **Page 4**

■ **Sales of small European cars** are rising, an indication customers still can be enticed to buy models that make the right lifestyle statement. **Page 4**

■ **AIG is selling** its private bank to Abu Dhabi's Aabar Investments as it works to shed assets and repay debt. **Page 22**

■ **Israel's economy,** dominated by a relatively small group of tycoons, is girding for a blow, roiling financial markets—and politics—ahead of elections. **Page 19**

■ **The eight largest** U.S. mortgage lenders reported fewer originations in the first nine months of 2008, while some smaller rivals saw opportunity. **Page 20**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8149.09	-679.95	-7.70
Nasdaq	1398.07	-137.50	-8.95
DJ Stoxx 600	193.91	-12.34	-5.98
FTSE 100	4065.49	-222.52	-5.19
DAX	4394.79	-274.65	-5.88
CAC 40	3080.43	-182.25	-5.59
Euro	$1.2614	-0.0076	-0.60
Nymex crude	$49.28	-5.15	-9.46

Money & Investing > **Page 19**

World-Wide

India demanded that Pakistan hand over two terror suspects and warned that relations between the rival nations would suffer if swift action isn't taken, as evidence grew of a Pakistani link to the Mumbai attack. Both men have been accused of orchestrating previous attacks in India, but neither has been directly implicated in last week's assault. **Page 1**

■ **Merkel dismissed** calls for Germany to slash taxes or greatly boost spending, though data showed the country sliding deeper into recession. **Page 1**

■ **Obama pledged to make** a clean break from Bush administration policies on Iraq, Afghanistan and overseas diplomacy, as he formally announced his national-security team. **Page 10**

■ **Multiple blasts struck** security forces in Baghdad and Mosul, killing at least 33 people and injuring dozens, including four U.S. soldiers and an Iraqi general.

■ **Romanian elections produced** a Parliament that will remain fragmented and will raise concerns that the country will make rapid wage gains a priority over tighter fiscal policy. **Page 3**

■ **Icelanders stormed** the central bank to demand the ouster of the governor, blaming him for the nation's economic crisis.

■ **Militants in Pakistan** attacked trucks ferrying supplies to coalition forces in Afghanistan, killing two people and destroying a dozen vehicles, police said.

■ **Many Thais are looking** to either the courts or the nation's influential royal family to help end the political crisis. **Page 31**

■ **A Libyan ship trying** to deliver aid to Hamas-controlled Gaza turned back in the face of an Israeli naval blockade.

■ **A U.N. climate conference** opened in Poland with warnings that the financial crisis can't divert efforts to control emissions.

■ **Kuwait's emir accepted** the resignation of the cabinet and asked the departing prime minister to form a new government, the speaker of Parliament said.

■ **The rate of HIV infection** in Europe nearly doubled between 2000 and 2007, to 75 per million people, an EU-U.N. report said.

EDITORIAL & OPINION

'Practitioners'

How do you effectively fight terrorists if you don't even identify them as such? **Page 12**

Stocks sink on global fears of a slowdown

A WSJ NEWS ROUNDUP

The Dow Jones Industrial Average dropped 7.7%, marking the year's second-worst percentage decline, as the U.S. stock market turned from red-hot to chilly.

Disappointing manufacturing activity in China, Britain, the U.S. and the euro zone fueled investors' fears of a slowdown worse than expected.

The gloom also covered Europe,

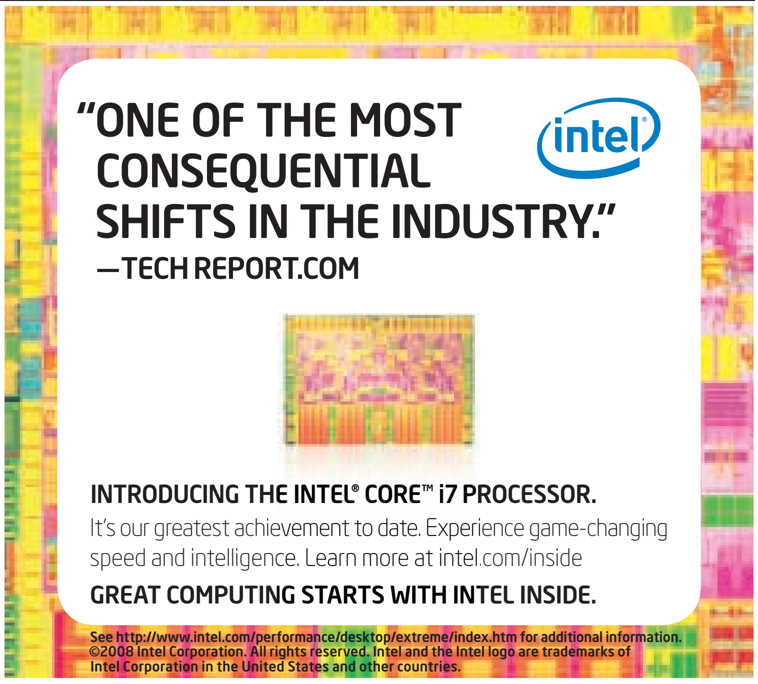
ABREAST OF THE MARKET

with the Dow Jones Stoxx 600 index 6% lower at 193.91. Basic resource stocks led the tumble, with aluminium producer **Norsk Hydro** dropping 11% and mining group **Anglo American** losing more than 14%.

U.S. Treasury securities rose Federal Reserve Chairman Ben Bernanke suggested rates might be lowered further and said buying government securities is an option to support financial markets and growth. Late in New York, the 10-year note rose 2 5/32 points to 108 30/32, to yield 2.719%.

The Dow industrials closed

Please turn to page 31



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Spain €2.90 - Sweden kr 27 - Switzerland SF 4.80 - Syria S£ 210 - Turkey YTL 4.25 - U.S. Military (Eur) $2 - United Kingdom £1.40

THE WALL STREET JOURNAL.

LEADING THE NEWS

U.S. in recession since '07

Fed's Bernanke sees more troubles ahead, hints at new rate cuts

By Jon Hilsenrath
And Sudeep Reddy

It's official: The U.S. recession started in December 2007, making it already the longest downturn in at least a quarter-century, and Federal Reserve Chairman Ben Bernanke said it shows signs of getting deeper.

Next steps from the Fed to combat the worsening downturn could include more cuts in already low short-term interest rates and an unusual attempt to bring down long-term interest rates by purchasing Treasury bonds, something the Fed hasn't done since the early 1950s.

"Economic activity appears to have downshifted in the wake of the deterioration in financial conditions in September," Mr. Bernanke said in a speech where he pointed to soft spots in labor markets, household finances, exports and financial markets. Even if financial markets improve, he said, "economic conditions will probably remain weak for a time."

Stock markets underscored the soft state of the economy, with the Dow Jones Industrial Average dropping almost 680 points Monday.

The National Bureau of Economic Research, a private group of academics that determines the beginning and end of recessions, said the current downturn started last year, just as the job market was peaking.

At more than 11 months and counting, the downturn is already longer than the last two recessions, in 2001 and 1990-91, both of which lasted eight months. If the current downturn persists past April, it would be the longest recession since the Great Depression. Downturns in the 1970s and '80s lasted 16 months each.

The conventional rule is that a recession is marked by two consecutive quarters in which the nation's gross domestic product contracts. The NBER's Business Cycle Dating Committee doesn't follow that rule. It defines a recession broadly as "a significant decline in economic activity spread across the economy, lasting more than a few months." It follows a wide range of indicators—including payroll employment growth, industrial production, income growth and business sales activity—to pinpoint broad declines in activity.

"The economic outlook looks fairly bleak," said Harvard professor Jeffrey Frankel, who serves on the recession-dating panel but stressed he wasn't speaking for the committee. "Forecasts that the trough would be sometime in the middle of next year don't strike me as especially pessimistic given the current situation."

New data underscored the severity of the downturn. The Institute for Supply Management's November manufacturing index, released Monday, fell to its lowest level since 1982. Meanwhile, construction spending posted a steeper-than-expected drop in October, according to government figures. The November employment report, due for release Friday, is expected to show nonfarm payrolls dropped in excess of 300,000, with a further increase in the unemployment rate.

Mr. Bernanke's comments set the stage for an important meeting of Fed policy makers in two weeks. The Fed's main lever to help an ailing economy—cuts to short-term interest rates—has already been pulled about as far as it can go. At 1%, more cuts are "certainly feasible," he said, but the scope for this conventional approach is narrowing.

Targeting long-term interest rates could spur business and consumer demand, Mr. Bernanke said. Many consumer and business loans are closely linked to longer-term Treasury yields.

The Fed has already taken a big step in that direction. Last week, it said it would buy as much as $600 billion in debt issued or guaranteed by Fannie Mae, Freddie Mac, Ginnie Mae and Federal Home Loan Banks, all mortgage businesses with close ties to the government.

Yields on debt tied to these firms have come down, a development Mr. Bernanke said he found encouraging, because it has helped to push down mortgage rates.

Much of the world is already in a recession by different measures. There is no NBER-like group in Europe that determines recessions. But the 15-nation euro zone is already in recession by the common definition. The $12.2 trillion economy, second in size only to the U.S.'s, contracted in both the second and third quarters.

The International Monetary Fund predicts the euro-zone economy will contract by 0.5% in 2009. New European Central Bank staff forecasts due Thursday are also likely to show an annual contraction. Speaking to reporters Friday, ECB President Jean-Claude Trichet stressed that "to my knowledge, all forecasters are projecting positive growth in 2010."

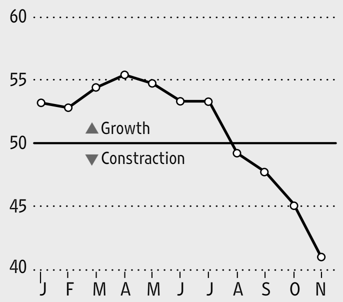
—Joellen Perry contributed to this article.

Manufacturing tumble points to China slowing

By Terence Poon

Purchasing managers' index

CLSA's China manufacturing activity



Note: A PMI reading above 50 indicates growth, while a reading below 50 indicates contraction

Source: CLSA Asia-Pacific Markets

BEIJING—Two gauges of manufacturing in China fell to record lows in November, signaling the country's economic growth will likely slow further in coming months before getting a boost from the government's pro-growth policies.

The China Federation of Logistics and Purchasing said Monday its Purchasing Managers Index for China fell to the lowest level since the index started in 2005. The November PMI was 38.8, down from 44.6 in October.

CLSA Asia-Pacific Markets said its PMI plunged to the lowest level since the index started in 2004, registering 40.9 in November compared with 45.2 in October.

A PMI reading above 50 indicates the manufacturing economy is expanding. A reading below 50 indicates contraction.

The global slowdown, as well as the slump in the local property market, is hurting China's economy.

The export-order component of both PMIs plunged in November from October, falling 12.4 percentage points to 29.0 in the CFLP survey, and 16.1 percentage points to 28.2 in the CLSA survey. "Export orders will weaken further, and we expect further cuts in production and employment," said Eric Fishwick, head of economic research at CLSA.

Citing the global downturn, the slowdown in Chinese manufacturing and weakening domestic demand, J.P. Morgan economists Monday cut their forecasts for China's economic growth to 7.7% in the fourth quarter from 8.2%, and to 9.2% for all of 2008 from 9.4%.

They predict growth will rebound in the second half next year because of policy measures, bringing 2009 growth to 8%, just off their previous forecast of 8.1%.

Reflecting Beijing's shift in focus to growth and away from inflation, the country's economic-planning agency said Monday it has removed price controls on certain foods, such as processed grain products, edible vegetable oil and meat, imposed in January.

—Jackie Cheung in Hong Kong contributed to this article.

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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INDEX TO PEOPLE

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

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Romania's splits remain

Parliament will lack a clear ruling party as economy teeters

By Christopher Emsden

Elections Sunday in Romania produced a parliament that will remain fragmented and will raise concerns that the country will make rapid wage gains a priority over a growing need for tighter fiscal policies.

With 99% of the votes counted, official results released Monday showed that the Social Democrats—the former communists who have ruled Romania for most of the period since revolution in 1989—won 33% of the vote. That is about the same as in 2004, when they were ousted from power by a coalition of smaller parties that later split up.

A more centrist opponent, the Democratic Liberal Party, also won about 33% of the vote, while the incumbent National Liberal Party received about 18%. But political analysts said the legacy of a bitter split between the two parties in 2004 make it unlikely that they will be able to combine now, leaving the Social Democrats in the driver's seat in what are expected to be tough negotiations to form the next government.

Analysts said mustering a legislative majority in such a fragmented parliament will require an unwieldy coalition, dimming the prospects for badly needed economic policies such as keeping salaries in line with productivity gains and boosting infrastructure investment to offset job losses in the construction sector.

President Traian Basescu has said it will be at least a week before he announces a candidate for prime minister, which would then be subject to a parliamentary vote.

Hefty government spending over the past year has already pushed the country's sovereign credit rating into junk territory and raised alarms about a sharp fall in its currency, the leu. The leu fell 1% Monday, sliding to 3.83 to the euro. The currency has dropped 5% in the past month.

Analysts are also concerned that both the Social Democrats and the Democratic Liberal Party—the two parties that won the most votes—vowed during the election campaign to more than double minimum and average wages through 2012.

Romania has been repeatedly criticized by the European Union and the International Monetary Fund for running a loose fiscal policy even as its economy surged. The government is planning a deficit of 2.3% of gross domestic product this year, but analysts expect it will be higher—especially if promised public-sector wage increases are implemented.

Economists are also worried about a sharp slowdown after annual economic growth peaked at 9.3% in the second quarter, with economists at the Moody's ratings agency anticipating a recession in 2009.

Such an outcome would be a blow for Romania, which in dire straits would find it difficult to get economic assistance from the IMF if it doesn't curb its large budget deficit.

Its growth has been fueled by a wave of easy credit from abroad, which stoked local consumer spending, much of it on imported goods, and pushed the country's current account deficit above 13% of GDP this year.

Citigroup fund to acquire road operator from Sacyr

By Christopher Bjork And Santiago Perez

MADRID—Debt-heavy construction company **Sacyr-Vallehermoso** SA said Monday that it agreed to sell highway operator Itínere Infraestructuras SA to a **Citigroup** Inc. infrastructure fund, in one of the largest asset sales in Spain since the collapse of its real-estate market.

As part of the deal, which is valued at €2.87 billion ($3.65 billion), Citi Infrastructure Partners will also assume €5.01 billion of debt, Sacyr said. The Citigroup fund plans to sell several Itínere highways to other infrastructure operators.

Sacyr, one of Spain's biggest construction companies, said the deal would cut its debt by as much as 37% to €12.48 billion from €19.73 billion. The company began an acquisition spree when liquidity was abundant, and was forced to sell the unit as financing costs jumped.

The company also has been trying to sell other key assets to further pare its debt. Sacyr has been in talks with potential buyers for its 20% stake in Spanish-Argentine oil company **Repsol** YPF SA. Russian oil company OAO **Lukoil** has expressed interest in the stake.

Sacyr paid around €6.5 billion for 20% of Repsol about two years ago, entering the energy sector as part of a diversification strategy. The holding is currently valued at about €3.7 billion, forcing Sacyr to come up with extra collateral for the loans used to buy the stake.

Sacyr's market value has tumbled more than 72% over the past year on worries about its capacity to service debt, making it one of the worst performers in Spain's key IBEX-35 index. Monday, Sacyr shares rose 6 European cents to €7.62, giving it a market capitalization of €2.32 billion.

The Itínere deal will give Sacyr liquidity to service €2.11 billion in debt maturing next year, said Sacyr spokeswoman Ana de Pro. It represents the disposal of a key profit driver at a time when other core divisions—like real estate and construction—are under heavy pressure.

CORPORATE NEWS

Small European cars shine

As overall auto sales decline, a trio of chic, diminutive models are catching buyers' eyes

By Leila Abboud

There's a bright spot amid the global automobile sector's gloom: Sales of small, chic European cars— **Daimler** AG's Smart, **Fiat** SpA's 500, and **BMW** AG's Mini—have grown this year.

The three have common traits that likely are fueling their success: trendy design, a high-end image and fuel efficiency. The cars' popularity shows how, even in a tough economic climate, consumers still can be enticed to buy cars that are perceived as special enough to make a lifestyle statement about their owners.

"These cars have enormous emotional appeal," says John Lawson, a Citigroup automobile analyst in London. "But as products, they also hit consumers' priorities on fuel economy and style on the head, so they are selling well."

To be sure, big sales of niche models won't save the ailing automobile sector. Car sales have plummeted since August as consumers spooked by a looming global recession delay spending on big-ticket items. The credit crunch also has made it harder for some people to secure loans to buy cars. To cope, many car makers are closing factories temporarily to keep vehicle supply in line with demand. Companies such as France's **Renault** SA, Germany's **Volkswagen** AG and **General Motors** Corp. and **Ford Motor** Co. in the U.S. are lobbying for government aid to help them weather the financial crisis.

For now, though, Europe's three best-known small cars are riding out the downturn well. And some analysts say their success holds long-term lessons for the industry. "If you make cars that are nice, keep their value over time and give people a good deal of pleasure on a daily basis, people will buy them," says Colin Couchman, an auto analyst at market-research firm Global Insight. It isn't an easy recipe,

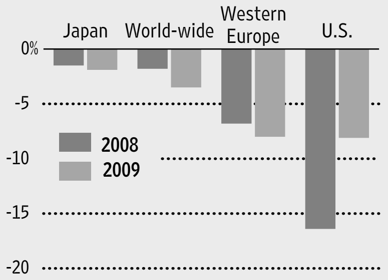
In 2008

Dark days for car makers

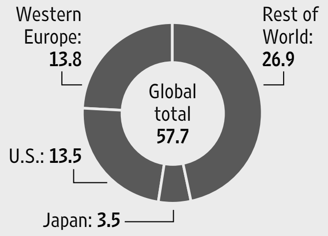
Even as global car sales crater for all makers, below, some small, yet high-end models are holding up well. The Fiat 500, shown, is selling well this year after being remodeled from an older 1950s version and has sold around 200,000 units since its launch in July 2007.

In 1957

Estimated annual change in new-vehicle registrations



2008 estimated new registrations, in millions of vehicles



Sources: Citi Investment Research (registration estimates); Fiat (Fiat 500 sales).
Photos: Associated Press/Keystone (2008); Fiat via Associated Press (1957)

he says, "but some European car makers are getting it right."

Citigroup estimates that global car sales for January through October fell 3% from a year earlier and will decrease 1.8% for the whole year.

But global sales of Daimler's subcompact Smart car rose 47% to 113,200 from January through October, according to the company. The German auto maker says it is on track to sell 140,000 Smart cars this year. So diminutive it can be parked facing the curb in many cities, the Smart launched in Europe in 1998 and initially struggled to find its market. But in recent years the car has taken off after a redesign reduced the price.

Germany's BMW says it sold 202,300 Minis for the 10 months, up 11%. Mini sales are getting a boost from the recently introduced Clubman version, which is roomier than the standard Mini and has a bigger trunk.

Fiat says it sold about 153,000 of its new 500 model, a vintage-looking remake of the iconic 1960s "Cinquecento." Since its July 2007 rollout, buyers across Europe have been won over by the grandchild of the car featured in Frederico Fellini's film "La Dolce Vita." The Italian auto maker's car isn't sold in the U.S.

Despite their size, the three cars aren't cheap. The Fiat 500 sells for a base price of $13,500-$14,000; the Mini Cooper, for $18,000-$20,000; and the Smart starts around $14,000-$17,000. The typical buyer could afford a bigger, more powerful vehicle, but opted for these models, analysts say.

The tiny two-person Smart is doing well in the U.S., a market where consumers have long preferred big sport-utility vehicles and trucks. Daimler expects to sell 20,000 Smarts in the U.S. this year. Some dealerships have months-long waiting lists for the Smart.

Alan Brask, a 53-year old executive at a Chicago-area graphics firm, sold his 2003 Mercedes CLK430 Cabriolet and bought a Smart convertible for $17,500 last month. His reasons: He was tired of spending so much on gasoline and car payments. He's pleased with his Smart, which gets 33 miles per gallon in the city and 41 mpg on the highway, compared with 16 mpg and 22 mpg for the Mercedes.

"It's an odd-looking little car in a sense, but for some reason it resonated with me as soon as I saw it. It's a lot of fun to drive, and I still get to whip around with the top down," he says.

Mr. Brask says he thinks the car also changes his image. It's like having "a kinder, gentler persona bestowed on me rather than automatically being pegged as a grumpy old capitalist. I get the thumbs-up gesture from teenagers and moms as I drive through the neighborhood."

GM and its board prepare for next plea to Congress

By John D. Stoll

General Motors Corp. management has been racing to finalize a viability plan to take to Congress, with a boardroom hellbent on securing a federal rescue loan.

Rick Wagoner

At the same time, directors—unlike chief executive Rick Wagoner—are also insisting that all options stay on the table, including a Chapter 11 bankruptcy filing, if a bailout doesn't come through.

The auto maker, along with **Ford Motor** Co. and **Chrysler** LLC, is working to win $25 billion in loans needed to keep the Detroit Three afloat amid soft demand and a credit freeze. Last month, the companies were turned away by Congress, which told them to come back this week with proof that federal funds wouldn't be wasted on a failing business plan.

With their backs against the wall, GM management is working with the board to deliver its latest revival plan. GM is expected to outline proposed fixes to the company's ailing North American operations and a restructuring of its balance sheet.

Dwindling liquidity is forcing GM to weigh several options for its business, including an offer to some bondholders asking them to exchange debt for equity. Executives are also once again considering killing or selling brands, and cutting even more North American production capacity. GM's plan could become known as early as Tuesday in public filings.

In recent days, dealers, union officials, and other key constituents have traveled to the company's headquarters in Detroit to help management find new ways to cut costs, people involved in the meetings said.

"Everything is on the table," according to one person familiar with the board's thinking. Following Mr. Wagoner's poor performance in Washington last month, the board began meeting more and taking more seriously its obligation to investigate other options.

Mr. Wagoner has said that a filing for Chapter 11 bankruptcy protection isn't a viable option, insisting the auto maker would collapse because consumers won't buy from a car from a company in bankruptcy and obtaining financing would be nearly impossible.

Although members of the GM board agree with Mr. Wagoner's concerns about revenue while in bankruptcy, directors have said they will consider all options as they become necessary.

People close to the board say that Mr. Wagoner would likely need to be replaced if a Chapter 11 filing became necessary. The chief executive has repeatedly pushed off calls from advisers telling him to prepare bankruptcy contingency plans, or even planning a prepackaged bankruptcy proceeding.

At this point, it is unclear if the 14-member board has time to execute a prepackaged bankruptcy before GM runs out of cash. Such a process would include getting unions, suppliers, creditors and other parties to agree to concessions first. Then, the company may be able to get through the process in a matter of a few months, experts say.

On Tuesday, the day the plans are due, the entire U.S. auto industry will report November vehicle sales that are expected to represent the lowest sales pace in several decades.

Mr. Wagoner will appear before Congress for hearings scheduled for Thursday and Friday.

In addition to presenting new substance to Congress, GM is also working to tweak its style. Two weeks ago, when the heads of GM, Ford and Chrysler were on Capitol Hill, they were criticized for not taking adequate responsibility for Detroit's failure, and for failing to properly address hot-button issues such as executive perks and pay, and union compensation packages.

—Sharon Terlep contributed to this article.

Ford considers options for Volvo, including a sale

By Mike Barris

Ford Motor Co. said it may sell its Volvo luxury-car unit, as it re-evaluates options for the Swedish auto maker.

Ford, which already has sold its Jaguar and Land Rover brands, has begun shopping the Volvo cars business, which it purchased in 1999 from Swedish truck maker **Volvo** AB.

Ford's turnaround hopes are built on shrinking in size to focus resources on its namesake brand.

The Volvo unit, posting losses and losing market share, had seemed destined for the auction block as Ford moved to shed other European luxury brands.

Alan Mulally

But Ford Chief Executive Alan Mulally last year decided to keep the company and try to find a way to restore its lackluster image. But U.S. sales for Volvo have continued to slump, dropping 52% in October and 28% in the first 10 months of 2008.

Monday, Mr. Mulally said that "given the unprecedented external challenges facing Ford and the entire industry, it is prudent for Ford to evaluate options for Volvo."

Ford said it expects its strategic review of Volvo to take several months. The potential sale of the auto maker comes weeks after Ford said it will sell a 20% stake in Mazda Motor Corp., ending 12 years of control of the Japanese auto maker as the U.S. car company struggles to shore up finances and seeks aid from the U.S. government to stay afloat amid slumping auto sales.

The Swedish government has been in talks with Volvo and General Motors Corp.'s Saab unit following reports that their U.S. parent companies were seeking aid for the Swedish auto makers.

Mr. Mulally said Volvo is a strong global brand with a proud heritage of safety and environmental responsibility and has launched an aggressive plan to shrink its operations and improve results. The company recently said it will lay off an additional 3,300 employees, or about 13% of its work force, to "meet the rapidly deteriorating market situation in the global car industry."

Last week, the Insurance Institute for Highway Safety reported that 72 vehicles for the 2009 model year received its top rating for protecting occupants in a crash. Ford and Volvo combined for 16 of them.

Career Journal

Dividend check

Doing homework can pay off when responding to a lowball job offer > **Page 30**

CORPORATE NEWS

Two T5s adjust on the fly

Heathrow, Kennedy iron out the kinks at new terminals

BY SCOTT MCCARTNEY

It is good news when the two most-congested airports in the world open new passenger terminals, replacing overcrowded, tattered buildings. For the most part, the two Terminal 5s—at London's Heathrow and New York's John F. Kennedy International airports—are significant improvements for travelers.

But there are trade-offs as well for the millions of travelers who will pass through these two aviation crossroads every year.

THE MIDDLE SEAT

In London, T5's March 27 opening was calamitous and embarrassing. The new home for **British Airways** PLC, which cost £4.3 billion ($6.6 billion), was touted as the end of that airline's service difficulties, from chronically late flights to mounds of wayward luggage. Queen Elizabeth II opened the gleaming building, but the operation quickly fell apart.

Employees couldn't get to stations on time because of parking problems and slow security clearance, and the brand-new baggage system choked on a software glitch. British Airways had to cancel scores of flights and send passengers on other flights with only carry-on luggage. A British government investigation blamed both British Airways and airport operator BAA Ltd. for poor staff training, preparation and communication, and labeled the botched opening a "national embarrassment."

Today, T5 is running far better. There are magnificent aspects to the building, such as its huge windows looking out on one of the busiest airports in the world and its expansive lobby of 96 kiosks that would seem to make check-in lines obsolete.

An open-air bar inside British Airways' first-class lounge is a dream for airplane lovers, just a stone's throw from the end of a runway and part of six elegant lounges for premium-level travelers. One meeting room has comfy leather chairs made from the seats of the first Concorde supersonic jet.

The building, on the west end of the biggest connecting airport in the world for international travelers, is quiet without a cacophony of announcements, clatter or beeping carts. It is sleek, built largely in the shades of white and gray that have become the standard for airport terminals.

"It has got a 'chill' feeling. That's what we were hoping to create, so that customers feel more relaxed," said British Airways spokesman Richard Goodfellow.

British Airways is trying to convey that message in ads that portray the new facility filled with water, with stingrays and other marine animals swimming past kiosks. The airline says the idea is to portray the terminal as an aquarium, a symbol of tranquility.

But not everything goes swimmingly for fliers. Hamish Parker, who travels frequently between London and New York for an investment-management company, says signs in the terminal are confusing, and there often aren't enough of them; he has found himself guiding lost Americans to gates. And travelers

Getty Images

The new JetBlue Airways airport terminal, **known as T5**, offers a significant improvement for travelers at often-congested JFK airport in New York.

have to keep moving up and down, instead of straight ahead, to get to planes. With real estate limited, the terminal was built vertically, forgoing the the sprawling, straight layouts of most new terminals, such as Changi in Singapore.

"It looks spectacular, but it is fundamentally flawed. It's in a squashed space," Mr. Parker says.

Indeed, if you arrive at the terminal by train or bus, you have to move up several levels for check-in and security, then down to departures and shopping, down lower still for a shuttle train out to remote gates, then up several escalators to a lobby and down again to an actual gate.

"There are too many levels. It's nice cosmetically, but in terms of function, I prefer the old Terminal 4," said Bob Mullens of Virginia, on his way home recently from a business trip.

British Airways' on-time departure rate at Heathrow has improved significantly because of the new building, to 76% in October, for example, from only 52% a year earlier, according to FlightStats.com. One reason among several: The new building has space to have its crew rooms at the airport. Previously, pilots and flight attendants checked in and did their preflight briefings at a building near Heathrow, then often got stuck in traffic trying to get to airplanes.

British Airways says its mishandled baggage rate has dropped sharply, as well. In the old facility, British Airways was plagued by piles of suitcases, some left to mold after being left wet in metal containers.

"The terminal is proving to be the genuine asset that we always expected it to be," said Chief Executive Willie Walsh.

Like T5 at Heathrow, T5 at JFK, the new home for **JetBlue Airways** Corp., starts with a huge long check-in area dotted with check-in kiosks to spread out lines of people. It stocks the center of the building with lots of shopping and dining opportunities. It is smaller than its London cousin, and far cheaper, at only $743 million. It also lacks the complexity and the elegance of Heathrow's T5.

The lobby is almost hospital-issue stark in whites and grays. Gray walls have blue accents, the ceiling is white, and the floors are speckled gray. You are hard-pressed to find plants, decorations or public art now typical of more-expensive terminals, though the JetBlue terminal does have a cute, cartoonish painting of an airplane at one end. Translation: A discount airline lives here.

Like T5 in London, T5 in New York had to deal with some layout challenges. The terminal was built behind the historic Trans World Airlines building, designed by Eero Saarinen with a swooping roof and large glass sides. A TWA sign still adorns the outside of the abandoned Saarinen terminal even though the airline has long since been swallowed up by **AMR** Corp.'s American Airlines. The landmark is currently under asbestos-removal renovation and the Port Authority of New York and New Jersey, which operates the airport, is looking for a tenant.

At T5's security, there are lots of lanes and—hooray!—lots of seating to lace up shoes. Once inside, amenities do improve. There is a suspended 12-meter-wide circle of video monitors showing New York street scenes. The terminal houses lots of food shops, some assuming that travelers will spend more on dinner than they will on their airline ticket. At 5iveSteak, for example, you can get a 24-ounce dry-aged Porterhouse steak for $59.

One innovation: touch-screen monitors in gate seating areas where you can order freshly prepared food (tuna sandwich: about $8) and have it delivered to you in the waiting area. But you have to know what the screens are for since they are poorly marked. Abstract screen savers show no sign of the service, and many travelers said they had no idea you could order food for delivery. The ordering system can be confusing, too. I mistakenly managed to order a sandwich twice, and was billed for it twice even though the server discovered the error and said she would fix it.

In gate areas, the seating is rigid, with a black plastic material clearly designed to withstand a beating. There is some contour to the seats, but they aren't exactly arm chairs. In keeping with its tenant, the building is low-cost, practical and efficient. There are lots of work stations with power plugs (T5 in London is bereft of power plugs, a sin for any new terminal these days), and free Wi-Fi access. The walk from curbside to gates is relatively quick.

"It gets the job done. I have no complaints," said Brian Thomas of Boston, who passed through the terminal on a recent business trip. "With airports, you just want to get in and get the heck out and get back home."

Ryanair's renewed offer for Aer Lingus is rejected

By Daniel Michaels, Quentin Fottrell and Kaveri Niththyananthan

Irish flag carrier **Aer Lingus** PLC rejected a renewed takeover bid from Irish rival **Ryanair Holdings** PLC, saying the offer was underpriced and unworkable.

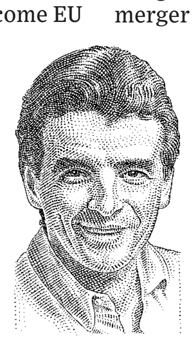
Ryanair, Europe's largest low-cost airline, launched a new, €748 million ($950 million) bid for unprofitable Aer Lingus, just two years after Ryanair failed to acquire the carrier for about double that price.

In its first attempt, Ryanair was unable to overcome support for Aer Lingus from the Irish government, which owns 25.4% of the airline, and other minority stockholders including employee shareholders, who hold about 14% of the stock.

The bid was also blocked by European Union regulators, although Ryanair appealed that decision. The new bid is likely to face many of the same issues with competition authorities.

Ryanair Chief Executive Michael O'Leary said in an interview that economic upheaval and continuing consolidation in Europe's airline industry have now created a climate in which the Irish government, outside shareholders and EU regulators should approve this offer.

"The world has changed" since 2006, Mr. O'Leary said. Ryanair, which still holds 29.8% of Aer Lingus, is now hoping to overcome EU opposition by appealing to the Irish government.



Michael O'Leary

"We think what will be most influential to EU regulators will be the Irish government's attitude," Mr. O'Leary said. "Our focus this week will be on persuading the Irish government and Aer Lingus the benefits of the deal," he said.

The government said in a statement that Minister for Transport Noel Dempsey "will evaluate the proposal from the perspective of the government as a shareholder in Aer Lingus and having regard to Ireland's aviation policy."

Aer Lingus said in a statement that its board felt the offer "significantly undervalues" the airline. It said competition issues mean the proposal "is not capable of completion" and urged shareholders to reject the bid and "take no action in relation to the offer."

A takeover of Aer Lingus would give Ryanair access to long-haul routes from London's popular Heathrow Airport and cement its position as one of Europe's biggest international airlines, alongside Air France-KLM SA, British Airways PLC and Germany's Deutsche Lufthansa AG.

But it would also reduce competition on Irish routes, which was the reason regulators opposed the deal two years ago. EU antitrust authorities then said the combination would give Ryanair a monopoly on 22 routes and dominance on dozens more.

Ireland's Impact trade union, which represents cabin crew, some managers and pilots at Aer Lingus, said it has "major concerns" that Ryanair's bid would create a monopoly, which "would be very bad news for the consumer." Aer Lingus staff overwhelmingly opposed Ryanair's last takeover bid.

Ryanair is likely now to face the same issue. In an effort to preempt competition concerns, Mr. O'Leary pledged to reduce fares.

When Ryanair made its first offer for Aer Lingus, which valued the airline at about €1.48 billion, the Irish economy was booming. Aer Lingus and the government rejected Ryanair's original bid as undervaluing the airline and as potentially harmful to consumers because it would eliminate competition.

Since then, the price of Aer Lingus shares has plunged—like those of Ryanair and most airlines—and Ireland is now in recession.

"The situation has changed for the Irish government—they're facing huge deficits," Mr. O'Leary said. "They've had two years of Aer Lingus's independence, and all they've had was higher fares, higher fuel surcharges and losses," he said.

Aer Lingus has announced plans to cut capacity this winter and next summer and wants to outsource 1,500 of its 4,000-strong work force, in an attempt to save €74 million and stem its losses.

Ryanair's presentation to investors cites several recent airline mergers or acquisitions against which it said the new offer should be judged.

These include easyJet PLC's takeover of GB Airways, Spanish budget carrier ClickAir SA's merger with rival Vueling and the continuing integration of insolvent Italian flag carrier Alitalia with private rival AirOne. The document also cites possible deals including the proposed British Airways merger with Spain's Iberia Líneas Aéreas de España SA and German giant Deutsche Lufthansa's potential takeover of Austrian Airlines AG.

Mr. O'Leary claimed that Aer Lingus on its own isn't strong enough to compete against other big European carriers and can't compete against Ryanair's low-cost base. "It's just too small and too peripheral. It just withers on the vine," Mr. O'Leary said.

Trying to woo the government and employees, Ryanair said the employee shareholders trust, ESOT, and other employee shareholders stand to get more than €137 million in cash and the government more than €188 million in cash, if the bid is successful.

It also committed to doubling the size of the Aer Lingus short-haul fleet to 66 aircraft over the next five years and creating 1,000 new jobs, while also cutting its average fares by 5% for three years.

Ryanair is offering €1.40 cash per Aer Lingus share for the airline, about 28% more than Aer Lingus's average closing price for the 30 days to Nov. 28. If the bid is successful, the company would keep both the Ryanair and Aer Lingus brands.

Ryanair said it wants to meet with the board of Aer Lingus as soon as possible to explain its position.

Aer Lingus shares in Dublin closed up 14% to €1.28, while Ryanair shares fell 2.8% to €2.85.

FOCUS ON ENERGY

Overseas liability at issue

Chevron case tied to Nigeria protest tests multinationals

By Russell Gold

A bloody protest by Nigerian villagers against **Chevron** Corp. in 1998 has led to a closely watched federal lawsuit that could have a far-reaching impact on how multinational companies conduct business overseas.

he jury in the civil trial, which has been under way in San Francisco for the past five weeks, began deliberating its verdict last week. Its conclusion could strengthen an evolving legal frontier: Can multinational companies be hauled into U.S. courts and held accountable for alleged human-rights violations that occur on its properties overseas?

The case centers on a 1998 protest involving about 100 Ilaje villagers from coastal Nigeria, who occupied an offshore oil facility owned by Chevron. After the villagers stayed for three days, Chevron called in the Nigerian military to remove them. The response was bloody: two protesters were shot and killed. Others were taken into custody and allegedly tortured, according to court filings.

The lawsuit, Bowoto v. Chevron, was brought by the protesters and their family, including Larry Bowoto, who was injured by the military. It is drawing broad attention in part because it is a major test of the Alien Tort Claims Act against a major corporation. It is also the first time the courts have tested whether a corporation can be held responsible for the actions of local authorities it calls in for protection.

"This is the first corporate alien tort trial where you have a very common set of facts—reliance on the government for security—that is creating potential liability," says Jonathan C. Drimmer, a partner with the law firm Steptoe & Johnson.

Lawyers and spokesmen from both parties either didn't return calls or declined to comment, citing an order by U.S. District Judge Susan Illston to prevent them from discussing the ongoing case. In previous statements, Chevron has said any claim that it "intended for the Nigerian law enforcement personnel to harm anyone is beyond far-fetched."

Associated Press

Larry Bowoto, right, is one of several Nigerians suing Chevron in the U.S. over a 1998 incident at an oil facility off Nigeria's shore that resulted in two deaths.

The Alien Tort Claims Act is a legal statute that dates to 1789, when Congress enacted the law to ensure the newborn nation would abide by international laws. It allows foreigners—or aliens—to bring suit in U.S. courts charging violations of international laws.

Only once before the Chevron case has a U.S. jury faced an Alien Tort Claims case involving a corporation. In 2007, Drummond Co., an Alabama mining company, was alleged to have supported Colombian paramilitary groups that killed three union activists. The jury found there was insufficient evidence to hold the company responsible for the killings. Drummond, as previously reported, has denied any role in the deaths of the union leaders.

The suit against Chevron raises a set of tough issues for oil companies with large capital investments overseas. In Nigeria and many other countries, multinational corporations aren't allowed to maintain their own security forces and must rely on the military for protection, says Sebastian Spio-Garbrah, an analyst with political-risk consultant Eurasia Group. U.S. companies, including Chevron, routinely pay the Nigerian military for its services, and house and feed troops, according to court filings

Early next year, **Royal Dutch Shell** PLC faces a similar case in New York federal court stemming from the 1995 death of Ken Saro-Wiwa, an activist in oil-rich coastal Nigeria. Shell has denied to an oil-industry publication that it was complicit and called the allegation "false and without merit."

Some of the details of what happened on the Chevron oil facility remain in dispute. According to court files, both sides agree that on May 25, 1998, about 100 unarmed protesters boated out to an offshore platform and an attached barge owned by Chevron and boarded it as a protest.

The villagers and their lawyers say it was a peaceful protest and that over the next three days, Chevron workers and the protesters "played games, shared meals, watched videos, fished [and] chatted together," according to a court filing. Chevron said the protesters threatened to burn the barge and the workers were being held hostage. On May 28, Chevron asked the Nigerian military to help end the protest and provided company-leased helicopters for the operation.

The villagers said the military shot at them without provocation, killing two protesters. Chevron said in court filings that the two villagers killed had metal pipes "raised above their heads in a threatening manner."

Rosneft's net profit soars 80%

By Jacob Gronholt-Pedersen

MOSCOW—Russia's biggest oil producer, OAO **Rosneft**, said Monday that its third-quarter net profit rose 80%, but added it has had to turn to state banks for short-term borrowings.

State-controlled Rosneft said net income jumped to \$3.47 billion from \$1.93 billion in the year-earlier period, helped by high crude and oil-products prices, healthy refining margins and a foreign-exchange gain.

Although oil prices averaged \$113 a barrel in the third quarter, more than twice current levels, Rosneft is prepared for what is now "a more challenging operating environment of substantially lower prices," said Chief Executive Sergei Bogdanchikov.

Russian oil companies recently have trimmed billions of dollars in capital expenditure originally earmarked for 2009. Rosneft remains the sole Russian oil major to stick to its investment plans for next year. The downward revisions have resulted in part from the sudden drop in global oil prices, which this month fell below \$50 a barrel.

"The quality of Rosneft's projects are very high, so it would actually make sense for them to keep investing, even if the oil price stays low," said Pavel Kushnir, an analyst at Deutsche Bank in Moscow.

Sergei Bogdanchikov

Rosneft plans to launch its Vankor field in Eastern Siberia by mid-2009. Production is expected to peak at 25.5 million metric tons of crude a year.

The company said that as of Sept. 30, its total loans and borrowings stood at \$20.8 billion, of which \$8.4 billion was short-term debt. As the global financial crisis has worsened, the Russian government, which relies heavily on oil export duties for federal budget revenues, has moved to support the industry by offering loans. Rosneft said that since the end of the third quarter, it had obtained \$4.6 billion in short-term debt—of which \$3.8 billion was denominated in rubles—from state-controlled banks.

In the third quarter, Rosneft's revenue was up 51% to \$20.69 billion from \$13.74 billion, despite almost unchanged production levels, thanks to higher crude prices.

Rosneft shares have fallen from mid-May highs, hit most recently by a decline in oil prices and a sell-off in Russian equities. The stock closed down 14% at \$3.42 in London, down about 60% since January.

—Alexander Kolyandr in London contributed to this article.

Crude-oil futures slump on manufacturing report

A WSJ News Roundup

Oil prices tumbled 9.5% as manufacturing activity in the U.S. hit a 26-year low, a showing that was much worse than expected, and after major oil-producing nations deferred a cut in output at a weekend meeting.

Light, sweet crude for January delivery fell \$5.15, to \$49.28 a barrel, on the New York Mercantile Exchange, it lowest settlement since May 23, 2005. The contract had settled down a penny at \$54.43 Friday, capping a month that saw it decline nearly 20%. In London, January Brent crude fell \$3.45 to \$50.04 on the ICE Futures exchange.

Tumbling oil prices and signs of the weakening economy also pressured metals prices. Gold futures fell 5.1% in New York, and silver dropped 8.2%.

On Saturday, Saudi Oil Minister Ali Naimi said the Organization of Petroleum Exporting Countries will do what needs to be done to shore up falling oil prices when the group meets Dec. 17 in Algeria, but for now it was too early to make another output cut.

Prices continued to slide despite a separate report by Iranian state TV in which OPEC Secretary-General Abdalla Salem El-Badri said a daily oil production cut of between one million and 1.5 million barrels was likely in December. OPEC, which accounts for about 40% of global supply, cut output by 1.5 million barrels a day in October.

While some analysts anticipate the group will approve a cut at that meeting, they are less sure OPEC will succeed in halting a slide in oil prices from this year's historic peak above \$145 a barrel.

"OPEC simply appears to be behind the curve," Jim Ritterbusch, president of energy-trading adviser Ritterbusch & Associates, said in a note. The group "will be engaged in a 'catch-up' process for several months in an attempt to lower production toward sharply declining demand levels."

Phil Flynn, an analyst with Alaron Trading Corp., said there seems to be splits within OPEC reminiscent of the 1990s, when there was too much oil on the market and members routinely cheated on output quotas.

Mr. Flynn also blamed the decline in oil prices on a big drop in U.S. stocks Monday.

The Institute for Supply Management said its gauge of manufacturing activity fell to a reading of 36.2 in November. That was a steeper-than-expected drop from the October reading of 38.9 and underscored that the hard economic times were beginning to have a major effect on manufacturing. A reading below 50 indicates the sector is contracting.

The decline in the stock market follows the first five-day string of gains for both the Dow Jones Industrial Average and the Standard & Poor's 500-stock index since July 2007.

A survey of manufacturing activity in the euro zone and Britain pointed to a sharper-than-expected contraction in output. In China, an equivalent survey also made for a grim reading, generating fears that one of the main engines of global growth over the past few years is slowing sharply.

Meanwhile, Saudi King Abdullah told the Kuwaiti newspaper Al-Seyassah in an interview published Saturday that oil should be priced at \$75 a barrel.

Iran's oil minister, Gholam Hossein Nozari, was quoted as saying Sunday that the market was oversupplied by around two million barrels a day and that production should be cut by that amount.

Dow Chemical renegotiates Kuwait venture, lowers price

By Shirleen Dorman And Ana Campoy

Dow Chemical Co. said it has renegotiated its deal to form a joint venture with **Kuwait Petroleum** Corp., and now will receive less money in return for Kuwait Petroleum's 50% ownership of several Dow plants.

The revised deal is now valued at about \$17.4 billion, down from \$19 billion. The new company formed in the joint venture will be called K-Dow Petrochemicals and start operations by the beginning of 2009. The new company will issue a special \$1.5 billion cash distribution to each partner upon the closing of the deal.

Under the new terms, Dow will receive \$9 billion in pretax proceeds, instead of the \$9.5 billion originally planned.

The reduction reflects the turmoil in the chemical industry as the global downturn dries up demand for chemical products, said Dow Chemical Chief Executive Andrew Liveris.

"The economic recession that's in place means that it's going to be tougher for this business in the next few years," he said in an interview Monday.

Dow shares were down 1.1% to \$18.34 in late-morning trading Monday in New York.

The revised terms also call for two existing joint ventures between Dow and Petrochemical Industries Co. to be wrapped into K-Dow Petrochemicals—MEGlobal, a provider of ethylene glycol, and Equipolymers, a supplier of PET (polyethylene terephthalate) resins. That will push the venture's expected annual revenue to \$15 billion from \$11 billion under the original deal.

Kuwait Petroleum said last month it was reviewing the K-Dow effort following a request from the country's Supreme Petroleum Council. The joint venture will make numerous basic chemicals and plastics that have lower profit margins and have become less a focus for chemical makers as they pursue higher-margin products.

Dow is seeking to boost its higher-profit business through its planned \$15.3 billion acquisition of Rohm & Haas Co., which makes coatings and electronic materials and will incorporate some of Dow's specialty chemicals units. That deal is set to close early next year. Mr. Liveris said the lower-valued joint venture with Kuwait Petroleum won't derail that transaction.

In October, Dow posted a 6.2% increase in third-quarter net income as steep price increases overcame lower sales volumes, high energy costs and disruptions from recent hurricanes.

CORPORATE NEWS

KKR backs China dairy in wake of milk scandal

Consortium to invest in Mengniu Modern as alternative supply

By Rick Carew

HONG KONG—U.S. private-equity firm **Kohlberg Kravis Roberts** & Co. is betting around $100 million that it can help clean up China's scandal-tainted dairy industry by teaming up with the country's No. 1 milk producer to invest in a dairy-farm company.

KKR is part of a consortium investing in **Mengniu Modern Animal Husbandry (Group)** Co., a three-year-old business with big expansion plans that hopes to offer a scaled-up alternative to the mom-and-pop farms currently providing much of China's milk.

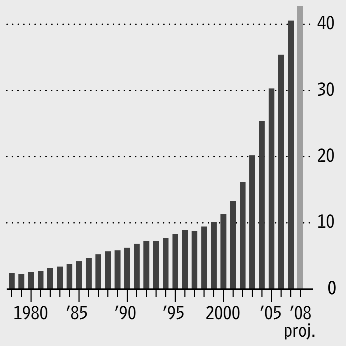
The consortium also includes Hong Kong-listed **China Mengniu Dairy** Co., the country's top milk producer, and a fund established by China Mengniu Dairy's Chairman Niu Gensheng, according to a statement on a Chinese Ministry of Commerce Web site. A person familiar with the situation said KKR's portion of the investment is roughly $100 million.

Since September, China's dairy industry has been rocked by disclosures about the illicit use of the industrial chemical melamine in Chinese milk products. On Monday, China's Ministry of Health announced that the number of children sickened by tainted milk products now totals 294,000, more than five times a previous official estimate. Six children have died. Melamine has been found in products all over the world that include Chinese dairy ingredients.

Traders dealing with China's many small dairy farms added melamine to milk from undernourished cows to make it appear to have higher levels of protein for dairy companies' quality checks. Reliance on these supplies and the difficulty of tracing their origins havae brought into question the ability of milk producers to ensure product safety.

Soaring demand

China's milk consumption, in millions of metric tons



Source: OECD-FAO Agricultural Outlook 2008–17

The investment and expansion plans for Mengniu Modern Animal Husbandry are one attempt to solve that problem. Founded in September 2005, the company operates four ranches and is in the process of opening an additionl three, with a total of 26,000 cows. It plans to build 25 to 30 additional farms in one to two years, according to the statement on the ministry Web site.

After the company's increase in capital and a reorganization, it also intends to list shares in the U.S. or in Hong Kong—venues that provide an easier exit for KKR than China's domestic exchanges.

China Mengniu Dairy's investment fits with its strategy of boosting its presence in the dairy-farming industry. KKR's head of Greater China, David Liu, invested in China Mengniu Dairy and sat on the company's board during his tenure at Morgan Stanley's private-equity practice before joining KKR.

—Juliet Ye contributed to this article.

Korean ad firm Cheil buys 49% stake in Britain's BMB

By Geoffrey A. Fowler

HONG KONG—**Cheil Worldwide** Inc., South Korea's largest advertising agency by sales, bought a 49% share in London creative agency **Beattie McGuinness Bungay** as part of its push to expand globally.

The Korean company didn't disclose how much it paid for its stake in the London agency, known as BMB, but said the deal is Cheil's largest acquisition to date.

Cheil already has offices in 29 countries but has long sought to increase its clientele beyond Korean companies such as Samsung Electronics, for which it serves as agency of record around the world. Another part of the Samsung group of companies, Samsung C&T Corp., owns nearly 13% of the firm.

"Our long-term strategy to expand globally remains unchanged, even though the economic environment is not very strong," said a Cheil spokeswoman. BMB plans to keep its London office, but a spokeswoman said it will contribute creative work for Cheil clients, including Samsung.

"We've watched with admiration how BMB have built their U.K. business and are delighted that we can work with them to build their brand," said Cheil's global chief operating officer, Bruce Haines.

Asian ad agencies have recently revived a hunt for global influence. In November, **Dentsu** Inc. of Japan unveiled plans to acquire McGarry Bowen, one of the largest independent ad boutiques in New York.

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THE MART

BANKRUPTCIES

In the Supreme Court of Bermuda No 230 of 2008
In the matter of: SEA CONTAINERS LTD
And in the matter of section 99 of the Companies Act 1981

IMPORTANT NOTICE TO CREDITORS

Sea Containers Ltd ("**Company**") is a company incorporated in Bermuda, with its registered office at Canon's Court, 22 Victoria Street, P.O. Box HM1179, Hamilton HM EX, Bermuda.

The Company is currently subject to Chapter 11 proceedings under the United States Bankruptcy Code ("**Chapter 11 Proceedings**"). The Company is also the subject of winding-up proceedings in Bermuda, Action # 315 of 2006.

In respect of such Chapter 11 Proceedings, the Company filed an amended plan of reorganisation ("**Plan**") on 22 September 2008, which was voted on by creditors identified prior to such date and confirmed by the United States Bankruptcy Court on 24 November 2008.

Notice is hereby given that by Order dated 21 November 2008, made in the Supreme Court of Bermuda ("**Court**") in the above matter, the Court sanctioned a scheme of arrangement proposed to be made between the Company and its Scheme Creditors pursuant to section 99 of the Companies Act 1981 of Bermuda ("**Scheme**"), which was approved by the Scheme Creditor's Meeting held on 12 November 2008. An office copy of the Order of the Court was lodged with the Registrar of Companies of Bermuda on 25 November 2008 and the Scheme became effective on that date. Scheme Creditors are creditors of the Company in respect of any debt or liability of the Company as at 16 October 2006, or any debt or liability to which the Company may become subject after that date by reason of an obligation incurred before that date. Scheme Creditors who have an allowed claim under the Chapter 11 Proceedings have elected under the Scheme that the information provided in respect of such claim be deemed submitted under the Scheme and such Scheme Creditors will not be required to file a separate Claim Form.

Any person who believes they are a Scheme Creditor but who did not submit a claim under the Chapter 11 Proceedings and has not yet submitted their Claim Form to the Scheme Administrators MUST do so before the Bar Date, stating the amount that the Scheme Creditor claims the Company owes to it as a Scheme Claim and any amount that it owes the Company by way of set-off, deduction or counterclaim. Failure to submit a Claim Form by the Bar Date will result in such Scheme Creditors claim being valued at nil and such claim shall be deemed to have been paid in full by the Company.

The Bar Date will be 5.30 p.m. (AST/Bermuda time) on 23 December 2008.

Scheme Creditors may submit Claim Forms to the Scheme Administrators either by post, hand, courier or facsimile to John McKenna and Gareth Hughes, c/o Kirkland & Ellis International LLP, 30 St Mary Axe, London, EC3A 8AF, Attention: Lyndon Norley. Facsimile number: +44 207 469 2001. Copies of the Claim Form and a full text of the Scheme and its accompanying Explanatory Statement can be downloaded from www.bmcgroup.com/scl.

If any person is unsure whether or not they have a Scheme Claim, they should contact Lyndon Norley at Kirkland & Ellis International LLP, 30 St. Mary Axe, London EC3A 8AF, telephone 020 7469 2000 as soon as possible.

PUBLIC NOTICES

Delphi Legal Information Hotline:
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Delphi Legal Information Website:
http://www.delphidocket.com

UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

In re DELPHI CORPORATION, et al., Debtor.	Chapter 11 Case No. 05-44481 (RDD) (Jointly Administered)

NOTICE OF SALE OF CERTAIN ASSETS AT AUCTION

PLEASE TAKE NOTICE THAT:

1. **Pursuant to the Order Under 11 U.S.C. Section 363 And 1123 And Fed. R. Bankr. P. 2002 And 9014 (I) Approving Bidding Procedures, (II) Granting Certain Bid Protections, (III) Approving Form And Manner Of Sale Notices, And (IV) Setting Sale Hearing Date In Connection With Sale Of Exhaust Business** (the "Bidding Procedures Order") entered by the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") on November 25, 2008, Delphi Corporation ("Delphi") and certain of its affiliates, including certain affiliated chapter 11 Debtors as set forth in the Agreement (the "Selling Debtor Entities") have entered into a Master Sale And Purchase Agreement (the "Agreement") with Bienes Turgon S.A. de C.V. and certain of its affiliates (the "Buyers") for the purchase of substantially all of the Debtors' assets (the "Acquired Assets") primarily used in the exhaust emissions business of Delphi free and clear of liens, claims, encumbrances, and interests. Capitalized terms used but not otherwise defined in this notice have the meanings ascribed to them in the Bidding Procedures Order.

2. All interested parties are invited to make an offer to purchase the Acquired Assets in accordance with the terms and conditions approved by the Bankruptcy Court (the "Bidding Procedures") by **11:00 a.m.** (prevailing Eastern time) on **December 8, 2008**. Pursuant to the Bidding Procedures, the Sellers may conduct an auction for the Acquired Assets (the "Auction") beginning at **10:00 a.m.** (prevailing Eastern time) on **December 11, 2008** at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, 333 West Wacker Drive, Chicago, Illinois 60606.

3. Participation at the Auction is subject to the Bidding Procedures and the Bidding Procedures Order. A copy of the Bidding Procedures is available by contacting the undersigned counsel to the Selling Debtor Entities or by accessing Delphi's Legal Information Website, www.delphidocket.com.

4. A hearing to approve the Sale of the Acquired Assets to the highest and best bidder will be held on **December 17, 2008** at 10:00 a.m. (prevailing Eastern time) at the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, Room 610, New York, New York 10004, before the Honorable Robert D. Drain, United States Bankruptcy Judge. The hearing on the Sale may be adjourned without notice other than an adjournment in open court.

5. Objections, if any, to the proposed Sale must be filed and served in accordance with the Bidding Procedures Order and **actually received** no later than **4:00 p.m**. (prevailing Eastern time) on **December 10, 2008**.

6. This notice is qualified in its entirety by the Bidding Procedures Order.

Dated: December 1, 2008
New York, New York

BY ORDER OF THE COURT

John Wm. Butler, Jr.
John K. Lyons
Ron E. Meisler
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
333 West Wacker Drive, Suite 2100
Chicago, Illinois 60606
(312) 407-0700

Kayalyn A. Marafioti
Thomas J. Matz
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
Four Times Square
New York, New York 10036
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CORPORATE NEWS

Associated Press

Delta, as it integrates its fleet with that of recently acquired Northwest Airlines, has yet to ask Boeing officially to change its orders for new planes.

Delta Air seeks to change its orders with Boeing

U.S. carrier rethinks aircraft requests after Northwest deal

By Paulo Prada
And J. Lynn Lunsford

Delta Air Lines Inc., as it integrates its fleet with that of recently acquired Northwest Airlines Corp., plans to seek significant changes to aircraft orders that both carriers had placed individually with **Boeing** Co., according to people familiar with Delta's plans.

Most notably, the company is likely to scale back a Northwest order for Boeing's new, but delayed, 787 Dreamliner, and ask the manufacturer to expand a Delta order for the 777-200LR, a long-range aircraft that carries at least 50 more passengers and would better enable the combined carrier to continue pursuing Delta's strategy to shift a greater percentage of its flights to long overseas routes.

No final decisions have been made regarding new aircraft, the people said, and Delta has yet to officially ask Boeing to alter its order book.

For Boeing, a change in Delta orders is unlikely to disrupt its manufacturing schedule or hurt its bottom line because other customers are queued up behind Northwest for 787s, and the manufacturer is happy to expand its order book for the more expensive 777-200LR, people familiar with the situation said.

At present, Northwest, which had been the U.S. launch customer for the Dreamliner, has a firm order for 18 787 planes and options for many more. Delta's current order for 777-200LRs, two of which were delivered this year, foresees delivery of another three in 2009 and an additional five in following years.

Delta declined to comment on specific order plans, but said that the long-term needs of a merged fleet would differ from those of each airline individually. "It comes down to the flexibility of the combined fleet and how we match capacity into the markets we serve," said Betsy Talton, a Delta spokeswoman. "Orders get adjusted depending on what's happening with the business."

A Boeing spokeswoman said the company remains in regular contact with its customers to make sure their pending orders match their needs. She declined to comment about specific dealings with any airline.

The people familiar with Delta's plans said the airline still sees a use for the 787, but the merged carriers already have planes—such as the Airbus A330 aircraft flown by Northwest and Delta's Boeing 767s—that could easily serve the same routes and meet the same capacity needs for several years.

One person familiar with the situation said thatDelta still plans eventually to take a "significant number" of 787s, one of these people said, but airline officials are more inclined to take a slightly larger version of the 787 that Boeing is developing for delivery in 2012.

Far more important to Delta's future route strategy is the 777-200LR, the longest-range model of the 777 family and a plane that can help it serve more distant destinations like Shanghai and Johannesburg, South Africa, that the airline has been adding to its network recently.

Delta would become one of the first 787 customers to offer to back away from coveted early delivery slots for the jetliner. Despite continuing production snags, Boeing has booked 895 orders for the twin-engine, fuel-efficient aircraft. At average list prices and without the discounts given to major airlines on many big aircraft orders, a 787 sells for $178.5 million and a 777-200LR costs about $243 million.

Delta is one of three U.S. airlines that earlier this decade signed preferential customer agreements with Boeing, ensuring lower prices and priority in order and delivery schedules in exchange for big order volumes.

The company has said recently that the complexity of its merged fleet and route network will lead it to consider aircraft from Airbus and other manufacturers, too. Before its merger with Northwest, Delta flew only aircraft made by Boeing companies.

GLOBAL BUSINESS BRIEFS

BT Group

U.K. telecom company taps Chanmugam as finance chief

U.K. telecommunications company **BT Group** said Monday that it tapped Tony Chanmugam as its new finance director. The 54-year-old is currently chief financial officer of BT Retail and managing director of BT Enterprises. He succeeds Hanif Lalani, who was recently appointed head of the company's global-services arm. The appointment takes immediate effect. BT didn't say who will succeed Mr. Chanmugam in his two previous roles. BT said Mr. Chanmugam played a pivotal role in turning around BT Retail since 2004, reversing a revenue decline of about 5% a year and turning a double-digit profit decline into strong profit growth.

E.ON AG

The German cartel office said Monday that it agreed to drop investigations into alleged gas-price gouging by utilities in return for concessions to customers valued at €127 million ($161.3 million). The regulator also announced plans to launch new antitrust proceedings against incumbent gas suppliers over allegations of anti-competitive constraints for new gas suppliers. The Federal Cartel Office said it will stop proceedings against 29 utilities of the 33 it was still investigating. The concessions include the €55 million the cartel office extracted in October from **E.ON** AG, Germany's largest gas company. **RWE** AG offered concessions valued at €18 million, the agency said. The concessions include vouchers for customers, reduced prices and delays in tariff increases.

Qimonda AG

German chip maker **Qimonda** AG said it hopes to find an investor or strategic partner in the next few weeks but warned it could run out of cash early next year. It was the first time Qimonda conceded that parts of its operations could run out of cash in its second quarter, which ends in March, if it fails to find an investor and the environment for chip makers deteriorates further. The company, 77.5%-owned by **Infineon Technologies** AG, also said it will postpone releasing its full-year and fourth-quarter results until mid-December as discussions continue. The results for the fiscal year ended Sept. 30 had been due late Monday. Qimonda warned that its fourth-quarter revenue had fallen and its net loss widened from a year earlier.

X5 Retail Group NV

X5 Retail Group NV, Russia's biggest grocer by sales, swung to a net loss in its third quarter and said it expects growth to slow in 2009. X5, which runs the Pyaterochka and Perekryostok chains, posted a net loss of $14.7 million compared with a $13.2 million net profit a year earlier. The weakening of the ruble against the dollar resulted in an $85 million foreign-exchange charge as the company's debt had to be revalued. At the end of September, X5's total debt was $2.27 billion, of which around 30% was short-term, mainly with big Russian and international banks. Revenue, already announced in October, climbed 72% to $2.19 billion. London-listed X5 said it now expects sales to grow only 25% next year, down from 40% in 2008.

London Scottish Bank PLC

London Scottish Bank PLC, which specializes in unsecured consumer lending and debt collection, said Monday it has gone into administration. The British Treasury said it would protect all retail deposit savings held with the bank, including those with balances above the current £50,000 ($77,000) limit set by the government. The bank said it had called in administrators after sustaining a shortfall in its capital reserves and being unable to find a buyer for the business in time to avoid administration. Administrators are appointed to salvage as much of a company as possible for the benefit of its creditors, a process which can involve trying to keep the business as a going concern or breaking it up and selling it off. "A number of parties remain interested in acquiring the group," London Scottish Bank said in a statement. Shares in the bank were suspended on the London Stock Exchange. They closed on Friday at 2.6 pence, having lost 96% of their value in the past year.

Royal Bank of Scotland

Royal Bank of Scotland Group PLC said it would give homeowners who miss mortgage payments at least six months before starting repossession action. The move came on the first business day after the British government took majority control of the bank, buying a 58% stake for £15 billion ($23 billion) and an additional £5 billion in preference shares. RBS has been one of Europe's hardest-hit banks because of its exposure to subprime loans and its acquisition of parts of Dutch bank ABN Amro Holding NV just before the credit crunch.

Rautaruukki Oyj

Finnish steel and metals company **Rautaruukki Oyj** issued a full-year profit warning and announced a range of restructuring measures, including plans to lay off about 1,000 of its 15,000 employees. The company said it now expects comparable consolidated net sales for the current year to be slightly higher than last year's €3.88 billion ($4.93 billion) and operating profit excluding non-recurring items to be at the same level as in 2007. Rautaruukki Chief Executive Sakari Tamminen said demand has been weak the last few weeks because several customers face financing problems and market uncertainty. Cost-saving measures, aimed at saving €60 million a year, are expected to cost about €10 million, to be booked in the last quarter of 2008.

Stella McCartney

Stella McCartney has lured away the business-development director of French fashion house Lanvin to lead the British fashion brand, part of **PPR** SA's Gucci unit. Frederick Lukoff will become president and chief executive of Stella McCartney on Feb. 23, Gucci Group said Monday. He succeeds Marco Bizzarri, who will head Gucci's Bottega Veneta brand. Founded in 2001 by the daughter of Beatles icon Paul McCartney, Stella McCartney has been profitable since last year and is growing rapidly, opening stores in Moscow, Beijing and Hong Kong this year. It will open shops in Paris and Tokyo this month. Mr. Lukoff will leave Lanvin, one of France's oldest fashion houses, where he helped sales grow to more than €140 million ($177.8 million) in 2008 from €67 million in 2005 as head of international operations.

BayernLB

State bank **BayernLB** said Monday it plans to cut 5,600 jobs, or 29% of its work force, to weather the global financial crisis. The cuts at the bank, which has been hit hard by the global financial turmoil, will be made through 2013 and will affect at least 1,000 positions in Munich, where the bank is based, and in branch offices. An additional 200 cuts will be made outside Germany, the bank said. BayernLB is Germany's second-largest state bank after **Landesbank Baden-Württemberg**. BayernLB said in the future its business will focus more on Bavaria and selected European regions as well as on middle-tier business lending, institutional clients and commercial real-estate and retail customers. BayernLB has faced hefty write-downs as a result of the subprime mortgage and credit crisis.

BAE Systems PLC

Switzerland can hand over bank documents to British authorities investigating whether arms maker **BAE Systems** PLC bribed Czech politicians to gain a contract for the sale of fighter jets, the Federal Criminal Court said Monday. The Swiss court rejected appeals by a company and a Geneva-based lawyer, who had sought to stop the transfer of bank documents to Britain. In line with Swiss privacy laws, the court identified neither the lawyer nor the company. BAE, Europe's largest defense contractor, is the subject of corruption investigations in several countries, including allegations it paid Czech officials to support the purchase of Swedish Gripen fighter jets. Britain's Serious Fraud Office requested help from Switzerland to trace the flow of about €1 million ($1.3 million) sent to Swiss bank accounts via the British Virgin Islands and Panama, the court said. Aircraft maker Saab of Sweden and BAE, which helps market the plane, reject allegations of improper conduct.

Aston Martin

Aston Martin said it is laying off as much as a third of its work force because of falling car sales during the economic slump. The cuts involve a mix of full-time and temporary jobs at its plant in Gaydon in western England. The company, which employs some 1,700 people in Britain, said it might cut up to 300 permanent jobs and a similar number of temporary positions. In October, Aston Martin sold only 110 cars in Britain, down from 164 a year earlier. Total annual sales are expected to drop to 6,500 this year from 7,300 last year. The company's sticker price for its cheapest Vantage model is £83,000 ($128,000) and prices run as high as £162,500 for the DBS, the luxury sports car featured in the latest James Bond film.

China Development Bank

China Development Bank, one of the country's three policy lenders, became a stockholding company Monday as part of its transformation into a commercial entity that may eventually lead to a stock-market listing. The relaunch, which includes a new board of directors, comes after **Central Huijin Investment** Ltd., an investment vehicle under China's sovereign-wealth fund, injected $20 billion into CDB late last year to boost its capital adequacy ratio to 12.77% as of the end of 2007. With the injection, Central Huijin joined the Finance Ministry as one of the lender's two shareholders.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

BJP gambles on a show of disunity

India's opposition party tries to tap general disgust with the response to attacks, but risks sounding too shrill

By Niraj Sheth, Eric Bellman and Tariq Engineer

MUMBAI—In the wake of the Mumbai terrorist attacks and with just a few months to go before national elections, India's chief opposition party has wasted no time in putting blame for the atrocities squarely on the government.

In times of national mourning, political parties often make a show of unity in an effort to persuade voters that some things are above politicization. But not so the Bharatiya Janata Party.

A blood-red, front-page advertisement in one of India's biggest daily newspapers, the Hindustan Times, on Friday read, "Brutal Terror Strikes at Will. Weak Government Unwilling and Incapable. Fight Terror. Vote BJP."

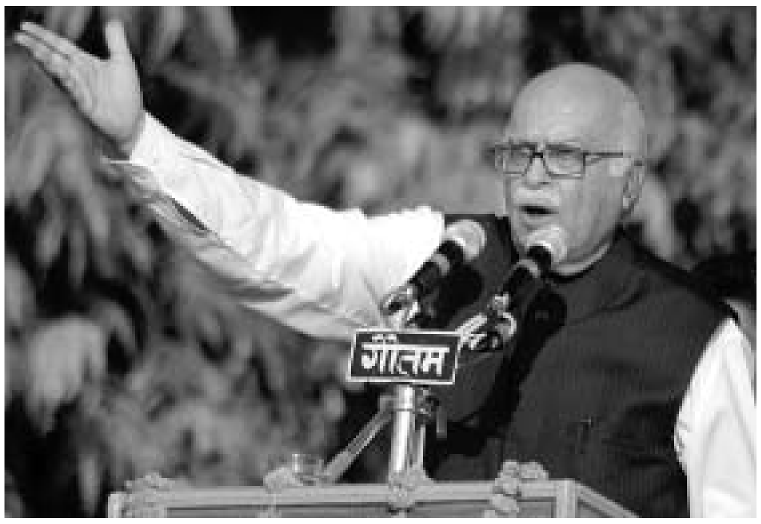
While the attacks, which killed at least 172 people, were continuing, Narendra Modi, a high-profile BJP politician and the party's chief spokesman on antiterror issues, arrived in Mumbai for a tour. He came to the city, capital of the state of Maharashtra, although he is the chief minister of neighboring Gujarat, as the first national political figure to tour the scene of the attacks, and demanded access to one of the hotels while it was still under seige. After being refused, he criticized the national government for failing to prevent such attacks. Mr. Modi couldn't be reached to comment.

On Sunday, party leader L.K. Advani, the BJP's candidate for prime minister at the next national elections, skipped an emergency all-party meeting called by Prime Minister Manmohan Singh. It was a time to take action, not to talk, Mr. Advani said. He was on a previously scheduled campaign trip to the state of Rajasthan, according to the Press Trust of India. A BJP spokesman said Mr. Advani was unavailable to comment.

Given that the Indian government is being widely blamed for a lack of preparedness before the attacks—Home Minister Shivraj Patil resigned on Sunday—the BJP's outspoken response might play well with many voters. The nation must go to the polls before May, when the current government's term ends. And the BJP is viewed as tougher on national security than Mr. Singh's Congress Party.

A higher-than-expected turnout at elections for the state of Delhi on Saturday indicated that national security is driving voters to the polls. Most, analysts said, probably are casting a ballot for the opposition.

Ravi Shankar Prasad, a BJP member of parliament and the party's national spokesman, said the BJP wants to send the message that India has to be tough with terrorists and those who harbor them and that the BJP is the party to do that. It is advocating a tougher antiterror legal framework and completely rearranging the security apparatus.



Reuters

For BJP leader **L.K. Advani**, 81, pictured above addressing a rally in Varanasi in October, next year's elections might offer his last chance to become prime minister.

But some political analysts contend that the BJP's blatant antigovernment stance is more likely to foster a backlash than to appeal to voters at a time when politicians of all stripes are being held in low esteem—especially in Mumbai, where protests and demonstrations have erupted since the attacks ended Saturday in a general display of disgust with the establishment.

"The government is still on the back foot," said Mahesh Rangarajan, a political analyst and professor of history at Delhi University. "But if the BJP gets too shrill, it can backfire."

For some, it already has. "They are trying to politicize this, and it's totally wrong," said Preeti McConkey, the owner a fabric-design company who was separated from her husband and 13-month-old daughter for three days as the attacks in her neighborhood barred her from returning home.

Mr. Modi's visit also received a tepid response. In a televised public address as the fighting carried on, he made an offer of 10 million Indian rupees ($201,700) on behalf of his state to each of the families of killed Mumbai cops. But when Mr. Modi later visited the widow of Hemant Karkare, the head of the Maharashtra state antiterrorism team who was killed during the attacks, Mrs. Karkare refused to take any money, according to local media reports. Mr. Modi said he never offered the family cash directly when he visited their home but came only to pay his respects, according to the reports.

Mr. Rangarajan said the BJP isn't too worried about being tarnished by the public's anger. "The kind of disgust the people of India are showing against the negligent way the UPA government has handled internal security will rub upon politicians as a class," he said, referring to the United Progressive Alliance, the Congress Party-led coalition. "That is not very unnatural."

For the 81-year-old Mr. Advani, next year's national elections could be his last chance to become the country's prime minister. When his predecessor at the BJP's helm, former Indian Prime Minister Atul Bihari Vajpayee, retired from politics in 2005, Mr. Vajpayee was 80.

Mr. Advani shot to national prominence in 1992 when he led a Hindu fundamentalist campaign to destroy the Babri Masjid mosque in Uttar Pradesh state. The terrorists in last week's attacks referenced the mosque to justify their actions, according to one witness account. BJP members give him credit for bringing the Hindu nationalist party to national prominence.

—Vibhuti Agarwal in New Delhi and Peter Wonacott in Mumbai contributed to this article.

Investigators trace last voyage of boat used by terrorists

By Krishna Pokharel

Earely on the morning of Nov. 14, the Kuber, a 45-foot (13.5-meter) fishing boat, left its home port on India's west coast and headed for the abundant waters near the Sir Creek, a river that runs into the sea at the fuzzy aquatic border between India and Pakistan.

It is a journey that ships from the port city of Porbandar, in Gujarat state, have made for centuries and that the Kuber has made regularly since it was commissioned in 1997. But for lead crewman Amar Narayan Singh, a 45-year-old father of three, and his four crew members, it was a voyage from which they never returned. About one week in, the boat was hijacked by terrorists who used it as a link in their passage to Mumbai.

Last Wednesday, 20 nautical miles from India's biggest city, those terrorists embarked in dinghies from the Kuber to wreak three days of havoc that ended Saturday with at least 172 dead.

There remain many questions about how the terrorists made their way to Mumbai. Investigators are pursuing leads that they left in another boat from the Pakistan port of Karachi, along the coast west of the mouth of Sir Creek, then hijacked the Kuber to avoid detection in Indian territorial waters.

The one apprehended terrorist (the nine others were killed) has told police that he was a member of an outlawed Pakistani group, Lashkar-e-Taiba. It has links to the disputed region of Kashmir between India and Pakistan, but also uses Karachi as a center of activity. A senior Pakistani official has said Indian Prime Minister Manmohan Singh told Pakistan Prime Minister Yousuf Raza Gilani that the attackers may have come from Karachi.

Karachi, with a population of more then 14 million, has a vast coastline, two major ports and a fishing harbor, from which hundreds of cargo ships and fishing trawlers operate. Police officials said they don't have any information that the terrorists involved in Mumbai attacks took off from the city. No one from Pakistan's defense ministry was available for comment.

Indian authorities continue to pursue the terrorists' initial tracks and to guard against other potential attacks from the sea. A spokesman for India's Ministry of Defense said surveillance and air reconnaissance has been stepped up since the attacks. "We are looking if there are any suspicious objects in the sea," said a spokesman for India's Coast Guard.

Details of the Kuber's fateful voyage are emerging. The Kuber left Porbandar early Nov. 14 with the five men aboard, according to Jeevan Bhai Jungi, the 52-year-old leader of the fishermen's community in Porbandar. The wooden boat with an Indian-made Ashok Leyland engine was built by a local carpenter and purchased by local businessman Hiralal Masani in 1997, Mr. Masani said in an interview. It has a cabin with room for five or six.

Mr. Singh had been a fisherman for about 16 years. The sole breadwinner in his family, he earned less than $200 a month. He often slept on the boat, but his home was on Diu island off the south coast of Gujarat state. "He was an optimist and worked hard for his children's education," said Hira Makwana, Mr. Singh's brother-in-law.

He had only worked for Mr. Masani, the boat's owner, for about three months. But Mr. Masani, who is disabled, trusted him enough to let him run his fishing boat. "He was very honest," Mr. Masani said.

As it regularly did, the Kuber headed for the mouth of the Sir Creek in the Jakhau area of the Arabian Sea for 10 to 12 days of fishing for pomfret, Indian salmon and eel. The area is popular with both Pakistani and Indian fishermen, and is heavily patrolled by maritime authorities from both sides to enforce the territorial boundaries of the two rivals. Ships that slip too far over the line are regularly apprehended and their crews detained.

Harekrishna Debnath, chairman of the National Fishworkers Forum in Kolkata, India, which represents fishermen, says Pakistan's Maritime Security Agency just last week seized an Indian boat with 16 fishermen; both the fishermen and boat have yet to be released, he said.

A spokesman for Pakistan's defense ministry, which overseas the maritime agency, couldn't be reached for comment,

Hussain Jarwar, program manager of the Pakistan Fisherfolk Forum, a fishermen's organization in Karachi, says authorities from both sides regularly seize boats, imprison the crew and then negotiate over releases.

A spokesman for the Indian Coast Guard declined comment. But an Indian coast-guard officer in Porbandar said Pakistani fishing boats are apprehended very rarely and most of them are let go after a simple warning if it has been a minor transgression of the international maritime boundary.

"Relations between the two countries are not as bad in the sea as you think they might be," he said.

The commonplace interception of boats raises questions about how the terrorists managed to avoid detection before they hijacked the Kuber.

For the first eight days of the voyage, Mr. Narayan, the lead crew member, checked in regularly with Mr. Masani, the owner. Then, starting around Nov. 21, he failed to report in. Mr. Masani says he didn't report that to authorities because sometimes a day or two would pass without contact.

Around the same time, Mr. Jungi says, local fishermen starting talking about how they had seen three bodies floating in the sea in the Jakhau area near the Pakistani border. Investigators believe the terrorists, having hijacked the Porbandar, immediately killed most of the crew and threw them overboard.

The boat's movements for the next five days are unknown. But the hijackers appear to have kept Mr. Narayan alive until the evening of Nov. 26, shortly before they launched their attacks, possibly to help them navigate. Around that time, a local Mumbai fisherman witnessed the killing of a sailor on board a fishing vessel that he was near. The killers threw the body below deck, he says.

On the afternoon of Nov. 27, as Mumbai lay besieged by 10 terrorists holed up in three hotels and a Jewish center, an Indian Coast Guard helicopter spotted the Kuber at sea, according to Commandant AKS Panwar, spokesman for the Indian Coast Guard's western region headquarters in Mumbai. He said the boat had a dead body in it and was from Porbandar. The boat was handed over to the police.

Mr. Singh's family was summoned to Mumbai to see the body, according to Mr. Makwana, Mr. Singh's brother-in-law. The head of the village council on Diu island, who saw Mr. Singh's body before it was cremated, said his throat had been slashed. Photographs of his body in Indian newspapers showed him bound and gagged on the floor of the boat, blood covering his neck.

—Zahid Hussain in Islamabad contributed to this article.

Associated Press

U.S. President-elect Barack Obama, at lectern, **introduces his national-security team** in Chicago on Monday, when he emphasized the need to devote new energy to diplomacy and other nonmilitary aspects of U.S. global power.

Obama unveils new picks

Clinton, Gates, Jones tasked with advising on national security

BY YOCHI J. DREAZEN

CHICAGO—U.S. President-elect Barack Obama, unveiling his national-security team, said he will use the "power of our moral example" in making a clean break from Bush administration policies on Iraq, Afghanistan and overseas diplomacy.

Mr. Obama gave pride of place on stage here to his former political rival, Sen. Hillary Clinton, whom he is nominating as secretary of state, and Defense Secretary Robert Gates, who will stay in his post.

Speaking to reporters, Mr. Obama said he would devote new energy to diplomacy and other nonmilitary aspects of U.S. global power.

"The national-security challenges we face are just as grave and just as urgent as our economic crisis," he said. "To succeed, we must pursue a new strategy that skillfully uses, balances and integrates all elements of American power: our military and diplomacy; our intelligence and law enforcement; our economy and the power of our moral example."

Sen. Clinton, echoed the theme, saying U.S. interests "cannot be protected and advanced by force alone." Retired Marine Gen. James Jones, who was named national-security adviser, stressed that the U.S. would need to use "all elements of our national power and influence."

The comments reflect Mr. Obama's stance that the Bush administration's handling of Iraq and Afghanistan suffered from an overreliance on the military and a failure to devote enough resources to political reconciliation and economic development.

A senior Obama aide said the incoming administration will create teams of diplomats and other civilian government officials who can be quickly deployed overseas after natural disasters or political upheavals to help fragile countries get back on their feet.

The aide declined to say whether new spending on such teams would be offset by cuts in defense spending, which has increased significantly under President George W. Bush. Many Democratic lawmakers have begun arguing that the economic crisis and the skyrocketing federal budget deficit will force reductions in the Pentagon's budget, and senior military officials expect their funding to fall significantly.

Other members of the administration introduced Monday were Arizona Gov. Janet Napolitano, nominated to head the Department of Homeland Security; former Justice Department official Eric Holder, nominated for attorney general; and campaign adviser Susan Rice, who was tapped as ambassador to the United Nations.

The new cabinet includes several officials, notably Sen. Clinton and Mr. Gates, who have criticized some of Mr. Obama's positions on Iraq and other issues. Mr. Gates has argued against a firm timetable for a withdrawal from Iraq, while Sen. Clinton questioned Mr. Obama's stated willingness to negotiate with Iran.

Mr. Gates, who had often said he looked forward to leaving Washington with the rest of the Bush administration, said he felt an obligation to stay on at Mr. Obama's request. "I must do my duty as they do theirs," Mr. Gates said, speaking of U.S. military personnel.

Sen. Clinton, whose nomination was cleared once former President Bill Clinton agreed to publicly disclose all donors to his foundation, said she was swayed to take the post by a realization of the "daunting tasks ahead for our country."

"America cannot solve these crises without the world and the world cannot solve them without America," she said.

Mr. Obama laughed off a question reminding him of disparaging remarks his supporters made about Sen. Clinton during the heated battle for the Democratic presidential nomination. He said their disagreements were magnified and he wants "vigorous debate" in his administration.

"One of the dangers in a White House is that you get wrapped up in groupthink and everybody agrees with everything and there's no discussion and there are no dissenting views," he said, adding that "the buck will stop with me."

Mr. Obama has spoken respectfully of Mr. Bush since the election, but he made clear that his policies will differ sharply.

Mr. Bush, for example, has consistently described Iraq as the central front in the war on terror. His administration has devoted most American military muscle and financial resources to the war in Iraq, leading Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, to refer to the Afghan war as an "economy-of-force mission."

Mr. Obama said he would shift resources to Afghanistan, and described South Asia as the biggest danger to the U.S. "The safe havens for terrorists that have been established there represent the single most important threat against the American people," he said.

Mr. Obama also reiterated a campaign promise to order Mr. Gates and the Joint Chiefs of Staff to begin withdrawing American combat forces from Iraq, with the goal of having all of them out of the country by the middle of 2010. He promised to listen to the advice of his senior commanders, some of whom are privately wary about such a quick withdrawal, but said his commitment to a drawing down of forces remained intact.

"I believe that 16 months is the right time frame," he said, adding that the American-led war in in Iraq was entering a "transition period in which our mission will be changing."

Mr. Obama has spoken respectfully of Mr. Bush since the election, but he made clear that his policies will differ sharply on Iraq, Afghanistan and overseas diplomacy.

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Iran's nuclear threat looms as urgent matter for Obama team

THE FOREIGN-POLICY team U.S. President-elect Barack Obama announced Monday is said to be experienced enough to "hit the ground running." Good thing when it comes to Iran, as time is running short for the new crew to figure out what to do about a nuclear program that seems to have been slowed very little by international efforts to make Tehran play nice.

In the minds of Americans, the Iranian nuclear threat has taken a backseat to the question of what to do about live fights in Iraq and Afghanistan. But it would be hard to overstate the nervousness America's allies in Israel now feel about Iran's nuclear ambitions.

In private, Israeli officials are ever more blunt in saying they see time running out before Iran's nuclear potential becomes a nuclear reality that threatens the Jewish state, among others. Once the Obama administration is in place next year, and a new Israeli government takes shape after February elections there, the questions about whether Israel is contemplating military action against Iran will only grow.

Mr. Obama and his nominee for secretary of state, Sen. Hillary Clinton, are hardly without assets in confronting this problem. First, the spectacular drop in the price of oil puts new economic pressure on Iran and creates openings to escalate that pressure. Second, Mr. Obama's shiny image in Europe may give him a honeymoon period where he can win more support there to ratchet up the international pressure.

Meantime, though, an intriguing question confronts the new Obama team: How will the president and his secretary of state resolve their campaign-season disagreement about the virtues of direct American discussions with Iran?

The urgency behind all these matters is rising as the nuclear reality in Iran becomes more clear. The International Atomic Energy Agency says Iran now has produced some 630 kilograms of low-enriched uranium, using a network of 4,000 centrifuges working on enrichment. The Iranians probably need to roughly double that to have the basic raw material for a nuclear bomb.

INTELLIGENCE ESTIMATES indicate that Iran is producing 2.5 kilograms of additional enriched uranium daily, officials say. Do the math, and you'll see that Iran may amass enough low-enriched uranium to have the capacity to make a weapon by the end of 2009.

There's still a distance to go before that material could be turned into a bomb, of course. Low-enriched uranium needs more processing before it is weapons-grade, and turning fissile material into a working bomb is no small feat. It's hard to know how long those steps might take.

But the question is whether simply having enough raw material to appear nuclear-capable would, by itself, change the Middle East. Would Israel be subject to nuclear blackmail from Iran, a country whose leader has suggested Israel should be wiped off the map? Would Saudi Arabia react by using billions of its dollars to launch its own crash nuclear program, starting a daisy chain of nuclear proliferation in the region? Or, perhaps as bad, would the Saudis and others simply give in to Iranian bullying?

Against this daunting problem, the international community's basic counterattack has been economic penalties. The United Nations Security Council has passed three resolutions during the past two years designed to cut trade with Iran in materials with nuclear uses, and to cut the flow of international financing until Iran complies with nonproliferation agreements. On top of that, the U.S. government, working directly with other industrialized countries, has started to cut off private bank lending to Iran, a step that has been particularly useful in increasing economic pressure.

Iran seemed well-equipped to shrug off these outside economic pressures when the price its oil fetched was climbing. The good news for the Obama team is that Iran figures to be more vulnerable to economic pressure now that oil has fallen closer to $50 than $140 a barrel.

THE CENTRAL Intelligence Agency estimates that Iran's government relies on the oil sector for 85% of its revenue. Soaring oil prices allowed Iran to build up some $70 billion in foreign-exchange reserves, but in an economy in which the government relies on large subsidies to keep the populace happy, those reserves can't last forever.

With the government of President Mahmoud Ahmadinejad already using price controls on food and energy to stabilize the domestic economy, falling oil prices figure to create lots of new pressures. By one estimate, the Iranian government needs $90-a-barrel oil for its government accounts to break even. The question, then, is when economic pressure might become so great that a nuclear program becomes counterproductive.

Making that possibility a reality is more likely if a President Obama can convince European leaders to step up economic sanctions on Tehran. The Bush administration has managed to persuade the U.N. and European allies to turn the screws tighter on Iran over the past few years. But its ability to ratchet up pressure has been limited, inevitably, by old bruises and grievances born of past disagreements over the war in Iraq.

To the extent that allies have convinced themselves that working with a president not named Bush would be easier, Mr. Obama has an opening for a few months to go further in exerting pressure. And a few months just might spell the difference between success and failure on the Iran nuclear front.