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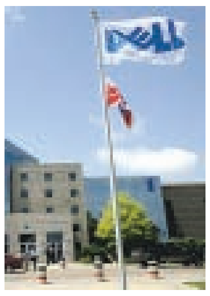

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U.S. airlines are raising cash even in credit crunch

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European banks await 'the year of reckoning'

More bankruptcies, problems with debt to add to 2009 woes

BY NEIL SHAH

LONDON—European banks are bracing for a difficult 2009 as a rising tide of corporate bankruptcies adds to their problems with bad mortgage and credit-card loans.

With the U.K. on the brink of recession and the euro zone heading for what could be its sharpest downturn since World War II, analysts are predicting billions of euros in write-downs for banks as more companies run into trouble and renege on their debts. The losses could present a challenge to European governments, which in the past few months have spent more than €70 billion ($97.79 billion) on capital injections to keep their banking sectors afloat.

Some 75 European companies with lower credit ratings could default in 2009, affecting about €25 billion of debt, according to ratings firm Standard & Poor's. Together with losses on mortgages and other loans, companies' problems will force European banks to take a

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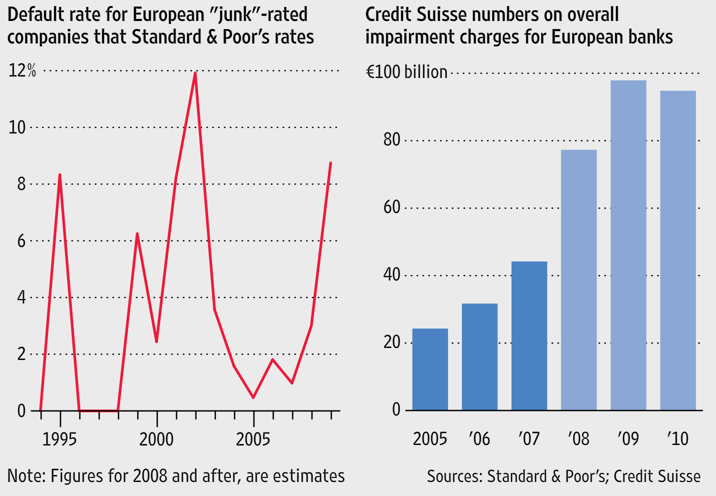
Trouble brewing for European banks

A lot more European corporate borrowers are likely to renege on their debts next year. That's bad news for the banks that lent them money.



Note: Figures for 2008 and after, are estimates

Sources: Standard & Poor's; Credit Suisse

European ministers seek end to hostilities in Gaza

BY JOSHUA MITNICK AND MARGARET COKER

TEL AVIV—Israel continued its aerial bombardment of Hamas targets in the Gaza Strip on Tuesday as international pressure for a cease-fire mounted and Israeli officials warned that operations against the militant group were only just beginning.

European foreign ministers met Tuesday in Paris, calling for an end to hostilities and increased access to Gaza for humanitarian purposes.

Turkey's prime minister, meanwhile, announced a round of shuttle diplomacy to Arab capitals to consult on a response to the attacks.

The Israeli aerial bombardment, which began Saturday, has claimed at least 350 Palestinians, including 60 civilians, according to United Nations estimates, which haven't been updated since Monday. Palestinian hospital officials said 10 more Palestinians died in Israeli attacks Tuesday, but there was no independent confirmation of that figure. Four Israelis have been killed by Palestinian missiles. The U.N. has said that at least 1,400 Palestinians have been wounded. At least 20 Israelis have sustained injuries.

Israel's security cabinet meets Wednesday to discuss the military operation, and Israeli press reports late Tuesday suggested a possible cease-fire would be on the agenda. The military denied an earlier report that it had recommended a 48-hour cease-fire, and a government spokesman said he had no

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Euro's parity with pound draws nearer

BY LAURENCE NORMAN

LONDON—With more U.K. interest-rate cuts and poor economic data likely in the coming week, sterling soon could fall to parity with the euro for the first time, a psychological blow to a country that spurned the currency used by much of Europe.

The euro has strengthened 13% against the pound this month, as the U.K. economy has deteriorated more quickly than that of the 15-nation euro zone and the Bank of England has responded with steeper interest-rate cuts.

Not only is the pound weaker than it ever has been against the euro since the common currency was created 10 years ago, but it also is weaker than at any time against a widely used measure of where the euro would have traded prior to its creation.

Tuesday, the euro moved above 98 pence for the first time. Though it fell back to £0.97857 by midday in New York, it still was stronger than the £0.9645 of late Monday.

The euro's move above one pound could come by Friday, when the U.K. releases manufacturing data and the Bank of England publishes key lending surveys, said

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What's News—

Business & Finance

European banks are bracing for a difficult 2009 as rising corporate bankruptcies add to problems with bad mortgage and credit-card loans. Analysts are predicting billions of euros in write-downs, offering a challenge to governments. Page 1

■ **The U.K. pound may** fall to parity with the euro, a psychological blow to a country that spurned the currency used by much of Europe. Page 1

■ **GMAC is ramping up** loans to U.S. car buyers, a day after Washington committed $6 billion to help the firm. Page 3

■ **Ukraine and Russia** inched closer to resolving the gas dispute, as Kiev moved to make payments to energy giant AOA Gazprom. Page 3

■ **The drop** in U.S. home prices continued to intensify, with a closely watched index falling 2.2% in October from September, a record decline. Page 7

■ **Government aid** for GMAC gave U.S. stocks a boost. In Europe, Infineon Technologies led a tech-sector rally. Page 18

■ **Bayer filed** a patent suit against Abbott over its Humira autoimmune drug, the company's top-selling product. Page 28

■ **Sharp projected** a $476.8 million loss, citing a steep decline in the value of its stake in TV maker Pioneer. Page 6

■ **Three Chinese steelmakers** will merge amid falling demand and a push by Beijing for the sector's consolidation. Page 22

■ **The coup in Guinea** has added uncertainty to the outlook for mining companies, which were already grappling with depressed prices. Page 17

■ **UniCredit sold** Italian and Austrian noncore assets worth about $2.79 billion as it tries to boost its capital ratios. Page 19

■ **Euro-zone lending** was stagnant in November, and German prices rose less than expected in December, suggesting the ECB will cut rates again. Page 20

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8668.39	+184.46	+2.17
Nasdaq	1550.70	+40.38	+2.67
DJ Stoxx 600	196.90	+3.44	+1.78
FTSE 100	4392.68	+73.33	+1.70
DAX	4810.20	+105.34	+2.24
CAC 40	3217.13	+86.41	+2.76
Euro	$1.4145	-0.0089	-0.63
Nymex crude	$39.03	-0.99	-2.47

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World-Wide

Israel continued to strike at Hamas targets in Gaza as international pressure for a cease-fire mounted and Israeli officials warned operations against the militant group were only just beginning. European foreign ministers met in Paris, calling for an end to hostilities. The Israeli attacks have killed at least 350 Palestinians. Page 1

■ **Pakistan closed** the main supply route for U.S. and allied troops in Afghanistan after launching a fresh offensive against militants in the area.

■ **Herman Van Rompuy** was sworn in as Belgium's prime minister, triggering hopes he could heal some of the nation's linguistic divisions. Page 2

■ **The European Commission** approved two programs by Germany to support companies in the economic downturn, making the nation the first to make use of special state-aid frameworks.

■ **Medvedev signed a law** extending Russian presidential terms to six years, a move seen as paving the way for Putin's return to the presidency. Page 2

■ **An ailing former executive** of dismantled Russian oil giant Yukos who was jailed in 2006 was freed after posting a $1.8 million bail, his lawyer said.

■ **China is delaying** part of a massive project to divert water to its north, amid concerns over environmental damage. Page 9

■ **Embattled Gov. Blagojevich** named Roland Burris, the former attorney general of Illinois, to fill the U.S. Senate seat vacated by Obama. WSJ.com

■ **Voters in Bangladesh** handed ex-leader Hasina a decisive victory in parliamentary elections, early results showed. Page 9

■ **A pro-India coalition will** head the new Jammu and Kashmir state government. Page 9

■ **Guinea's coup leaders** named civilian banker Kabine Komara as the new prime minister.

— NOTICE TO READERS —

Wall Street Journal Europe won't publish Thursday, in observance of the New Year's Day holiday. Subscribers can go to WSJ.com for the latest developments.

EDITORIAL&OPINION

The oil hangover

Putin, Ahmadinejad and Chávez learn a hard lesson about energy prices. Page 11

THE WALL STREET JOURNAL.

LEADING THE NEWS

Van Rompuy sworn in as Belgian premier

Ex-budget minister is expected to tackle divide, stimulus plan

BY JOHN W. MILLER

BRUSSELS—Herman Van Rompuy, an intellectual with a penchant for writing haiku was sworn in Tuesday as Belgium's prime minister, triggering hopes that he could heal some of this country's bitter linguistic divisions.

The 61-year-old Mr. Van Rompuy takes over a fragile government hammered by a recent bank-bailout scandal and an economy sliding into recession.

A widely respected elder statesman in Belgium's right-of-center Christian Democrat party, Mr. Van Rompuy emerged as the only consensus candidate. He is known mainly for his tenure as budget minister in the 1990s, when he laid the groundwork for Belgium to join the euro.

Mr. Van Rompuy is from Belgium's Dutch-speaking majority, whose demands for greater autonomy have caused political turmoil here in recent years. But his selection was welcomed by French-speaking media and opinion makers.

In an editorial titled "Yes, He Can," La Libre Belgique, the French-language daily, called Mr. Van Rompuy a leader of "reason and heart," who understands the dangers of dismantling the state.

Mr. Rompuy's immediate priorities, his spokesman said, will be hammering out the details of a €2 billion ($2.8 billion) stimulus plan passed this month by the Belgian parliament and sealing the government's October deal to sell the Belgian banking and insurance arms of **Fortis** NV, to **BNP Paribas** SA of France for €14.5 billion.

Herman Van Rompuy

It was that deal, part of one of the first big bank bailouts of the current global financial crisis, that brought down Mr. Van Rompuy's predecessor, Yves Leterme. Mr. Leterme resigned on Dec. 19, after a Belgian supreme court investigative judge said his chief of staff and justice minister tried to influence the judge hearing a case brought against the sale by minority shareholders.

BNP Paribas has said it wants to go ahead with the purchase, which has been delayed at least until a shareholder vote on Feb. 12, after the Belgian court ruled in favor of the minority shareholders. The shareholders have said the deal the government struck with BNP in October undervalues their shares.

The longer-term issue on Mr. Van Rompuy's plate, however, is healing the rift between Dutch speakers in Flanders in the north and French speakers in Wallonia in the south. Flanders is wealthier and wants a confederal-state system like Switzerland's, giving each region more control over its tax revenues.

Mr. Van Rompuy doesn't yet have an easy solution to Belgium's linguistic divide, said his spokesman, Dirk De Backer. Unlike Mr. Leterme, Mr. Van Rompuy has a reputation as a conciliator. "Talking, talking to each other, trying to understand each other" will yield a compromise, said Mr. De Backer.

The center-right coalition in place since March will remain with only a few changes. It isn't clear how long Mr. Rompuy will be in the job. An investigation into the Fortis affair is under way, and if it clears Mr. Leterme, he could return as prime minister after regional elections in June. Otherwise, Mr. Rompuy could remain in office until the next national elections, scheduled for 2011.

Mr. Rompuy's blog (http://hermanvanrompuy.typepad.com) lists books he is reading, his favorite quotes, his own essays and his poems. He recently read U.K. Prime Minister Gordon Brown's "Courage: Eight Portraits." Many of the books are religious, while his own poetry, written in Dutch, swings from reverent to ironic. One, called "Hair," reads, when translated from the Dutch: "Hair blows in the wind/After years there is still wind/Sadly no more hair."

Medvedev move may presage Putin's return to presidency

ASSOCIATED PRESS

MOSCOW—Russian President Dmitry Medvedev signed a law extending presidential terms to six years from four, the Kremlin said Tuesday, a move seen as paving the way for Vladimir Putin's return to the presidency.

Dmitry Medvedev

Mr. Medvedev's final endorsement of the legislation follows its quick approval by the Kremlin-controlled parliament and all of Russia's 83 provincial legislatures. If enacted, the change wouldn't apply to Mr. Medvedev's current term, due to end in 2012.

Mr. Putin, who remains very popular, was barred constitutionally from seeking a third straight term as president.

He tapped his longtime protégé Mr. Medvedev as his favored successor, ensuring his landslide election in March.

Mr. Putin then became prime minister and leader of the United Russia party, which dominates the Duma, and he is still seen as the man calling the shots in Russia.

Mr. Putin has said the change wasn't tailored for him and would expand democracy.

But the push to amend the constitution just months after Mr. Medvedev's election has led to speculation that his term could be cut short to allow Mr. Putin to return to the Kremlin.

Mr. Putin isn't barred from running again after a break, and Mr. Medvedev's move to extend the presidential term sparked speculation that Mr. Putin might not wait until scheduled elections in 2012 to seek a return to the office.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

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LEADING THE NEWS

GMAC ramps up U.S. auto lending

Credit criteria eased, thanks to federal aid totaling $6 billion

BY DAMIAN PALETTA AND JOHN D. STOLL

WASHINGTON—**GMAC** LLC said it would resume financing for "a broader spectrum" of U.S. car buyers, a day after the federal government committed $6 billion to stabilizing the finance company—a vital component for struggling car maker **General Motors** Corp.

"The actions of the federal government to support GMAC are having an immediate and meaningful effect on our ability to provide credit to automotive customers," GMAC President Bill Muir said in a prepared statement.

In a sign the government's deepened role in the automotive industry could become open-ended, the Treasury Department said Monday it had set up a separate program within the Troubled Asset Relief Program, a fund originally designed to help banks, to make investments directed at the auto industry. A Treasury official said the new program didn't have a specific dollar limit.

The Treasury purchased $5 billion in senior preferred equity in GMAC and offered a new $1 billion loan to GM so the auto maker could participate in a rights offering at GMAC. That loan comes in addition to the recent $17.4 billion emergency plan to rescue GM and **Chrysler** LLC.

The move represents the second tranche of government aid that benefits giant private-equity firm **Cerberus Capital Management**, which owns Chrysler and, until these recent moves, a majority stake in GMAC. John Snow, a top player at Cerberus, was the Bush administration's Treasury secretary before Henry Paulson.

GMAC said Tuesday it will modify its credit criteria to include retail financing for customers with a credit-bureau score of 621 or above, compared with the 700 minimum score it put in place two months ago as its troubles deepened. The median U.S. consumer-credit score is 723. "We will continue to employ responsible credit standards, but will be able to relax the constraints we put in place a few months ago due to the credit crisis," Mr. Muir said.

Shifting down

- U.S. Treasury Department to buy **$5 billion** in senior preferred equity with an 8% dividend from GMAC.
- GMAC to issue warrants to Treasury in an amount equal to **5% of preferred stock purchase** that will pay 9% dividend if exercised.
- Treasury also agreed to lend up to **$1 billion** to GM.

Following GMAC's announcement, GM said it would offer 0% financing on some models in a bid to jump-start sales. GM, the largest U.S. auto maker by revenue, had to scale back incentives in a stagnant domestic market as its finance arm's troubles left it unable to provide loans and leases.

The difficulties of GMAC and Chrysler's financing arm, Chrysler Financial, are a big reason GM and Chrysler have suffered steep drops in auto sales and fallen into financial trouble in the past few months, Michael J. Jackson, chief executive of **AutoNation** Inc., the country's largest chain of auto dealerships, said in a recent interview. Both financing companies have been restricting credit as their own finances worsened. "Consumer credit is the jet fuel of the auto business," Mr. Jackson said. "The majority of consumers can't buy a car without getting a loan."

GMAC finances about 80% the wholesale purchases of GM's cars by dealers world-wide. It has typically been the largest source of financing for the actual buyers of those vehicles once they reached the showroom.

The car company has said that a 45% sales skid for October was in part because of GMAC's restricted lending, which cost GM anywhere from 45,000 to 60,000 sales in the month. About 25% of GM vehicle sales were financed through GMAC last month, down from more than 40% a year ago.

The move by Treasury was the second part of a two-step rescue by the government of GMAC. Last week, the Federal Reserve approved the finance company's application to become a bank holding company, a move sought by other companies, too, to take advantage of new government programs aimed at stabilizing banks.

In bailing out GMAC, Treasury officials aren't just stabilizing an auto-finance company but a major player in the housing market's boom and bust. GMAC played a big role in pushing riskier adjustable-rate mortgages. The collapse of the housing market put additional strain on GMAC.

The Fed's approval was conditional on GMAC raising new capital, which the company tried to do through a debt-equity swap that expired Friday. The company's goal was to raise $30 billion by converting 75% of its issued debt into preferred-stock holdings. Last week, less than 60% of bondholders had signed on and the offering had been extended four times. At the same time as the Treasury announcement Monday, GMAC said it had raised enough capital to satisfy the Fed's conditions. It wasn't clear whether the government's intervention prompted or followed GMAC's meeting the capital requirement.

Cerberus bought 51% of GMAC in 2006. GM has a 49% stake in GMAC. As a result of the Fed's move, Cerberus must reduce its interest to a maximum of 14.9% in voting shares and 33% in total equity. It will do this by distributing its positions in GMAC directly to Cerberus investors. GM will transfer part of its stake in GMAC to a trust whose trustee will be approved by the Treasury.

Treasury has now spent virtually all the first half of a $700 billion financial-market rescue package Congress approved in early October. Treasury Secretary Paulson said two weeks ago that the first half of the bailout fund was essentially spent and that Congress would soon need to release the second installment.

The Treasury official who briefed reporters on the plan Monday didn't break down how all of the money had been allocated but said "from a short-term cash-flow basis" the department hasn't exceeded the first $350 billion installment. It is "not fair to say we've overcommitted the 350" billion, he said.

Treasury officials briefed members of President-elect Barack Obama's transition team on the new plan, a Treasury spokeswoman said.

Treasury said GMAC would pay an 8% dividend as part of the $5 billion investment, which the government said was "part of a broader program to assist the domestic automotive industry in becoming financially viable." Treasury will receive warrants from GMAC, which will be additional preferred equity equal to 5% of the preferred-stock purchase that will pay a 9% dividend if exercised.

Treasury's investment doesn't carry any direct requirement to lend any of the money. A similar lack of conditions for funds lent to banks has been a source of criticism, especially among congressional Democrats who charge as a result that the bailout isn't working. As part of the deal, GMAC agreed to limit compensation on its top 25 executives including a ban on severance packages for the top five employees. The limits won't apply to executives at Cerberus.

Cerberus spokesman Peter Duda said the firm had no comment on Treasury's investment. GM officials couldn't be reached.

—Neal Boudette, Kerry E. Grace and Sharon Terlep contributed to this article.

Ford hopes self-parking cars boost curb appeal

BY MATTHEW DOLAN

DETROIT—**Ford Motor** Co. plans to offer two Lincoln models in 2009 that can park themselves, the latest move in a strategy aimed at improving the public's image of the auto maker.

The automatic parallel-parking system will be shown in January at the North American International Auto Show in Detroit, and will be offered as an option on the Lincoln MKS sedan and MKT crossover-utility vehicle.

Similar technology is already available from **Toyota Motor** Corp.'s Lexus division, but Ford's push reflects a wider effort championed by Chief Executive Alan Mulally to cast the company in a more favorable light. At the Detroit show, Ford also will show a hybrid version of the Ford Fusion sedan rated at 17 kilometers a liter in city driving—about 12 more than Toyota's Camry hybrid.

On Monday, billionaire investor Kirk Kerkorian confirmed through a spokeswoman that he had sold his remaining shares in the auto maker in a widely expected move. Mr. Kerkorian earlier had pledged his support and confidence in Ford and Mr. Mulally.

Mr. Kerkorian's investment company, **Tracinda** Corp., had accumulated a 6.5% stake in Ford earlier in 2008. The auto maker's stock subsequently plunged, and in October Tracinda began selling its holding, saying Mr. Kerkorian wanted to concentrate his investments in oil, gas, gambling and lodging. The casino-and-hotel mogul suffered a huge loss on his Ford investment.

Ford, **General Motors** Corp. and **Chrysler** LLC still have strong reputations among truck buyers, but for years have suffered poor images among many consumers favoring cars. Recent studies have found about half of people shopping for cars won't even consider one from the three companies, a factor that has stymied efforts by the Big Three to halt the declines in their market share. Soon after arriving in 2006, Mr. Mulally made boosting Ford's standing a key priority.

In an interview Monday, Mark Fields, Ford's president of the Americas, said the company is counting on technological innovations and fuel-efficient vehicles to help separate Ford from competitors and draw more people into its showrooms. "We weren't known as technology leaders, but known as fast followers," Mr. Fields said.

In 2007, the company began offering an in-car entertainment system developed with **Microsoft** Corp., called Sync, which drivers can use to control their phone, stereo and iPod through voice commands. Ford is hoping such innovations will "make us cool in the customers' minds," Mr. Fields said.

John Casesa, managing partner at the New York consulting firm Casesa Shapiro Group LLC, said it is unclear how many customers will want the new Active Park Assist feature. "In terms of technology, the automatic parking wasn't very successful at Lexus," Mr. Casesa said. "I think the better example is Sync because it worked as promised and it's priced right."

Ford didn't say how much the option will cost. A Lexus spokesman said its Advanced Parking Guidance System costs $700.

Ford's system requires less driver input and reduces the risk of selecting a too-small spot, said Ali Jammoul, Ford's chief engineer for steering systems.

Ukraine agrees to pay $2 billion Russian gas debt

BY GUY CHAZAN

Ukraine and Russia inched closer to resolving the gas dispute that has put Russian gas supplies to Europe in jeopardy, though Moscow said negotiations were still continuing and played down talk of a breakthrough.

The talks are being watched closely in European capitals, after OAO **Gazprom**, the state-controlled Russian energy giant, in December threatened to cut off supplies to Ukraine on Jan. 1 unless Kiev paid off $2 billion in arrears and clinched a new supply deal for 2009.

On Tuesday, the Ukrainian government issued a decree saying two state banks would lend state energy company **Naftogaz Ukrainy** up to $2 billion to pay off its arrears. Later, Ukrainian President Viktor Yushchenko said in a statement that Ukraine had paid Gazprom what it owed for November and December. Those payments would, he said, pave the way for a new supply deal.

But a spokesman for Gazprom, Sergei Kupriyanov, said it was "too early to talk about debt repayment."

"We don't see the money yet," he said. He added that talks were continuing.

Even if Naftogaz pays off its debts, there is still disagreement over how much Ukraine should pay for the gas it imports from Russia next year. Naftogaz has offered to buy gas at about $200 per 1,000 cubic meters, according to a person familiar with the talks: Gazprom wants twice that amount. Ukraine currently pays $179.50 per 1,000 cubic meters. The average European price Gazprom charges is about $500, reflecting in part the longer distance the gas must travel.

Most of the gas Europe receives from Russia flows in pipelines across Ukraine, and Gazprom warned its European customers this month that those deliveries could be disrupted unless the dispute is resolved. Europe has called on both sides to seek a compromise.

The spat has raised uncomfortable memories of January 2006, when Gazprom turned off the tap to Ukraine in a pricing dispute, leading to supply disruptions in Western Europe for a few days. That caused panic in the west, which feared an emboldened Russia was using its energy wealth to intimidate its neighbors.

Analysts say there is little likelihood of a repeat of 2006. Then, Russia accused Ukraine of siphoning off gas from the pipelines running across its territory that was intended for Gazprom's European customers. This time, Ukraine has said it will guarantee all supplies to Europe. Kiev has been hoarding gas in underground storage, and will have enough even if Russia turns off the switch.

Separately Tuesday, Gazprom said second-quarter net profit nearly tripled, thanks to a peak in gas prices over that period, as well as increases in European sales volumes. Under international financial reporting standards, Gazprom's net profit attributable to shareholders for the quarter ended June 30 rose to 300.3 billion rubles ($10.23 billion) from 102.9 billion rubles in the second quarter of 2007.

Gazprom's shares have plunged in recent months amid the global financial crisis. Gazprom has turned to the Russian government for assistance to refinance foreign debt and to fund record investments next year.

—Alexander Kolyandr contributed to this article.

CORPORATE NEWS

Airlines get cash even in crunch

U.S. carriers sell stock and planes, tap vendors and lenders as bulwark against recession

By Susan Carey

U.S. airlines, largely unprofitable and saddled with poor debt ratings, are enjoying surprising success raising money as other companies are struggling amid the credit crunch.

Airlines are building cash as a bulwark against global recession and losses on fuel-price hedging efforts. They are selling stock, selling and leasing back planes, refinancing assets and tapping the debt markets for secured loans. They are also turning to a collection of vendors, suppliers and business partners that stand to make money if the airlines just stay aloft.

The largest airlines have been raising cash all year, but their efforts have accelerated recently. The drop in fuel prices has bolstered 2009 prospects, but has also hurt some airlines that used hedging contracts to lock in fuel prices when they were higher. Several airlines that didn't expect oil prices to drop sharply, including UAL Corp.'s **United Airlines** and **Delta Air Lines** Inc., have had to post hundreds of millions of dollars apiece in collateral to trading partners on fuel-hedging contracts.

Overall, many large carriers have less cash on hand than they did a year ago, or even at the end of the third quarter. That's galvanizing them to find new sources of capital.

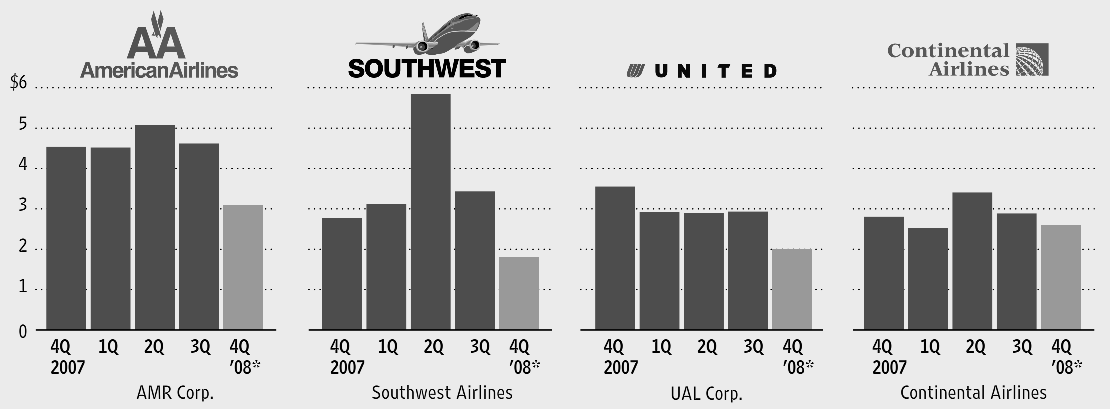
In recent weeks, **Delta** picked up $1 billion in cash from **American Express** Co., issuer of the airline's co-branded SkyMiles credit card, and it will get another $1 billion through 2010. Last week, **Southwest Airlines** Co., which has an investment-grade credit rating, said it would raise about $350 million by selling and leasing back 10 of its planes. It brought in an additional $400 million by selling notes backed by other aircraft.

Describing the economy's decline since Sept. 30 as "staggering," Gary Kelly, Southwest's chairman, said recently that "we want to boost our liquidity."

AMR Corp., parent of American Airlines, in 2008 has raised nearly $2 billion from stock sales, aircraft-backed financing, a revolving credit line, and by divesting itself of a money-management unit. Recently, it sold a fleet of 39 turboprop planes to Danish investors and leased them back, a deal expected to generate $200 million in cash.

Hungry birds

Their cash dwindling, U.S. airlines are furiously raising money. Cash and cash equivalents, in billions



*Estimates

Source: the companies

"Never underestimate the ability of airlines to raise money," says Bill Warlick, airline debt analyst at Fitch Ratings. Given the industry's historic volatility, airlines are accustomed to tough credit conditions. They rely mostly on long-term debt, not shorter-term instruments such as commercial paper that evaporated in the recent market turmoil.

Now that lower fuel prices are easing airlines' cost pressures, investors and airline partners are betting the carriers will be able to generate positive cash flow even as travel demand falls in the recession. Some analysts expect U.S. carriers to be profitable in 2009, thanks to the cheaper fuel, shrinking route networks, and an influx of new revenue, such as fees for checked bags.

For passengers, the route cutbacks mean that planes have been getting fuller and fares have been rising. The new fees airlines have tacked on have further boosted the cost of travel.

For the airlines, financing isn't easy or cheap. In its three-year private note placement, Southwest is paying an annual interest rate of 10.5%—more than double the 5.2% the airline committed to in May, when it borrowed $600 million in a 12-year secured-term loan, says Douglas Runte, an airline and aircraft debt analyst for Piper Jaffray & Co.

Ed Bastian, president of Delta and chief executive of its newly acquired Northwest Airlines unit, says airlines can't afford to pass up fund-raising opportunities. "From a cash position, we're about husbanding... resources and staying strong until we see where the demand picture settles out," he says.

Airlines also must keep an eye on coming debt maturities, interest payments and aircraft-leasing commitments. Fitch estimates the seven largest U.S. airlines face $4.4 billion of debt and capital-lease maturities in 2009, and $6 billion in 2010.

Another motivation is financial pressure from bad bets on fuel-price hedges. In the third quarter, **UAL**'s loss included a $519 million noncash loss on fuel hedges, and US Airways Group Inc. reported $488 million of unrealized losses from mark-to-market adjustments on its fuel hedges.

Several airlines have had to post collateral to trading partners on the fuel hedges. United had to pony up $900 million. Delta said it posted $1.1 billion in collateral for fuel hedges earlier in December. Even so, airlines are benefiting greatly overall from lower oil prices.

Some aerospace executives say financing for new planes is the biggest challenge globally, although most U.S. airlines have arranged funding to cover at least some of the modest number of planes they expect to buy over the next two years.

Airlines continue to tap partners with a history of coming to their aid—even in bankruptcy proceedings. Credit-card issuers often supply one-time cash infusions by buying frequent-flier miles in advance from airlines.

US Airways raised $200 million by selling miles to **Barclays** PLC's Barclaycard US. US Airways raised an additional $750 million in a deal that included getting a $200 million advance from Airbus.

"Airlines continue to defy expectations by raising more cash," says Philip Baggaley, an airline debt analyst for Standard & Poor's Corp. "But the cookie jar is getting close to empty for many of them. Assets that could be turned into cash already have."

Air cargo volume, passenger traffic fell in November

By Jonathan Buck

In a further sign of the broadening economic slump, the decline in international air-passenger traffic accelerated in November while the drop in air cargo volumes was the worst since 2001.

International passenger traffic in November fell 4.6% from a year earlier, according to figures released Tuesday by the International Air Transport Association. That follows year-to-year declines of 2.9% in September and 1.3% in October.

Air cargo volumes plummeted 13.5% in November, providing further evidence of the rapid decline in global trade.

"The industry is now shrinking by all measures," IATA Director General Giovanni Bisignani said. "We can expect deep losses in the fourth quarter."

Mr. Bisignani described the drop in cargo volumes as shocking. IATA—an international trade body that represents about 230 airlines, comprising 93% of scheduled international air traffic world-wide—says 35% of the value of goods traded internationally are shipped by air.

Carriers in the Asia-Pacific region witnessed the biggest decline.

Airlines on average also had more empty seats in their planes last month, as international passenger load factor dropped to 72.7%, down three percentage points from a year earlier.

Carriers in the Asia-Pacific region witnessed the biggest decline in freight and passenger traffic in November, with cargo volumes down 17%. There were also double-digit declines for carriers in North America, Latin America and Europe.

IATA said the trend is likely to continue through December.

Asia-Pacific carriers also saw a 9.7% drop in November passenger traffic, following a 6.1% decline in October.

While Chinese domestic traffic rebounded after the Beijing Olympics in the summer, travel to and from international markets continues to fall, reflecting weaknesses in global trade and consumer confidence.

For North American carriers, international passenger traffic dropped 4.8% in November, as the near-collapse of the investment-banking sector triggered a slump in business travel.

European carriers fared only slightly better, with a 3.4% fall in international traffic.

Bucking the trend, Middle Eastern carriers saw passenger traffic increase by 5.6%, up from 3.5% in October. However, that's still below the double-digit growth rates before the financial crisis.

"The industry is back in intensive care," said Mr. Bisignani. "Improving efficiency everywhere will be [the] theme for 2009."

China Eastern to get $580 million more in aid

SHANGHAI—**China Eastern Airlines** Corp. said Tuesday it will get an additional four billion yuan, or about US$580 million, capital injection from the government, on top of the three billion yuan in aid Beijing had already earmarked for the airline.

The expected extra cash comes as China Eastern, the worst performer of China's three major airlines, suffers millions of dollars in losses from fuel hedging and a sharp contraction in global aviation demand. But the tepid reaction of its share price to the government suggests traders and analysts expect the funding to provide only short-term relief while the outlook for the entire airline industry remains bleak.

China Eastern's A shares fell 3.6% to 4.49 yuan on the Shanghai stock exchange, after jumping as much as 7.3% to 5 yuan shortly after the opening bell. The Shanghai Composite Index slipped 0.8% at 1832.91. In Hong Kong, China Eastern's H shares fell 8.5% to 1.18 Hong Kong dollars (15.2 U.S. cents), while the benchmark Hang Seng Index fell 0.7% 14,235.50.

China Eastern said it will use the new funds to improve its cash flow. As part of the bailout, the Shanghai-based carrier will sell 1.44 billion A shares at 3.87 yuan each to its parent, China Eastern Air Holding Co., and the same amount of H shares at one yuan each to a wholly owned unit of the parent.

Class A shares are yuan-denominated shares of Chinese companies listed on mainland exchanges that are restricted to local investors and approved foreign investors. Class H shares are Hong Kong-listed stocks issued by a China-based company.

"The nearly doubled capital injection will support China Eastern's cash flow for around two quarters, and the move also shows the government's potential guarantee, which will make it easier for China Eastern to get further funding support from other channels," said Zhang Qi, an analyst at Orient Securities.

DAILY SHARE PRICE

China Eastern Airlines*

Tuesday's close: **4.49 yuan**, Down **3.6%**

* In Shanghai trading

Source: Thomson Reuters Datastream

China Eastern said its gearing ratio will drop to 90.13% from 98.49% after the capital injection.

Despite the decline, the carrier's leverage remains large by any industry standard. Given the sharp losses it is widely expected to incur this year and a likely even tougher year ahead, it isn't surprising to see its share price struggle to rise, analysts said.

"The high valuation of the carrier's A shares can't support further rises in the stock as demand in the global aviation market remains weak," said the Orient Securities analyst, who has a target price on China Eastern of 4.66 yuan.

The stock is trading around five times forecast 2009 book value, compared with an average of around two times for other domestic carriers.

China Eastern had incurred fuel-hedging losses totaling US$690 million as of Nov. 14, a person familiar with the situation said in November.

The carrier reported a third-quarter net loss of 2.33 billion yuan, a sharp reversal from the year-earlier net profit of 976 million yuan.

—Jin Jing

An executive crams into coach to cut costs

Liz Claiborne's chief accepts wasted time; 'every penny counts'

BY JOANN S. LUBLIN

LOS ANGELES—At nearly 3 a.m., William L. McComb stands coatless on a chilly airport sidewalk, waiting to collect a rented Volvo. The chief executive of **Liz Claiborne** Inc. left his midtown Manhattan office about 13½ hours ago, and must lead an important conference call in three hours.

With a corporate jet, "I would have long ago landed and been at my hotel," Mr. McComb says wearily. The boyish-looking executive, who turned 46 Monday, flies more than 300,000 kilometers a year, all of them on commercial flights, almost always in coach.

That makes Mr. McComb unusual, given that many CEOs of major companies travel on corporate jets. Proponents say corporate planes offer executives safety, convenience and rapid access to remote locales.

Company aircraft are a flying office and "a day extender for me," says James E. Rogers, CEO of **Duke Energy** Corp., a Charlotte, N.C., utility that owns two jets and a helicopter. After flying to White Plains, N.Y., for a business dinner recently, "I got back on the [Duke] plane and I was home by 10:30 p.m.," Mr. Rogers recalls.

But public anger and tough times mean more CEOs may soon be joining Mr. McComb on commercial flights. The heads of the Big Three car makers provoked a firestorm of criticism from lawmakers by traveling to Washington on private jets in November to plead for federal help.


Joann Lublin/The Wall Street Journal

William L. McComb flies business class only on trips longer than 10 hours.

Twenty-eight U.S. companies, from **Altria Group** Inc. to **Universal** Corp., divulged their sale or planned disposal of corporate aircraft in the past two years, says Equilar Inc., which tracks executive compensation and benefits. Several others, including **Bristol-Myers Squibb** Co. and **Citigroup** Inc., say they are seeking buyers for company planes.

It's a tough sell. There were a record 2,522 used business jets for sale as of Nov. 30, up 53% from a year earlier, according to UBS Investment Research.

Corporate aircraft aren't cheap. Planes cost $10 million to $50 million, plus a minimum of $2,000 an hour to operate, estimates David E. Strauss, a UBS analyst. Chartering a plane costs an average of $2,000 to $8,000 per hour.

E*Trade Financial Corp., an online brokerage hurt by the downturn, earlier in 2008 sold its two Challenger jets that had been used mainly by senior managers. "I don't hear anybody complaining" about flying commercial, says spokeswoman Pam Erickson. "We're not flying as much these days." E*Trade now discourages out-of-town meetings and requires advance approval for trips. Similar austerity moves are depressing business air travel world-wide, according to the International Air Transport Association, a trade group.

Claiborne doesn't own any aircraft. Under Mr. McComb's predecessor, Paul Charron, the company occasionally chartered a plane to fly a group of executives to a customer meeting.

Mr. McComb arrived in 2006, after 14 years at Johnson & Johnson, where he occasionally flew with colleagues on corporate jets to hard-to-reach small towns. "That made sense," he says. "I never felt bad about taking the corporate aircraft."

Mr. McComb says Claiborne's financial circumstances are different. The apparel maker and retailer has posted losses in each of its past four quarters. On Dec. 16, the day Mr. McComb flew to Los Angeles, Claiborne's board indefinitely suspended its 5.625 cent quarterly dividend to conserve cash. "Every penny counts," Mr. McComb says.

The CEO, whose annual salary is $1.3 million, visits a Claiborne operation in the U.S., Europe or Asia every week or so. Under Claiborne's recently revamped travel policy, he flies business class only on flights longer than 10 hours.

Mr. McComb allows three hours of travel time on each end of a flight, in part to account for delays. For his 7:15 p.m. flight from the Newark, N.J., airport, he leaves his office at 4:30 p.m. There's no black car-service sedan waiting outside: He travels by subway, commuter train and airport monorail. He says he doesn't worry about personal security because no one recognizes him.

Mr. McComb's choice of public transportation reflects his leadership philosophy at a company with an egalitarian culture. Rank-and-file employees think Mr. McComb "is a regular guy. He's very approachable," says Gene Montesano, CEO of Claiborne's Lucky Brand jeans.

Commercial air travel creates "a huge, built-in waste of time," Mr. McComb says. "But it is effective cost-wise." Plus, he adds, "it's the only time in my whole life that I am alone and self-indulgent."

Munching on saltine crackers, his favorite snack, Mr. McComb awaits takeoff. And waits. Snow swirls outside the ice-covered windows. Nine jets "are ahead of us for deicing," the captain warns. The aircraft is deiced just after 10 p.m. "This flight is going to be an all-nighter," Mr. McComb groans.

He knows about air-travel snafus. He missed a dinner with Claiborne vice presidents in Los Angeles last summer after a four-hour delay at New York's Kennedy airport. In early 2007, he nearly missed an appointment with the CEO of retailer Kohl's Corp. in Menomonee Falls, Wis., because of a flight delay.

The Los Angeles flight finally takes off at 10:37 p.m. With the fasten-seatbelt warning still lit, Mr. McComb unbuckles his belt to fetch sleeping pills from the overhead bin. He pops 10 milligrams of Ambien, and soon falls asleep. The knees of the lanky six footer press hard against the seat in front of him. The lack of leg room bothered him, he explains afterward. "Your whole body really feels pinned."

He lands at 2:30 a.m. Los Angeles time. The flight "ranks right up there with the worst flights I have had in this job," Mr. McComb says.

After a glitch in obtaining his rental car, Mr. McComb reaches his hotel at 3 a.m. He stays at this hotel frequently, but is so tired that he initially can't find the lobby elevators. He enters his room, throws down his suitcase and crawls into bed without turning on a light.

Slightly more than two hours later, the freshly shaven CEO dons a sweater, jeans and loafers before phoning his 21-member management team. Mr. McComb originally had planned this meeting for New York, with eight executives flying in from Hong Kong, Los Angeles, Amsterdam and Montreal. He opted for the teleconference to save money, and the Los Angeles locale since he planned to meet with Claiborne executives based there.

At 6 a.m., Mr. McComb dials in. "Hey guys, it's Bill," he says, smiling at unseen listeners around the globe. "How is everyone?"

Mr. McComb claims he feels fine despite his scant sleep. He puts in a 15-hour workday, meeting with executives of Claiborne's Juicy Couture line and Lucky Brand before catching a red-eye return flight to New York. At the airport gate, he concedes later, "I started feeling tired."

Airlines battle to minimize penalties for safety lapses

BY ANDY PASZTOR AND PAULO PRADA

Southwest Airlines and American Airlines have overhauled maintenance practices after a string of safety lapses disclosed earlier this year, but the carriers are now sparring with regulators over how much they should be fined for those mistakes.

The moves underscore the complicated relationship that has emerged with the Federal Aviation Administration as the carriers seek to put the safety issues that emerged last spring and summer behind them. Both **Southwest Airlines** Co. and **AMR** Corp.'s American Airlines are paying closer attention to government safety mandates. At the same time, they are also trying to minimize their exposure to financial damages.

Southwest sparked a federal enforcement crackdown when it acknowledged flying tens of thousands of passengers in 2007 on some four dozen jets that hadn't received mandatory checks for potential fuselage cracks. Those lapses led to massive flight cancellations, congressional criticism and erosion of public confidence in the FAA.

Nicholas Sabatini, the FAA's top air-safety official at the time, expressed "outrage and shock" at what he called "the completely unacceptable situation" of missed inspections.

Barely eight months after those revelations, Southwest is investing close to $1 million to rewrite and update its maintenance manuals. The largest U.S. low-cost carrier also has created a maintenance-compliance team, operating separately from line mechanics and managers, to alert senior Southwest executives about possible new slip-ups.

"We've moved thoroughly and expeditiously to make sure that these types of problems don't ever happen again," said Ron Ricks, the airline's executive vice president for corporate services.

But Southwest is also battling a record $10.2 million penalty the FAA initially proposed in March. Recently, Southwest has revved up its rhetoric attacking the agency. "It's not defiant to assert your legal rights and defend yourselves against a penalty that isn't fair or equitable based upon the facts," Mr. Ricks said in an interview last week.

That is a shift from the way Southwest reacted when news of the safety lapses first emerged. Southwest Chief Executive Gary Kelly apologized to customers, made conciliatory statements promising to cooperate fully with regulators and said his team already had "approached the FAA to work with them to settle" outstanding enforcement issues.

FAA officials say they are continuing to discuss the matter with Southwest, and haven't referred the case to the Justice Department for legal action.

Notwithstanding its defensive comments, the carrier and its outside legal team may want to avoid such a fight because it would likely dredge up information about more than 1,000 passenger flights by Southwest jets that the agency later said hadn't been properly inspected.

Getty Images

American Airlines is telling its mechanics they must now follow 'verbatim' the language used in FAA airworthiness directives.

A similar dynamic is emerging at American, which has boosted its efforts to comply with federal regulations even as it prepares to argue that the size of future FAA penalties should be reduced. Over the summer, the FAA forced American to temporarily ground its entire McDonnell Douglas MD-80 fleet for failing to properly fix electrical wiring that government inspectors believed posed potential hazards of fires and fuel-tank explosions. Stung by the resulting public outcry and congressional criticism, American brought in a team of consultants to help revamp inspection and repair procedures across the company.

The airline replaced a senior maintenance official last month and is warning mechanics they must now follow "verbatim" the language included in FAA airworthiness directives. Long before that occurred, American's in-house engineers began distributing guidance to make sure mechanics strictly carry out FAA safety fixes. "Now, the instructions are gone over with a fine-tooth comb before the work is even done," according to American spokesman Tim Wagner.

Seeking to further ensure compliance, American has ordered mechanics to attend special training sessions stressing the importance of following federal regulations to the letter. Next month, some repairs also will require paperwork showing which part of the maintenance manual was used and that the supervisor who signed off on the work had the necessary credentials.

The change already can be felt at American's hub at New York's John F. Kennedy International Airport. Two mechanics there recently had their licenses temporarily suspended by the FAA for failing to properly replace an aircraft's nose-gear tire. According to union officials, several more mechanics are under investigation for the same mistake, which can result in excessive landing-gear vibration.

"It amounts to a seismic shift," according to a mechanic, with both the company and the FAA "promoting full compliance and warning against shortcuts."

Still, American could be hit with an unprecedented, large penalty in coming months. Based on preliminary calculations by local regulators and the airline's own experts, some American officials privately fret the penalty could end up between $20 million and $30 million.

According to people familiar with the matter, American plans to argue that changes it has made should significantly reduce the amount. American and the FAA declined to comment on the matter.

CORPORATE NEWS

Outsourcers brace for hit

More businesses put plans on hold amid global crisis

By Ben Worthen

Businesses in the U.S. have increasingly outsourced tech work to lower-wage locations over the past decade as a way to save money. But it looks as though the souring economy will hurt outsourcing as well—at least in the short term.

The value of the outsourcing deals signed in the third quarter was the lowest of any quarter in six years, according to outsourcing-advisory company TPI, a subsidiary of Information Services Group Inc. Only 128 large outsourcing contracts—those valued at more than $25 million—were signed during the quarter, for a total value of about $14.4 billion. The number of deals was down about 20% from the year-earlier quarter and 22% from the second quarter of 2008, according to TPI.

One might expect services that can help businesses cut costs to thrive during a downturn. But there is so much uncertainty about what sort of changes businesses will be forced to make over the next several months that many are putting off all major decisions, including whether to outsource, says Robert Kennedy, a professor of business administration at the University of Michigan.

The trend is being felt in India, where many companies offering technology outsourcing are based. For example, **Infosys Technologies** Ltd., one of India's largest outsourcing companies, recently stopped its recruitment efforts and says some of its clients have delayed some projects.

The downturn stands to reshape the outsourcing industry in a couple of ways.

First, the types of projects that businesses are electing to go ahead with are changing. In the past many businesses turned to outsourcers for software development. Now, most of the new business for outsourcers is expected to be so-called infrastructure-management services like monitoring a corporate network or operating a data center from a remote location, says Doug Brown, a partner at outsourcing-research company Brown-Wilson Group. This is traditionally lower-margin work that many large outsourcing companies have been trying to shift away from.

Businesses are also forgoing large projects that require moving lots of staff and re-examining internal business processes in favor of shorter deals that simply transfer work done in the U.S. to a place where workers can do the exact same things for less. (Offshore workers still earn substantially less: Peter Harrison, chief executive of outsourcing company GlobalLogic Inc., pays his employees in India an average salary of about $15,500 a year, less than he paid them in 2004.)

There has also been a shift in who is outsourcing. Mr. Harrison says that his customers have historically been an even mix of large, midsize and small businesses. But over the past six months the mix has changed. Fewer small companies are outsourcing work, but more large ones are.

One reason is that large companies tend to have well-established work processes, which can be easily replicated for less money by an outside party.

Small companies, on the other hand, don't always outsource to save money; often it is faster to work with an outsourcing company than to hire new staff, says Mr. Kennedy, the Michigan professor. But now many of these small companies are cutting staff, and the ones that are still hiring are having an easier time finding people locally.

Still, Mr. Kennedy expects that the outsourcing slowdown will be a temporary one. "Companies will still be looking to take costs out," he says, adding that he expects larger deals to resume in the second half.

And indeed, a survey of 200 multinational corporations by Hackett Group Inc. found that the percentage of tech jobs they expect to outsource will grow to 25% in 2010 from 15% in 2008.

Sharp writes down Pioneer stake

By Daisuke Wakabayashi

TOKYO—Japanese electronics maker **Sharp** Corp. said it will book a loss of 43.2 billion yen ($476.8 million), mainly due to a steep decline in the value of its 15% stake in television manufacturer **Pioneer** Corp.

Sharp acquired about 30 million shares in Pioneer a year ago as part of a business alliance that called for Pioneer to buy liquid-crystal-display panels from Sharp. The value of the Pioneer shares, purchased at the time for 1,385 yen per share, had fallen to 163 yen apiece as of Tuesday as the car-audio and consumer-electronics maker has seen its business conditions worsen and its losses mount.

Sharp said it will book a loss of 36.7 billion yen from its Pioneer stake for the third quarter ending in December, with another 6.5-billion-yen loss stemming from declines in other unspecified shareholdings. The company said it is still examining whether it needs to revise its full-year earnings forecast.

Source: Thomson Reuters Datastream

With a strong yen hurting overseas sales and a recession in the company's major markets, Sharp's loss is a worrying sign that Japan's electronics makers could now face another obstacle: a loss in the value of cross-shareholdings. Many Japanese companies hold minority stakes in companies they do business with as a way to cement a partnership, or as part of a longstanding relationship involving affiliated companies. With the Nikkei Stock Average having fallen 42% in 2008, many other Japanese companies could be exposed to write-downs.

At the time of the alliance between Sharp and Pioneer, the deal was seen as a way to provide Sharp with a stable customer as the Osaka-based company ramped up panel production. For Pioneer, the pact provided much-needed capital and allowed it to add LCD televisions to its plasma-display TV business.

Both Pioneer and Sharp are facing a sudden downturn in demand for flat-panel televisions and cutthroat pricing has eroded profit margins. Pioneer is forecasting a net loss of 78 billion yen in the fiscal year ending in March. Sharp expects a 41% decline in net profit to 60 billion yen.

New Sony game nears breaking even

By Kathy Shwiff

Sony Corp. is closer to breaking even on its new-generation PlayStation 3 videogame console because it costs 35% less to make than the previous model, according to technology-research firm iSuppli Corp.

The electronics giant is locked in a battle with **Nintendo** Co.'s Wii and **Microsoft** Corp.'s Xbox 360 for control of the videogame-console market. The cost cuts could help stanch the hardware red ink at Sony, which sold the previous-generation PS3 at a significant loss, making up for it with game-title sales and royalties.

Integration and key changes in components has brought the latest PS3's cost down to $448.73 from $690.23 for the first-generation model, said iSuppli.

The PS3 sells for about $399 in the U.S., at least $150 more than Wii and Xbox 360. However, the PS3 accounted for 16% of global videogame-unit shipments in the second quarter of 2008, second only to Nintendo's Wii, which accounted for 54% of the market.

Andrew Rassweiler of iSuppli predicted the PS3 may be able to break even in 2009 with further hardware revisions.

Part of the decline in cost is the result of "the normal learning curve and supply/demand factors that bring component prices down over time," iSuppli said.

Also, integration of components into the core silicon of the PS3 cut the number of individual parts to an estimated 2,820 from 4,048 in the previous-generation model with a 60-gigabyte hard drive.

The cost estimate of $448.73 doesn't include software, box contents and royalty expenses.

GLOBAL BUSINESS BRIEFS

EADS

Airbus meets its '08 target to deliver 12 superjumbos

Airbus, a unit of **European Aeronautic Defence & Space** Co., said Tuesday it has met its target of delivering 12 A380 superjumbos this year—with just two days to spare. In a bid to reassure customers, Airbus Chief Executive Tom Enders had wagered reporters a magnum bottle of Champagne during a September news conference that Airbus would reach its A380 target this year. No one accepted his bet. On Tuesday, in a statement, Mr. Enders said, "we have met our 2008 delivery schedule." Image-tarnishing delays, technical problems and missteps dating back to 2005 slowed the plane's development. Airbus has booked 198 orders for the A380 from 16 customers, including Dubai's Emirates Airlines, Singapore Airlines and Australia's Qantas.

Gimotive/Stankiewicz GmbH

Gimotive/Stankiewicz GmbH, a supplier of soundproofing insulation used by auto makers, has sought bankruptcy protection, a German district court said Tuesday. The announcement by the district court in Celle came more than three weeks after an apparent deal with creditors, banks and customers that had let the company's more than 2,000 workers receive paychecks. The court said that the company requested the insolvency filing and that a liquidator has been appointed. Calls seeking comment from the company, also based in Celle, were not immediately answered. Gimotive had been wrestling with a drop in demand from large car makers.

OAO Rosneft

Russia's largest oil company, OAO **Rosneft**, said Tuesday its output growth will be insignificant in 2009, after a healthy rise in 2008, because of the financial crisis. Russian oil production was headed for its first decline in a decade in 2008 after impressive increases in previous years. Analysts said the decline could extend to between 2% and 3% in 2009 compared with an expected 1% fall in 2008. Rosneft was one of a few companies in Russia, the world's second largest oil exporter after Saudi Arabia, to record significant 2008 output growth, pushing production up 8% to 2.2 million barrels a day. The company had plans to increase production by 11% in 2008 but lowered its growth outlook in September after delaying the launch of a major field.

Enel SpA

Enel SpA, Italy's biggest utility by market value, received 12 expressions of interest for a majority stake in its local natural-gas distribution networkm a person familiar with the matter said Tuesday. The Rome-based utility received seven expressions of interest from financial investors and five from industrial ones, the person said, adding that the 12 are equally split between Italian and international companies. Based on the sale of a stake of around 70% in the gas grid Enel Rate Gas SpA, the company could receive up to €900 million ($1.25 billion) in cash, the person said, adding that it could also lower its debt pile by as much as €500 million. Enel is trying to reduce debt it accumulated during a spree of acquisitions and earlier this month it said it sold its Italian high-voltage power lines for €1.15 billion.

OZ Minerals Ltd.

Lenders of **OZ Minerals** Ltd. granted the Australian miner an extension on the refinancing of US$560 million in debt. The deadline was moved to Feb. 27 from Dec. 29, subject to conditions, including that it pursue asset sales and not declare any dividends ahead of the new deadline. OZ Minerals said there remains uncertainty over whether it will be able to complete the refinancing by the new deadline and it is pursuing asset sales and other measures to pay down debt. The miner said metals markets haven't improved since its shares were suspended Nov. 26 and that it was negotiating with lenders for bridging facilities to cover expected cash shortfalls. OZ Minerals has been hit by frozen debt markets and sagging commodity prices. The miner has cut production from unprofitable mines.

Hua Xia Bank Co.

Chinese lender **Hua Xia Bank** Co. said Tuesday its president Wu Jian will become the company's chairman, succeeding Zhai Hongxiang, who has resigned. The midsize bank, in which **Deutsche Bank** AG owns a 13.7% stake, said in a statement Vice President Fan Dazhi will become its president. Hua Xia Bank said its board has approved the appointments, which are subject to approval from China's banking regulator. Ms. Zhai resigned because of a recent government notice banning retired senior officials at the provincial level from assuming the position of chairman at companies, the state-run Shanghai Securities News reported.

Tiger Airways Pte. Ltd.

Low-cost carrier Tiger Airways Pte. Ltd. of Singapore and the South Korean city of Incheon have terminated a joint-venture plan to start a low-cost airline in South Korea. "The recent global economic situation and continued regulatory uncertainty in Korea have meant that both parties have concluded that the climate is not conducive to the successful launch," Tiger Aviation, operator of Tiger Airways, said Tuesday. The proposed low-fare airline was to have operated out of Incheon's international airport with an initial fleet of five Airbus A320s. Aircraft due for delivery in 2009 and 2010 for the canceled venture will be deployed on the Tiger Airways network in Asia and Australia, the statement said. Tiger is 49% owned by Singapore Airlines Ltd.

Reliance Communications Ltd.

Reliance Communications Ltd. said it has launched cellphone services based on GSM technology in all of India's 22 telecom service areas. The company had received radio bandwidth to offer GSM services in January. "Since then, our network rollout has been completed and more than 11,000 towns and 340,000 villages will be part of our GSM offerings to begin with," said Anil Ambani, the company's chairman. He said the GSM rollout was six months ahead of schedule and that the coverage would be extended to more than 24,000 towns and 600,000 villages in a few months. The GSM rollout completes the company's investment program of over 100 billion rupees ($2.07 billion), he added.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.S. home prices drop further

Closely watched index records record declines; consumer confidence falls to new low

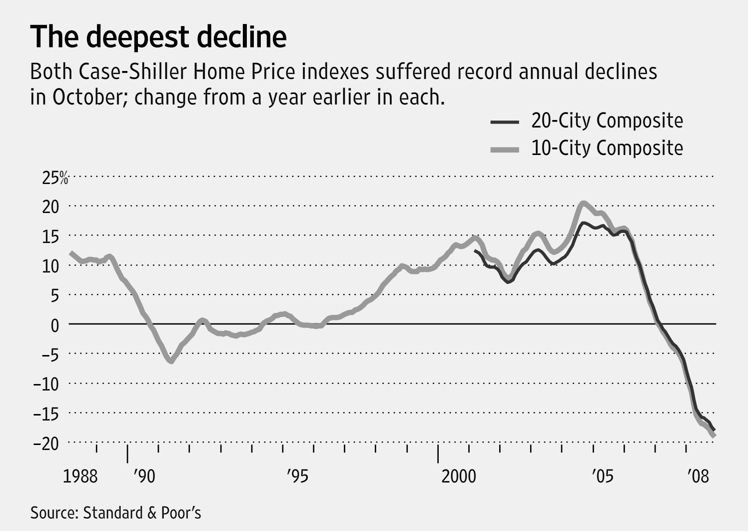
By Sudeep Reddy

The decline in U.S. home prices continued to intensify as tight credit weighs on the sector and consumers remain wary about making major purchases.

The Standard & Poor's/Case-Shiller home-price index, a closely watched gauge, fell 2.2% in October from September and 18% from a year earlier, the sharpest declines in the report's two-decade history. The index has fallen 23.4% since its mid-2006 peak, pushing prices back down to March 2004 levels.

The 20-city housing index showed six metro areas with annual price drops of more than 25%, and three—Phoenix, Las Vegas and San Francisco—posting declines greater than 30%. Dallas and Charlotte, N.C., had the best showing among the cities tracked, with a 3% annual decline in the Dallas metropolitan area and a 4.4% decline in the Charlotte market.

At the same time, the Conference Board's consumer-confidence index fell to an all-time low of 38 in December from 44.7 in November. The measure, based on a survey of 5,000 households, showed consumers' feelings about current economic conditions at the worst levels since after the 1990-91 recession, but not as low as the period around the 1981-82 recession.



Consumers turned more negative about the labor market, with 42% saying jobs are "hard to get" compared with 37.1% in November. Those saying jobs are "plentiful" declined to 6.2% from 8.7% in November.

The deepening economic woes renew pressure on the incoming Obama administration and Democrat-controlled Congress to try to stem the decline in housing prices. The Obama team has been mum on the specific approach the new administration will take, but it is weighing ideas from lawmakers and the departing Bush administration.

Democratic lawmakers are pushing for measures to keep people in their homes even if they are delinquent. They also are pressing to allow bankruptcy judges to change homeowners' mortgage terms to prevent foreclosures. Democratic leaders have maintained that they won't release the second half of the Treasury Department's $700 billion financial rescue fund until homeowners receive more aid.

The Bush administration also has weighed several proposals to draw more consumers into the market, such as offering 4.5% mortgage rates for new buyers. The government would accomplish this by purchases of mortgage securities issued by Fannie Mae and Freddie Mac. The Federal Reserve and Treasury have already tried to influence the mortgage market through purchases of the mortgage debt, but they haven't specifically tried to produce a mortgage rate of 4.5%

Home prices are on track to decline through the second half of 2009 as unemployment rises and tight lending standards keep many potential home buyers on the sidelines. Banks across the U.S., stung by mortgage losses, are instituting stringent standards for new borrowers.

The reluctance to lend is keeping home inventories high, despite falling mortgage rates, and pushing prices down even more. That is raising the number of foreclosures and weighing heavily on the banking sector and overall economy.

A recovery isn't likely until credit loosens and potential buyers think prices are bottoming out, said David Blitzer, chairman of the Standard & Poor's index committee. "We need a lot more people in the market as much as anything else," Mr. Blitzer said. "The lending standards have to be such that a reasonable number of people can get loans."

Companies move to shape broadband push

By Amol Sharma

President-elect Barack Obama's call to improve the U.S.'s broadband infrastructure has cable and phone company lobbyists maneuvering to get a leg up.

Lawmakers in Congress want a plan that will create jobs over the next two to three years while also tackling the longer-term goal of improving the availability and quality of high-speed Web access in the U.S. The U.S. has slipped to 15th from fourth place since 2001 in broadband penetration, according to the Organization for Economic Cooperation and Development. Advocates say broadband deployment is critical to the competitiveness of the U.S. economy.

Among the issues are what speed Congress should define as broadband and whether government money should be funneled only to areas that have no broadband access, or if it should also subsidize upgrades to existing networks.

Policies under serious consideration are corporate tax credits to build new wireless or land-line infrastructure, government-backed broadband "bonds" and grants to companies or local governments, legislative aides and lobbyists close to the process say. There also is strong agreement that low-income consumers need to be encouraged to sign up for broadband—for example, through vouchers to purchase computers or discounts on monthly service.

Large cable operators are seeking to increase the FCC's definition of broadband download speed to about five megabits per second, about 6½ times as fast as the current definition, according to people familiar with the situation. Internet-service providers building out "unserved" regions, where service of that speed isn't available, would be given the full benefit of tax incentives or grants.

The big cable providers also want to target "underserved" areas, where there is only one broadband provider or the service isn't widely available. In those markets, companies would get incentives to build out next-generation services. The download speed that would qualify as next-generation would likely be in the range of 40 to 50 megabits per second, people involved in the discussions say.

The cable plan would disadvantage phone companies, especially smaller ones whose digital-subscriber-line services are slower than cable modems.

Republicans warn on stimulus overspending

By Naftali Bendavid

WASHINGTON—Top Republican lawmakers are positioning themselves for battle over U.S. President-elect Barack Obama's economic recovery plan, signaling Monday that they will cast themselves as guardians against excessive spending rather than outright opponents of the Democrats' stimulus package.

Senate Minority Leader Mitch McConnell (R., Ky.) in a statement Monday supported the idea of using federal spending to boost the economy. But he warned that the price tag, which could approach $800 billion over two years, shouldn't become an excuse for funding undeserving projects.

"We should have a simple test: Will the yet-unwritten, reportedly trillion-dollar spending bill really create jobs and grow the economy—or will it simply create more government spending, more bureaucrats and deeper deficits?" Mr. McConnell said.

Mr. McConnell's role will be critical. The Democrats will need to attract at least some support from Senate Republicans, given that they won't have a filibuster-proof majority.

Just as the Democrats face a political balancing act in crafting a package that the public sees as an honest attempt to boost the economy, and not a grab bag of politically motivated spending, the Republicans face a challenge of their own.

Having just suffered a rebuke at the polls, the GOP can ill afford to appear to be blocking the Democrats' attempts to fix the economy. At the same time, Republicans don't want to let the Democrats push through expensive projects without opposition. They are seeking to position themselves as a check on what they call the Democrats' free-spending tendencies.

Republicans also see an opportunity to recast themselves as the fiscally sensible party—a label that was damaged during several years of high spending when the GOP controlled the White House and Congress.

Republicans' statements in recent weeks provide a sense of their likely approach, such as highlighting projects—including mayors' requests for a polar-bear exhibit and a water slide—that they call examples of Democratic excess.

House Minority Leader John Boehner (R., Ohio) has stressed the need for tax cuts as opposed to spending. The Democrats' plan is sure to include a dose of both.

"Families and small businesses are facing difficult times, and now is not the time to make matters even worse by asking taxpayers to pay for a slate of new government spending in the name of 'economic stimulus,' " Mr. Boehner said recently.


Getty Images

Sen. Mitch McConnell will have influence over the U.S. stimulus plan.

Messrs. Boehner and McConnell have taken to referring to the Democrats' plan as a "trillion-dollar" package; Mr. McConnell used the word "trillion" 10 times in Monday's statement.

In fact, the Democrats are planning to offer a package of as much as $775 billion, and even if that figure creeps upward, congressional leaders are virtually certain to keep it at less than a trillion precisely because the notion of spending a trillion dollars is politically dangerous.

The broad parameters of the package are known. It will include a tax cut, aid to state governments, and funding in five main areas: traditional infrastructure, school construction, energy efficiency, broadband access and health-information technology.

Democrats in both chambers say they will bring Republicans into the process of crafting the package as soon as they finalize their own proposal.

Asked whether he has been in touch with the Republicans, Rep. David Obey (D., Wis.,) chairman of the House Appropriations Committee and a key player in the stimulus discussions, said that can't happen until the Democrats have a unified position.

"We don't even have a package yet," Mr. Obey said in an interview Monday. "Until we have a package, you can't be in touch with anybody. We're still trying to work out with Obama's people what they think should be in the stimulus package and what we think should be in the package."

Mr. McConnell's statement made it clear he wanted to avoid being handed a massive piece of legislation by the Democrats and asked to vote on it hurriedly—a tactic the Republicans themselves were known to use when in the majority.

"We all want to continue working together to strengthen the economy," Mr. McConnell said. "This will require consideration of alternative ideas, public congressional hearings and transparency—not a rushed, partisan, take-it-or-leave-it approach."

Congressional aides and the Obama team have said they want a package ready when Congress returns on Jan. 6, so legislation can reach the House and Senate floors before Mr. Obama's inauguration on Jan. 20.

Money & Investing

Avoiding the flames

How one U.K. property firm cut debt without a fire sale > **Page 17**

Farming's sudden feasts and famines

Grain-price seesaws press growers to deal with volatility, costs

BY SCOTT KILMAN
AND ROGER THUROW

JESUP, Iowa—Benjamin Riensche has just come off two of his best years in farming. But like growers all over the globe, he is in the midst of a more turbulent era of sharply rising and then suddenly falling prices.

Now the 47-year-old, who grows corn and soybeans across roughly 4,050 hectares in Iowa, fears he will incur losses in 2009 that would be his first red ink in 16 years. His revenue is falling, but the costs of seed, fertilizer and machinery have remained high. Mr. Riensche bought most of his supplies months ago, when grain prices were still high. Many of his suppliers are still trying to pass along the higher costs they absorbed in recent years for everything from metal and chemicals to natural gas. To lower his costs, he could idle land, but figures raising a crop at least gives him a chance to benefit if prices move back up, as some predict.

"I never thought the stakes could get so big," Mr. Riensche says. "We've gone from the nickel slots to world-class poker."

All this is happening even though the world has been producing more grain than ever. Demand has grown faster than farmers could increase their production most years of this decade, helping to drain grain reserves. Unusually good weather in most of the world this year is refilling grains stocks once again. But the situation could easily change. Some economists worry that the world will consume more grain than it produces by 2010, particularly if oil prices recover enough to make the production of ethanol from corn more profitable again.

The situation is a headache for farmers even though it can mean years of big profits. Commodity prices are changing more quickly than farmers can plan which crops to grow. The price of a bushel of corn rarely varied by more than a dollar in a year's time for most of the 1980s and the 1990s. But this year, many U.S. corn farmers have seen the price of their crop swing by $4 a bushel.

The rapid change in the fortunes for Mr. Riensche is not uncommon for farmers around the world, who are experiencing an unprecedented era of volatility. After prices of crops peaked in the summer, bumper crops recently helped reduce prices, dousing the anger behind riots in nearly 60 countries. But crop reserves remain unusually low while demand continues to grow. That means the slightest disruption—flooding, drought, disease, or extra-cautious farmers—could have a much bigger impact on prices than it would have had in recent decades.

"There's no cushion," said Daniel W. Basse, president of AgResource Co., a Chicago commodity forecasting concern. "It's a very volatile situation."

Successful farming is partly about divining future demand, which has been high as new consumers emerge around the world. Mr. Riensche's corn and soybeans flow into a U.S. commodity sector that fattens livestock for Asian consumers, fills food-aid cargo ships to Africa, and supplies corn-fed ethanol plants in the Midwest. Just last year, his Blue Diamond Farming Co. saw its profits double into the six figures. Hearing agricultural experts predict a decade of strong crop prices, Mr. Riensche felt confident enough to build a new home on the site of the farmhouse where his father was born.

The two-and-a-half story, red-brick Georgian is roughly three times the size of the Reinsches' cramped, 1,130-square-foot home in town, where their four children share two bedrooms. Within a few weeks, the girls and a boy will each have their own room.

"For a long time, I figured our standard of living had slipped behind where we would be if I had stayed in banking," says Mr. Riensche, who earned an M.B.A. from the University of Chicago, then worked for Swiss Bank Corp.

He returned home in 1993 to run the family farm after his brother died in a harvest accident. For many years, U.S. farmers received about $2 per bushel for their corn, so close to their break-even point that they depended on federal farm subsidies to stay in business. "Only in the last few years were we able to catch up," Mr. Riensche says.

The boom hit home for him in 2006, when a new energy law forced the oil industry to blend billions of gallons of ethanol into motor fuel. Dunkerton Co-op, which buys Mr. Riensche's crops, suddenly began supplying half of its members' corn to the ethanol plants sprouting around the farms he works with his father, Roland, 78.

At the same time, the world's appetite for U.S. corn, soybeans, wheat, pork and poultry was steadily expanding. Demand was so great that even the June flooding that inundated nearby Waterloo and Cedar Rapids—delaying Mr. Riensche's planting season by nearly a month—didn't dent the farmer's optimism.

With grain stockpiles already perilously low, grain buyers panicked that the world might run out. Speculators helped drive prices skyward. The Dunkerton grain elevator bought some of Mr. Riensche's corn for three times what he typically has collected: $6.24 a bushel.

In July, the weather turned ideal for growing, leading to the U.S.'s second-biggest corn crop ever. But as harvesting began in September, the Wall Street meltdown fueled fears that a global economic slowdown would chill foreign demand. Then, in October, the sibling source of demand—ethanol—took a big hit. Ethanol giant VeraSun Energy Corp., owner of a plant in nearby Dyersville, filed for protection from creditors under Chapter 11 of the U.S. federal bankruptcy code. Corn prices plummeted further.

Danny Wilcox-Frazier for The Wall Street Journal

Farmer Benjamin Riensche is being squeezed by up-and-down grain pricing.

"Who could believe prices could rise that high or fall that fast?" said Mr. Riensche as his 12-man crew raced to finish a field before a November nightfall. Every 20 minutes, a semi-trailer hauling 1,000 bushels of corn lumbered down the road to an ethanol plant paying him about $4 per bushel.

Not long ago, Mr. Riensche would have been ecstatic to get that much for his corn. But his suppliers and the owners of the land he leases jacked up their prices to cash in on the grain boom. His seed costs for next year are jumping 33%, and his fertilizer bill is more than doubling. Hog producers who used to pay to have manure removed from their barns are now making corn farmers pay for its value as fertilizer.

Mr. Riensche figures it will cost him close to $5 to grow a bushel of corn next year and about $11 to grow a bushel of soybeans—not good with prices where they are at the moment. Taking their cues from the Chicago Board of Trade, local buyers are offering about $4 a bushel for corn that farmers promise to deliver next year, while soybean processors are offering about $9.

Federal subsidy checks aren't likely to help U.S. farmers as much as they once did. Corn and soybean prices are still above the levels that automatically trigger price-support related checks from the government.

The chance of red ink returning to the Farm Belt is prompting rural bankers to tighten their lending standards, which could force farmers to draw down their savings in order to stay in business. Bankers already expect some of their most indebted farmers to get out of the business next year.

Quitting isn't an option for Mr. Riensche. Unlike many U.S. farmers, he has a child who wants to follow in his footsteps. "My dad is a pretty successful guy," says nine-year-old Hans as he plays in his father's shop with his model farm. "We are taking a big leap of faith," Mr. Riensche says as he hunches over his personal computer, staring at commodity price charts. "We are praying for a change in the markets."

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Online today
See photos from Iowa and Ethiopia and details on the food situation in countries around the world, at WSJ.com/World.

In China and Ethiopia: two families' shifting fortunes

BY ROGER THUROW
AND ANDREW BATSON

In the vast Meizhou Dongpo restaurant in Beijing, two-year-old Zhao Meichen bounced on her grandfather's knee as the parade of food to their table began.

"What's your favorite?" Zhao Jianmin asked his granddaughter.

"Meat!" Meichen shouted, stabbing at the plates of pork, chicken, beef and duck with her chopsticks.

Far away in Ethiopia, one-year-old Teshome squirmed on his mother's lap while they waited in a food-aid line. Baltu Tumebo already had reduced her family to two meals a day and was stretching her dwindling supply of corn with ever-thinner porridge. Rising food prices triggered by growing global demand had compromised a government safety net designed to help Ethiopians escape hunger and improve their farms. "Meat?" Ms. Tumebo sighed. They hadn't eaten any for months, she said.

Although the world is producing more food than ever before, a tug on one link of the food chain still can rattle others far away. One prime example: the remarkable economic migration of millions of once-hungry people in places like China into the better-fed middle class inadvertently made it harder for the presently hungry in places like Ethiopia to also join the ranks of the well fed.

Roger Thurow/Wall Street Journal

Louise Finan/Concern Worldwide

Zhao Meichen, left, like many in China's prospering middle class, eats well. In Ethiopia, Baltu Tumebo, right, struggles to feed her son due to food shortages.

Growing demand in one corner of the world has complicated consequences elsewhere. To feed its voracious appetite for pork and other meats, China bought a record 490 million bushels of U.S. soybeans—mostly to feed livestock—during the year ended Aug. 31, or about 18% of the harvest. The squeeze on soybean supply forced prices higher.

That had a impact in Ethiopia, where soybeans are a crucial ingredient, along with corn, in a special mixture fortified with micronutrients for malnourished children. While global commodity prices have declined in recent months, easing the worst of the food crisis, the prices consumers pay for food have barely budged in many places; in the U.S., retail food prices have continued to rise. Relief agencies in Ethiopia are still struggling to meet demand.

Mothers have been forced to make painful choices. Ms. Tumebo sometimes shared the food from the Irish aid agency Concern intended for Teshome with her other six children. "How can I only feed one child and not the others?" she asked.

In China, Meichen's grandparents knew the cruelty of hunger. They were students in the late 1950s when the country was ravaged by some of the worst hunger in history, which was followed by years of food rationing, especially of meat.

Now they marvel at the choices available to their granddaughter brought by agriculture reform and increased prosperity. For years, Chinese families prepared for winter by storing up hundreds of pounds of cabbage, fearing that fresh vegetables wouldn't be available. Today, Mr. Zhao hops on his electric scooter and zips to the Carrefour supermarket, where a cornucopia of fresh produce awaits.

Like many urban Chinese, Meichen's family frequently eats out because it is convenient and affordable. Her mother, Zhang Xu, says their new apartment doesn't even need a machine to press flour into noodles, once a staple of any Chinese home.

Ms. Zhang, 34, works at an Internet company and estimates her salary is four times what it was when she started eight years ago. Meichen's father runs his own technology business. The grandparents' pensions push the family's combined monthly income to around $6,000.

Even with the downturn in China's economy, Ms. Zhang feels like she has more money than time, and pays little mind to prices of everyday items like pork, cereals and milk.

In Ethiopia, Ms. Tumebo, 30, can't afford anything. The little grain bin beside the family's one-room mud-brick hut is empty.

After Ethiopia's 2003 famine, the government installed a program designed to protect small farmers during the annual "hunger season" between the time the food from the last harvest runs out and the next comes in. Rural families terraced fields, planted trees and dug rain-retention ponds to renew exhausted cropland. Some were paid in food, but most received cash so they could buy food to stimulate the farm economy.

Ms. Tumebo, her husband and their two oldest children, ages 13 and 10, participated. They used the payments to supplement the corn, chili peppers and navy beans they grow on their tiny plot of land.Then food prices began soaring at the end of 2007. Soon Ms. Tumebo could buy only about one-third the amount of corn and wheat with each safety-net payment—barely enough to feed one child for one week.

This fall, the harvest was more meager than expected due to sporadic rains. Ms. Tumebo fears her corn may last less than half a year. As their only source of potential income, the peppers and beans may be too valuable to eat. Then there are the family goats. They would be the last to be sold for cash or slaughtered for supper. But if the safety net isn't repaired, the goats could soon be gone.

China water project faces delays

Pollution concerns push back start for part of canal plan

By Shai Oster

BEIJING—China is delaying part of its plan to divert billions of tons of water to its parched north, amid concerns that the massive project could cause previously unexpected environmental damage.

The four-year delay affects the central of three sections of the controversial "South-to-North" water diversion project. The project is designed to move water from China's central and southern regions up to the arid northern provinces—in some cases hundreds of kilometers away along three man-made channels.

The total project, at an estimated $62 billion, is expected to cost nearly three times the Three Gorges Dam, the world's largest dam, and to take decades to complete. It is expected to require the relocation of some 300,000 people and, when finished, to carry a volume of water along its eastern, central and western routes that's more than half of California's annual consumption.

The eastern route, which mostly follows the ancient Grand Canal, is largely done. The mountainous western route, which is the most controversial and technically challenging, isn't slated for completion until 2050. The central section was supposed to start operation in 2010, but officials now say it will be launched in 2014.

Reuters

Danjiangkou dam in China's Hubei province is under construction for the middle route of the South-to-North project to relieve water shortages in northern areas.

The South-to-North Water Diversion Office under the State Council, China's cabinet, confirmed changes in the plan, but said the new timetable represents an "adjustment," not a delay. "We have taken appropriate measures to mitigate the environmental adverse effects that the construction projects may make," the office said. The new measures include dams that could maintain higher water levels and ways to cut pollution.

The government says the South-to-North project is the only way to solve chronic water shortages. China's water supply relative to its population is a quarter of the world average ratio, and most of the water is concentrated in the south. In Beijing, the capital, located in the north, the ratio is one-thirtieth the world average. The north's main river, the Yellow River, has temporarily dried up in some places.

Critics, mostly scientists and environmentalists, have continued to voice opposition to the project, fearing it will waste tens of billions of dollars and damage the environment while offering only a temporary fix. During 2008, local governments joined in the criticism.

The central stretch of the project runs from the Han River, a Yangtze River tributary in central China's Hubei Province, north to Beijing. During December, Zou Qingping, the deputy chief of the Hubei Province bureau of environmental protection, told the local government that reducing water in the Han River would worsen pollution, according to several local media reports. China's state-controlled media was allowed to report extensively on the controversy, a marked departure from the strict controls over coverage of the Three Gorges Dam.

The revised plans for the central section, approved during December, include building a dam and diverting water from the Yangtze River into the Han. But Du Yun, a geologist with the Institute of Geodesy and Geophysics at the China Academy of Sciences, said that even those measures may not be sufficient. His research claims that siphoning off a third of the water from the Han River's Danjiangkou reservoir, as the plan calls for, will raise the risk of floods, increase sediment and worsen water quality—hurting navigation and irrigation for local residents, and limiting supplies for industrial and municipal use.

The new plan doesn't address the more controversial western route, which would transfer water along canals carved through rock from the Yangtze headwaters in Tibet to the Yellow River.

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

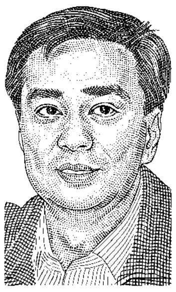
Thai leader gives policy speech at different venue

Associated Press

BANGKOK—Prime Minister Abhisit Vejjajiva, blocked by protests from delivering his first major speech at Parliament, on Tuesday gave it instead at Thailand's Foreign Ministry, which demonstrators briefly surrounded.

After the speech, the anti-government protesters left the ministry and returned to Parliament, easing a standoff that threatened to reignite Thailand's long-running political crisis. Mr. Abhisit and his cabinet then left the ministry.

In his policy speech, the prime minister vowed to jump-start the nation's economy, heal its political divisions and repair its tattered image.



Abhisit Vejjajiva

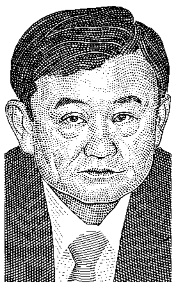
"The government has come into office at a time of conflict. This conflict has become the weakness of the country," he told lawmakers who are members of his coalition.

Opposition members boycotted the speech, whose venue was shifted to the Foreign Ministry because Parliament remained blockaded by opponents of the new government. On Monday, the blockade had forced Mr. Abhisit to postpone his speech, scheduled for that day.

The protesters, calling themselves the Democratic Alliance against Dictatorship, had vowed to surround Parliament until their calls for new general elections are met.

But later Tuesday, they said their protests might end Wednesday. "It's not important how long we will gather. The important thing is that we have had the chance to express our view of the current government," protest leader Jakraphob Penkair said.

The latest standoff comes less than a month after the last government was forced from office after six months of demonstrations that culminated in the eight-day seizure of Bangkok's two airports by opponents of former Prime Minister Thaksin Shinawatra.



Thaksin Shinawatra

Tuesday's demonstrations—by supporters of Mr. Thaksin—were peaceful except for some brief scuffles between protesters and police.

On Dec. 17, Mr. Abhisit became the third prime minister in four months. His party, which had been in opposition since 2001, heads a coalition some analysts doubt can last until the next general election in 2011.

About efforts to end the political crisis, Mr. Abhisit Tuesday said, "We will keep negotiating and mediating." Analysts say continuing upheavals will further batter Thailand's tourism industry.

"There's no confidence among tourists who want to visit Thailand," said Prakit Chinamourphong, president of the Thai Hotel Association. "I just want to see a peaceful country without demonstrations so that the tourists will come back to Thailand again."

In Bangladesh, Hasina coalition wins in landslide

A WSJ News Roundup

Voters in Bangladesh handed a former prime minister, who spent much of the year in jail on corruption charges, a decisive victory in parliamentary elections that brings an end to two years of military-backed rule.

A spokesman for the Bangladesh election commission said preliminary results showed Sheikh Hasina, and an alliance led by her Awami League Party, winning in a landslide. Together, these parties captured 238 parliamentary seats versus the 32 seats for a rival alliance led by the Bangladesh Nationalist Party, according to the election-commission spokesman. Final results aren't expected for a few days.

The BNP is unlikely to narrow the huge margin by much, in a sharp setback for its leader, Khaleda Zia, another former prime minister who was jailed last year on corruption charges. The two women have spent more than a decade trading terms in power and launching attacks against each other.

The vote itself—the first of its kind in seven years—is seen as a crucial test for the predominantly Muslim nation of 140 million and its quest for political stability. Voting Monday was the most peaceful in decades—a stark contrast to the failed elections of 2007, which dissolved into street riots and prompted emergency rule. But Ms. Hasina's opponents were already alleging widespread vote-rigging and fraud.

On Tuesday an international observer group said the vote appeared to be fair.

Pro-India parties win in Kashmir

A WSJ News Roundup

NEW DELHI—A pro-India coalition will head the new Jammu and Kashmir state government, ending almost six months of federal administration of the troubled region, a long-time flash point between India and Pakistan.

No single party managed to win a majority in the state election, which took place in several phases and ended last week. The National Conference Party, which won a plurality of 28 seats in the 87-seat state legislature, and the Congress Party, which won 17 seats, struck an agreement Tuesday to form a coalition, giving them a majority in the state parliament, officials said. The Congress Party leads India's federal coalition government.

National Conference leader Omar Abdullah, 38 years old, will head the state government—the youngest to become chief minister in India-ruled Jammu and Kashmir. "It is going to be a government of partnership," Mr. Abdullah told reporters on Tuesday. "We have an equal stake in the improvement of the lot of the people of Jammu and Kashmir".

Mr. Abdullah's father and grandfather also were top officials in the state, and his family has long-standing ties to Congress leader Sonia Gandhi, heir to another Indian political dynasty.

The election turnout was above 60%, as voters defied a boycott called by Kashmiri Islamic militant leaders who oppose Indian rule in the disputed territory, which is also claimed by Pakistan. The National Conference Party opposes Kashmiri independence or integration with Pakistan.

The high turnout is the latest sign that separatist groups have lost public support in Kashmir, where militant attacks were once a daily occurrence. Now, Indian officials say as few as 600 armed Islamic insurgents remain in the state.

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

Both India and Pakistan claim the entirety of Jammu and Kashmir, a focus of confrontation that has spurred three wars since the countries gained independence in 1947. India controls roughly 60% of the territory and Pakistan, 30%. China has control of 10%.

Azerbaijan outlaws international radio

Associated Press

WASHINGTON—The United States criticized Azerbaijan's decision Tuesday to ban international radio broadcasts into the country.

The ban, set to begin Jan. 1, effects broadcasters including Radio Free Europe/Radio Liberty, Voice of America and BBC.

"These media organizations play a crucial role in supporting democratic debate and the free exchange of ideas and information," said State Department spokesman Gordon Duguid. "This decision, if carried out, will represent a serious setback to freedom of speech, and retard democratic reform in Azerbaijan."

RFE/RL, which currently broadcasts an Azeri-language service, Radio Azadliq, said that the international broadcasts are Azerbaijan's primary source of information outside its government.

"We are known there as a source of independent, credible, accurate news and information," RFE/RL President Jeffrey Gedmin said in a statement on the organization's Web site.

"This decision to knock us off the air and, by the way, others—the Voice of America, the BBC—is going to rob the people in this country of important information that they need to react and act on as they're leading their lives and trying to grow and build civil society."

The ban follows a vote by Azerbaijan's parliament last week to schedule a nationwide referendum on scrapping presidential term limits. Critics of Azerbaijani President Ilham Aliyev say the referendum is a blow to the oil-rich Caspian nation's democracy.

Ex-dairy chief is set for hearing in China

Top defendant in tainted-milk case formerly led Sanlu

By Loretta Chao

BEIJING—The former head of the dairy company at the center of China's milk-adulteration scandal is set to appear for a hearing Wednesday—the highest-profile defendant in a case that has sparked enormous public outrage.

Tian Wenhua—a 66-year-old veterinarian who was fired as chairwoman of **Shijiazhuang Sanlu Group** Co. after its baby formula was found to contain high levels of the toxic chemical melamine—will be charged, along with three other executives, with "manufacturing and selling counterfeit commodities," according to her lawyer, Liu Xinwei.

Sanlu had the highest levels of melamine contamination out of 22 companies whose products were tainted with the industrial chemical. Ms. Tian's colleagues and friends say they fear she will end up being a scapegoat for a widespread breakdown in food safety and face a sentence of life in prison.

Tian Wenhua

A Shijiazhuang municipal-government spokesman said Ms. Tian and the other Sanlu executives are facing charges because they are suspected of having committed crimes, and that now is the time "for instituting public prosecution to the suspects who produced, added and sold melamine and related products." He said he couldn't say whether government officials would be prosecuted in the future.

Ms. Tian hasn't decided whether to plead innocent or guilty, Mr. Liu said Tuesday, adding that he and Ms. Tian would decide how to proceed when "we check out the situation after the hearing opens tomorrow."

There has been speculation in the Chinese media that Ms. Tian could face the death penalty if she is convicted. But Mr. Liu said the maximum sentence his client could face would be life imprisonment. Sanlu couldn't be reached for comment regarding Ms. Tian's trial, and a Fonterra spokeswoman said "it is not helpful to speculate on this matter at this time."

The government has struggled to restore Chinese citizens' faith in the safety of their food supply in the wake of the scandal. Ms. Tian is the biggest target so far for prosecutors, who in the past week have argued cases against 17 other defendants, many charged with manufacturing melamine-spiked powder or adding it to milk. No verdicts were announced as of late Tuesday.

Sanlu has ceased operations and says it is bankrupt. Dairy farmers and others added melamine-laced powder to milk in an effort to fool dairy-company quality checks with inflated protein readings. Products made from adulterated milk are blamed for killing six young children and sickening nearly 300,000 others.

Civil suits against companies for negligence or defective products are hard to bring and even harder to win in China. Courts so far haven't accepted cases filed by parents of children poisoned with melamine—just as they haven't accepted cases by parents who lost children when their school buildings collapsed in a devastating earthquake in May.

Instead, the state has sometimes brokered what are essentially out-of-court settlements involving compensation from government and nongovernmental sources. To assuage public anger, government prosecutors bring criminal charges against company executives, sometimes with heavy sentences that appear designed to make powerful statements.

In 2007, when the head of China's State Food and Drug Administration was found guilty of accepting money from pharmaceutical companies to approve drugs, he was sentenced to death and swiftly executed.

A state-run newspaper in Henan, near the home province of Sanlu, editorialized on Dec. 26 that "the trial of Tian Wenhua is an alarm bell." But the Henan paper and other government-controlled media outlets also said there was plenty of blame to go around.

In an opinion piece published in the Shanghai newspaper Oriental Morning Post, writer Yu Ge argued that Ms. Tian was being unfairly singled out. "So far, only she has been pushed onto the altar to be the scapegoat," Mr. Yu wrote, despite that fact that other companies' products were also tainted.

"This isn't just the responsibility of one company. Government supervisors at every level should take responsibility, too," said Ma Shuning, secretary general of the criminal-defense committee of the Beijing Lawyers Association. Central-government authorities and one of Sanlu's foreign shareholders, New Zealand dairy company **Fonterra Cooperative** Group, said Sanlu knew of the contamination at least as early as the beginning of August and informed local government health officials. The local officials, in Sanlu's hometown of Shijiazhuang, told the company not to make a public announcement but to quietly remove tainted products from store shelves.

When news of the contamination scandal was made public on Sept. 11, Ms. Tian was fired from her position as board chairwoman, removed as secretary of the company's Communist Party committee and then detained. Seven local officials, including the Communist Party chief of Shijiazhuang and the director of the city's Food and Drug Administration, lost their jobs. An official in the prosecutor's office in the district where Sanlu is headquartered, said no government officials are facing charges.

After Ms. Tian graduated as a veterinarian in 1966, one of her first jobs was at a dairy farm then called the Shijiazhuang Milk Factory, which eventually evolved into Sanlu, according to the state-run Xinhua news agency and her classmates. Longtime employees of Sanlu credit her with building the company from the ground up.

A 30-year Sanlu employee who asked to be identified only by her surname, Zhang, said she is sure Ms. Tian didn't know Sanlu's products had been adulterated with a toxic substance. "Sanlu is [Ms. Tian's] family. She brought it up herself. How could she ruin it with her own hands?" Ms. Zhang said.

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