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■ **Car makers posted** sharp U.S. sales declines for November. Chrysler's sales fell 47%, and GM's dropped 41%. **Page 32**

■ **U.K. banks face** a new threat to their bottom lines from consumers who are increasingly struggling to pay off credit-card bills and personal loans. **Page 1**

■ **The EU will issue** guidelines this month for governments planning to give money to their banks to support the wider economy, Kroes said. **Page 19**

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■ **Thomas Middelhoff is leaving** his post as CEO of German retail and travel group Arcandor. **Page 3**

■ **U.S. stocks gained** on a rebound in the financial sector; the Dow Jones industrials were up 3.3%. European markets rose in volatile trading. **Page 20**

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■ **China's yuan fell** further against the U.S. dollar, as expectations grow for a continued decline of the currency. **Page 24**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8419.09	+270.00	+3.31
Nasdaq	1449.80	+51.73	+3.70
DJ Stoxx 600	197.20	+3.29	+1.70
FTSE 100	4122.86	+57.37	+1.41
DAX	4531.79	+137.00	+3.12
CAC 40	3152.90	+72.47	+2.35
Euro	$1.2720	+0.0106	+0.84
Nymex crude	$46.96	-2.32	-4.71

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World-Wide

Indian police said they believe a senior Lashkar-e-Taiba planner in Pakistan masterminded the Mumbai attacks and was among several leaders of the militant group in touch with the 10 terrorists before they landed in India. The attacks have ratcheted up tensions between India and Pakistan, and both sides sought to reduce the strain. **Page 1**

■ **NATO ministers agreed** to gradually resume talks with Russia that were frozen after Moscow's invasion of Georgia. They also took up the possibility of eventual expansion to Ukraine and Georgia. **Page 11**

■ **An attack on the editor** of a small Russian newspaper has caught the Kremlin's eye, but critics suggest it is a ploy to defuse social tension. **Page 9**

■ **Protesters promised** to end a siege of Thailand's main airports after a court ruling forced the prime minister to step down and disbanded his government's key parties. **Page 12**

■ **Pirates chased and shot at** a U.S. cruise ship with over 1,000 people on board in the Gulf of Aden, but failed to hijack the vessel, a maritime official said.

■ **Michael Chertoff**, U.S. secretary for homeland security, said more should be spent on tools of "soft power" overseas to help safeguard the U.S. **Page 10**

■ **Saddam Hussein's cousin**, known as "Chemical Ali," received a second death sentence in Iraq, this time for crushing a Shiite uprising in 1991.

■ **The U.N. expressed** concern about overcrowded prisons and the treatment of detainees in Iraqi custody, in a rights report.

■ **Radical Muslim cleric** Abu Qatada was ordered jailed by a British judge because of fears he was preparing to abscond.

■ **Steel workers protested** outside EU headquarters in Brussels to demand their industry be exempt from pollution caps.

■ **Israeli settlers clashed** with Palestinians near a disputed building in the West Bank city of Hebron. An Israeli airstrike killed two Palestinians in Gaza.

■ **Rebels in Congo pulled out** of a town on the Ugandan border that they had captured in fighting, forcing 10,000 to flee.

EDITORIAL & OPINION

Science-free zones

Environmentalists' fear mongering against GM food isn't based on any evidence. **Page 14**

GM asks for $18 billion from U.S. as woes worsen

Auto maker, Ford return to Congress; 'there is not a plan B'

By John D. Stoll And Matthew Dolan

DETROIT—**General Motors** Corp. and **Ford Motor** Co. presented turnaround plans to Congress on Tuesday that indicate GM is in much more dire shape than had been believed.

As part of a renewed bid to win backing for a government bailout, GM requested a total of $18 billion in federal loans—$6 billion more than it said it would require a few weeks ago. The company added it needs an immediate injection of $4 billion to stay afloat until the end of the year, a fact it hadn't before disclosed.

The urgency of GM's request stirred up new worries that the company may need to file for bankruptcy protection. Top officials from the United Auto Workers union said at a meeting Tuesday in Detroit that GM could be forced into a Chapter 11 filing before Christmas if the auto maker fails to get government funding in coming days, people familiar with the matter said.

In a conference call with reporters, GM President Frederick "Fritz" Henderson said the company is not considering bankruptcy as an option

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Associated Press

Ford CEO Alan Mulally suggested the United Auto Workers union may have to make concessions to help car makers recover and persuade Congress to approve aid.

Mumbai police name suspects in terror plot

By Geeta Anand And Zahid Hussain

MUMBAI—Mumbai police believe a senior Lashkar-e-Taiba planner in Pakistan masterminded the Mumbai terrorist attacks last week and was among several leaders of the militant group in touch by satellite links with the 10 terrorists in the two days before they landed in India.

A senior police official said that, in all, the names and numbers of five members of the Pakistani group's leadership were contained in a satellite phone left behind by the terrorists on a fishing vessel they hijacked, then abandoned, before reaching Mumbai. Records from the phone show calls had been made from it to these five men.

Among the five: Yusuf Muzammil, head of Lashkar-e-Taiba's terrorism operations against India. The senior Indian police official said Mr. Muzammil was identified as the mastermind of the attacks by the only terrorist captured alive, Ajmal Kasab.

The police official said two of Mr. Muzammil's deputies orches-

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U.K. banks' next danger: debt-stricken consumers

By Sara Schaefer Muñoz, Carrick Mollenkamp and Alistair MacDonald

LONDON—U.K. banks grappling with frozen credit markets and mortgage defaults are facing a new threat to their bottom lines: consumers unable to pay off their credit-card bills and personal loans.

As the U.K. economy heads into a steep downturn, Britons, among the world's most indebted consumers, are increasingly struggling to make ends meet. Personal insolvencies increased 8.8% to 27,087 in England and Wales in the third quarter from the second quarter. One in six U.K. consumers say they can't handle their debts, according to a recent PricewaterhouseCoopers poll. Debt-counseling centers are seeing record call volumes.

That's bad news for the biggest players in the U.K.'s consumer-lending market, such as **Royal Bank of Scotland Group** PLC, **Barclays** PLC, **Bank of America** Corp.'s MBNA and **HSBC Holdings** PLC. As of October, lenders had £235 billion ($348 billion) of credit-card, personal and overdraft loans outstanding to U.K. customers, up 5.5% from the previous year. Research firm Sanford Bernstein estimates lenders will have to take more than £17 billion in impairments on

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LEADING THE NEWS

British Airways, Qantas consider merging

Legal hurdles remain on foreign ownership; Iberia talks continue

BY DANIEL MICHAELS

British Airways PLC and Australia's **Qantas Airways** Ltd. said they are in merger talks for a deal that would create a multicontinent airline group—a move that reflects carriers' readiness to attempt bold maneuvers amid economic upheaval.

The talks come even as BA continues merger talks with Spain's **Iberia Lineas Aereas de Espana** SA. All three are partners in the Oneworld airline alliance, and BA has separate joint ventures with each. BA officials said the company could do both deals, creating a three-country giant.

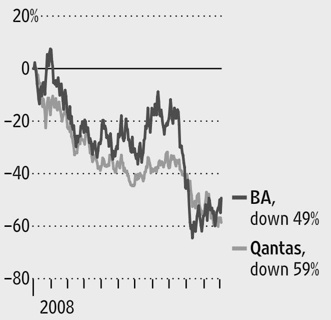
"We have businesses that complement one another, and Qantas shares our views on consolidation within the industry," BA Chief Executive Willie Walsh said through a spokesman.

The proposed deal marks a first push to extend international airline consolidation beyond Europe, where several carriers have linked, thanks to deregulation within the European Union. If the deal prompts others to follow, the new giants' market heft might eventually prompt U.S. carriers to push for a change in U.S. legislation that limits foreign ownership of airlines to 25%.

BA has close relations with **AMR** Corp.'s American Airlines, although the companies haven't pursued a merger because of U.S. legal restrictions. The pair and Iberia in August applied to the U.S. Department of Transportation for permission to cooperate closely on trans-Atlantic operations, and it remains unclear how a tie-up between BA and Qantas might affect that bid. An American Airlines spokesman said it would have no impact.

BA and Qantas surprised investors with statements released Tuesday saying they are exploring the creation of a single, binational company that would be listed in both London and Sydney. Combined, the pair would have a market capitalization of roughly $5.2 billion at current share prices. Neither company offered any financial terms for the potential deal. Both cautioned that the talks could fail.

Reuters



Spreading their wings

Year-to-date share performance of British Airways vs. the Australian carrier Qantas

Source: Thomson Reuters Datastream

Under the plans being discussed, each airline would continue to exist as a legal entity in its home country to overcome legal limits on foreign ownership of airlines in Australia and the European Union, said BA spokeswoman Laura Goodes. They would probably be linked through a single balance sheet, integrated management and overlapping boards of directors, she said. Ownership-nationality limits could pose a challenge.

Australian laws forbid a foreign carrier from owning more than 35% of an Australian airline and limit total foreign holdings to 49%. The Australian government earlier Tuesday said it would consider lifting the 35% cap, although not the 49% limit. EU laws cap non-EU ownership of carriers from the bloc at 49%.

A Qantas spokesman declined to comment beyond the statement. An Iberia spokesman also declined to comment. The announcement comes as airlines world-wide are scrambling to manage upheaval caused by the spike in oil prices earlier this year, recent turmoil in financial markets and now the prospect of a global economic slump.

In the U.S., **Delta Air Lines** Inc. recently completed the acquisition of rival Northwest Airlines Corp., while Germany's **Deutsche Lufthansa** AG is negotiating or finalizing the acquisition of three smaller European carriers.

A BA-Qantas merger would bring the pair full-circle. BA in 1995 bought a 25% stake in Qantas, which it sold in 2004 at a significant profit. Both carriers' share prices have since slumped.

The pair have kept an arrangement to pool revenues and costs for flights between the U.K. and Australia, along the "Kangaroo Route." The two together operate six flights daily on the highly competitive market, against aggressive rivals that are grabbing market share, including Singapore Airlines, Dubai's **Emirates Airline** and new Malaysian budget operator **AirAsia X.**

Some analysts were skeptical about the deal's upside for investors, since the pair already cooperate in the one market where they overlap, the Kangaroo Route.

"They are adopting a defensive approach on the Kangaroo Route, where all the innovating is being done by mavericks," said Craig Jenks, president of Airline/Aircraft Projects, an aviation-consulting firm in New York.

—Kaveri Niththyananthan and Bill Lindsay contributed to this article.

CORRECTIONS & AMPLIFICATIONS

A New York State court rejected developer Donald Trump's request for an immediate order requiring his lenders to extend a loan on a Chicago hotel and condominium project. A Money & Investing article Monday incorrectly said the judge rejected Mr. Trump's argument that the loan should be extended based on the *force majeure* provision of Mr. Trump's loan document. The court has yet to determine the validity of the argument.

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LEADING THE NEWS

Arcandor's CEO to leave

After Bertelsmann, Middelhoff missed his goals at retailer

BY CECILIE ROHWEDDER AND MIKE ESTERL

Thomas Middelhoff, one of Europe's most colorful and controversial corporate leaders, will leave his post as chief executive of German retail and travel group **Arcandor** AG, to be succeeded by Deutsche Telekom's chief financial officer, Karl-Gerhard Eick, according to several people familiar with the situation.

Mr. Middelhoff is expected to leave Arcandor by the end of the first quarter of next year, people close to the matter said. In April, Mr. Middelhoff had extended his contract, originally due to expire at the end of this year, to the end of 2009. Deutsche Telekom said Mr. Eick would depart at the end of February at his own request. News of the coming changes at Arcandor were first reported by the German publication Manager Magazin.

Mr. Middelhoff, 55 years old, is well known in European and American boardrooms from his time as chief executive of media group Bertelsmann AG, where he made a name for himself as a deal maker and early Internet enthusiast. Mr. Middelhoff lost that job in 2002 after clashes with the owning family.

Thomas Middelhoff

In his time at Essen-based Arcandor, Mr. Middelhoff sold part of the company's varied holdings, including a television sports channel, several specialty chains and department stores, as well as a stake in the German operations of Starbucks. He used the proceeds to take full control of the British travel group Thomas Cook. But he never managed to fulfill his promise, made last year, to raise Arcandor's share price to at least €40 $(50.38). Arcandor closed at €2.05 on Frankfurt's stock exchange Tuesday.

Mr. Middelhoff was mired in controversy almost from the start of his time at Arcandor. Supporters see him as a savior of the company, which was close to bankruptcy when he joined. Some people close to the company say Mr. Middelhoff isn't being pushed out, but is leaving by mutual agreement to make room for a long-term successor.

At the same time, many of his moves came under fire from industry experts and financial analysts. Today, Arcandor is debt-free. But the retail and mail-order businesses that long defined the company are still deeply troubled.

An Arcandor spokesman declined to comment on whether Mr. Middelhoff would leave early and be succeeded by Mr. Eick, 54. But he added that it has been "an open secret" for months that Mr. Middelhoff was only planning to remain with the company for a short period after his contract was renewed. The company is expected to make a formal announcement later this week, after Arcandor's supervisory board approves the move. Arcandor declined to make Mr. Middelhoff available for comment.

New publisher named to lead Wall Street Journal Europe

BY SHIRA OVIDE AND RUSSELL ADAMS

Andrew Langhoff will become the publisher of The Wall Street Journal Europe effective Jan. 5, Dow Jones & Co. announced Tuesday.

Mr. Langhoff, 47 years old, will lead one of The Wall Street Journal's international editions, a priority for **News Corp.** Chairman Rupert Murdoch since he acquired Dow Jones a year ago. Mr. Langhoff has been in charge of Ottaway—the U.S. newspaper chain owned by Dow Jones—since July. Michael Bergmeijer, who oversaw the Journal Europe, is leaving the company.

Patrick Purcell, owner of the Boston Herald and a former News Corp. executive, has been named executive chairman of Ottaway. Mr. Purcell, 61, has held various positions with News Corp. over the years.

"These appointments signal our continued desire to invest in all of our brands around the globe," Dow Jones Chief Executive Officer Les Hinton said in a statement.

Bill Casey, a 28-year veteran of Dow Jones, is retiring. He has overseen The Wall Street Journal Europe, The Wall Street Journal Asia and special editions, including the paper's edition in Latin America.

Ottaway hired Mr. Langhoff in 2003 as general counsel. Before joining Ottaway, Mr. Langhoff had been a courtroom attorney, a business executive at Walt Disney Co.'s Internet operations and the head of business development for a digital-video firm.

In 1984, Mr. Murdoch, then owner of the Boston Herald, named Mr. Purcell as that paper's publisher. In 1994, pressed by media-ownership regulations to choose between the newspaper and a Fox-television affiliate in Boston, Mr. Murdoch sold the Herald to Mr. Purcell.

Mr. Purcell will remain publisher of the Herald as he takes over Ottaway, which owns eight daily and 15 weekly papers in Massachusetts, New York, California and other states. News Corp. unsuccessfully sought to sell Ottaway earlier this year.

CORPORATE NEWS

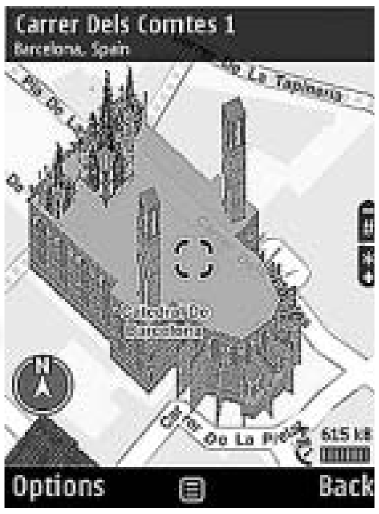
Nokia answers rivals with new handset

Market leader unveils high-end device featuring touch screen, range of Web services to battle iPhone and BlackBerry

By Amol Sharma

Nokia Corp. unveiled an ambitious new smartphone with a touch-sensitive screen, a slide-out full keyboard, and access to a range of Web-based software applications, part of an emerging class of do-it-all mobile devices.

The company introduced the phone, dubbed the N-97, at an event in Barcelona Tuesday, but it won't ship the device until the first half of 2009. It will sell for €550 ($693), though wireless carriers will likely discount the retail price. Nokia declined to discuss whether any U.S. carriers will offer the phone at launch.



A prototype of **Nokia's N-97**, which will carry building landmarks in 3-D on Nokia Maps

Cellphone manufacturers generally make trade-offs for aesthetics, affordability and battery efficiency. But with fierce competition at the high end of the consumer market, there is pressure across the industry to stuff more and more features into a single device. The N-97 has the touch screen popularized by **Apple** Inc.'s iPhone, a real keyboard that appeals to users of BlackBerrys and Nokia's own E-Series devices, and fast Wi-Fi Internet access to complement third-generation broadband access.

It will also let users customize their phones—even their home screen—with small applications called widgets. The programs, which will run off the Web rather than having to be installed on the device, could include news feeds, weather updates, games and tie-ins to social-networking applications such as Facebook.

"What we are giving consumers is the opportunity to have their own personal Internet with them all the time," said Jonas Geust, vice president of the unit that produces Nokia's Nseries phones. Mr. Geust said the N-97 will be Nokia's flagship device for 2009.

The N-97 will carry an upgraded version of Nokia Maps, which the company released Tuesday. The new version builds on Nokia's $8 billion acquisition this year of digital-map maker Navteq. It adds more details such as 3-D building landmarks and items that improve pedestrian navigation, like subway entrances and escalators. It also synchs with Nokia's Ovi Web portal, allowing users to plan trips and routes from their computer and have them automatically transfer to their phone.

Handset makers are relying on high-end smartphones to help them weather an economic downturn that is expected to lead to an industry-wide sales slowdown next year of from 1% to 9%, according to various estimates. Analysts say phones with novel hardware or software features are more likely to lure stingy consumers to upgrade than midtier standard-feature phones.

Nokia—the largest cellphone manufacturer, with a 38% global market share—has been slow to catch on to some trends in the emerging consumer-smartphone category. Its first touch-screen phone, the Tube, ran into delays and was released late this year, after rivals such as **Samsung Electronics** Co. and **LG Electronics** Inc. had been marketing such devices for months.

The N-97 is the latest in Nokia's lineup of ultra high-end Nseries phones. It packs some state-of-the-art features, including a five-megapixel camera, DVD-quality video capture with an output jack that connects to a television set, and 32 gigabytes of onboard memory capacity—twice that of the iPhone. It has a built-in music player and users get a year of free access to Nokia's catalog of four million tracks.

The results of cramming in so many features are evident in the physical design of the device, based on an early prototype. It is about 30% thicker than the iPhone, though about on par with the G1 from **HTC** Corp. and **Google** Inc. Its 3.5-inch screen slides out to reveal the keyboard, tilting upward at a 30-degree angle so users can more easily see what they are typing. Like the iPhone, the N-97 will have a piece of hardware called an accelerometer and can sense when the device is being rotated—a useful feature for games.

The Web browser aims to optimize content from the Web without any need for site publishers to make custom mobile pages, the company says. "We believe the Internet is as it is, and we need to support it," Mr. Guest said.

Like other touch-screen phones that have emerged from **Research in Motion** Ltd. and Samsung, it won't do some of the iPhone's tricks. Users can't zoom in and out of photos and Web pages by pinching or spreading two fingers. And, at least in the early prototype, users must scroll by touching and dragging a thin scroll bar, rather than simply flicking the screen up or down.

Tesco to preserve cash as sales sour

By Lilly Vitorovich

LONDON—**Tesco** PLC on Tuesday reported its worst U.K. sales performance since the 1990s and slashed its capital-expenditure plans in an effort to preserve cash, as the economic downturn continued to hit retailers hard.

The U.K.'s biggest retailer by sales held up relatively well as the nation lurched toward recession, though it said that sales excluding fuel from stores open at least a year grew just 2% in its fiscal third quarter, which ended Nov. 22. That compares with 4% growth in the fiscal second quarter and a 3.7% rise in the fiscal first half.

Still, that performance was at the top end of analysts' forecasts for growth of between 1.1% and 2%, and Tesco shares rose 13% to 325.40 pence ($4.82) each on the FTSE 100. The stock fell sharply Monday ahead of the results.

Chief Financial Officer Andrew Higginson said Tesco, the U.K.'s biggest retailer by sales, is gaining customers from supermarket rivals Waitrose, **Marks & Spencer Group** PLC and **J Sainsbury** PLC, thanks largely to its aggressive price-cutting initiatives and its new no-frills Discounter range.

Less than three months since its launch, the Discounter range accounts for 5% of Tesco's U.K. food and grocery sales. The range will be extended over the next few weeks.

About 300,000 new customers are shopping at Tesco's stores each week, largely thanks to its aggressive price-cutting initiatives, the company said.

DAILY SHARE PRICE PERFORMANCE

Tesco

Tuesday's close: 325.4 pence, up 13%

Source: Thomson Reuters Datastream

Chief Executive Terry Leahy said the management is "pleased" with Tesco's progress but also "realistic—the current economic climate, and the strain this is putting on consumers everywhere, is something that all businesses are feeling, including ours."

"We are adjusting the business to meet the new challenges—focusing on becoming even cheaper for customers, keeping our costs low to help us to do this and managing our balance sheet and cash carefully," Mr. Leahy said.

The CEO said the company is comfortable with market forecasts for its full-year earnings. Tesco is expected to report a full-year pretax profit of £2.98 billion ($4.42 billion), up from £2.8 billion a year earlier, according to FactSet.

Tesco's capital expenditure will fall to less than £4 billion next year from about £4.5 billion this year as it plans to open fewer U.K. stores, instead switching focus to store openings abroad, particularly Asia, Mr. Higginson said.

The retailer's total group sales rose 12% in the 13 weeks ended Nov. 22, driven by international sales, which were up 28%, or 15% at constant exchange rates. Asian sales were up 29%, helped by the acquisition of South Korean discount chain Homever and despite the depreciation of the won against sterling, Tesco said.

Tesco spent £2 billion earlier this year on expansion, buying Homever and taking full owndership of its finance unit by purchasing a 50% stake from Royal Bank of Scotland Group PLC.

Tesco's U.K. sales growth is slower than that of some of its rivals. **Wal-Mart Stores** Inc.'s Asda last month reported a 6.9% rise in like-for-like sales, while **William Morrison Supermarkets** PLC is expected Thursday to post growth of 7.3%.

Shore Capital welcomed the company's sales performance given the tough U.K. conditions and also Tesco's announcement that it has adequate financing. "Given recent market talk, Tesco has made a robust comment on its financial position stating that it can comfortably cover its financing needs for the next year, after acquisition spend," Shore Capital said.

GE offers details on revamp of financial-services unit

By Paul Glader

General Electric Co. sought to reassure investors with new details of how it plans to fund its financial-services unit while shrinking the operation. GE also lowered its financial forecast for the third time this year, largely because of troubles at the unit, GE Capital.

Investors reacted warmly, sending GE shares up 14% in the hopes that the Fairfield, Conn., conglomerate had laid out a viable plan for the finance unit. "Lots of other firms are losing money in the finance space while GE is talking about still making money," said Eric Schoenstein, an analyst at Jensen Investment Management in Portland, Ore., which owns GE shares.

GE's presentation eased lingering speculation that it may seek to break up or spin off GE Capital, whose role as a powerhouse of earnings' growth has been reversed by funding problems and loan write-offs. The company said it plans to make GE Capital 30% of its total portfolio by the end of next year or early 2010, down from 50% at present and below earlier estimates of 40%.

Keith Sherin, GE's vice chairman and chief financial officer, said GE would exit some financial-services businesses, such as residential mortgages in Europe, while ramping up areas such as midmarket business loans, real estate, aircraft leasing and energy services. "Those businesses we will invest in and grow," he said. "They will be the foundation for GE Capital going forward."

GE Capital will be restructured into three units focused on commercial lending, consumer finance and corporate restructuring. GE also is evaluating a $5 billion capital injection into the unit.

GE reiterated it would reduce its reliance on commercial paper, or short-term loans, which ran into problems during the credit crunch. GE said it would reduce its commercial paper outstanding to $50 billion by the end of next year, from $88 billion at the end of this September. It is dropping its long-term debt funding to $354 billion next year as it plans to double deposits to $81 billion.

Still, GE narrowed its earnings forecast for the fourth quarter to 50 to 52 cents a share, compared with a forecast of 50 to 65 cents a share in September. The new projection anticipates losses and restructuring charges of $1 billion to $1.4 billion.

Looking into next year, the company said it has made several risk assumptions, including continued double-digit delinquency rates in its U.K. mortgage division, an 8.5% U.S. unemployment rate by year end, declining airline traffic and at least one airline bankruptcy.

"GE sees a rebound in 2010, but we remain cautious," Steve Tusa, an analyst at JP Morgan, said in a note.

GE shares rose $2.21 to $17.71 in late trading Tuesday on the New York Stock Exchange. GE Capital bonds rose as well.

—Doug Cameron and Serena Ng contributed to this article.


It took us 125 years to use
the first trillion barrels of oil.
We'll use the next trillion in 30.
So why should you care?
Chevron
DAVID J. O'REILLY
CHAIRMAN & CEO
CHEVRON CORPORATION
Energy will be one of the defining issues of this century. One thing is clear: the era of easy oil is over. What we all do next will determine how well we meet the energy needs of the entire world in this century and beyond.
Demand is soaring like never before. As populations grow and economies take off, millions in the developing world are enjoying the benefits of a lifestyle that requires increasing amounts of energy. In fact, some say that in 25 years the world will consume about 50% more oil than it does today. At the same time, many of the world's oil and gas fields are maturing. And new energy discoveries are mainly occurring in places where resources are difficult to extract, physically, economically and even politically. When growing demand meets tighter supplies, the result is more competition for the same resources.
We can wait until a crisis forces us to do something. Or we can commit to working together, and start by asking the tough questions: How do we meet the energy needs of the developing world and those of industrialized nations? What role will renewables and alternative energies play? What is the best way to protect our environment? How do we accelerate our conservation efforts? Whatever actions we take, we must look not just to next year, but to the next 50 years.
At Chevron, we believe that innovation, collaboration and conservation are the cornerstones on which to build this new world. We cannot do this alone. Corporations, governments and every citizen of this planet must be part of the solution as surely as they are part of the problem. We call upon scientists and educators, politicians and policy-makers, environmentalists, leaders of industry and each one of you to be part of reshaping the next era of energy.
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Alcoa aims for new start

Chinalco alliance serves as wild card for metals producer

By Robert Guy Matthews

Associated Press

A worker at an Alcoa facility in Iowa. One possible advantage of an Alcoa boost in ties to Chinalco would be shifting production to the companies' cheaper facilities.

Alcoa Inc. of the U.S. was counting on obtaining some discarded aluminum assets cast off from a merged **BHP Billiton** and **Rio Tinto**, but that deal crumbled and left the aluminum maker with few strong options to improve its prospects amid one of the worst aluminum markets in decades.

Alcoa is already scrambling to cut capacity and wants to sell some of its assets, but neither of those options addresses the company's fundamental hurdle: It is a higher-cost producer when compared with its nimbler and better-funded rivals Rio Tinto Alcan and Russia's **United Co. Rusal**.

"I don't think they have good options," said John Tumazos, an analyst with Very Independent Research, referring to Alcoa. "They need to idle more smelters than they have cut."

Alcoa is in no danger of failing or going into bankruptcy court. But its influence in the commodity world is nowhere as sure as it once was.

"Everybody understands the current economic situation in the world, brings certain steps," said Alcoa spokesman Kevin Lowery. "In the interim, we are taking steps to reduce costs and taking steps to position ourselves so we will be stronger than competitors. That is what we are focusing on."

So far, Alcoa is keeping a lid on its options. But there are some big steps that the company could pursue.

For one, Alcoa could deepen its existing relationship in a variety of ways with its partner **Aluminum Corp. of China**, also known as Chinalco. The two currently own a 9% stake in Rio Tinto that they jointly purchased for $14 billion in January. The stake is valued at about 80% less since BHP's planned takeover of Rio collapsed last month.

Alcoa could increase its existing stake, betting on a rise in commodity prices. It also could sell its stake, which could bring about $200 million in cash to its coffers.

Chinalco and Alcoa also could combine into a single company. Such a deal, while in no way an easy task because it would result in Chinese ownership of a key U.S. company, could work for both sides. A combined Alcoa and Chinalco would make it one of the biggest producers of aluminum and both alumina and bauxite, necessary ingredients for the production of aluminum.

In addition, a combined company would be able to better rationalize expensive smelters and other production facilities in Europe, the U.S. and China, leaving just the lowest-cost facilities to compete with Rio Tinto and UC Rusal.

Mr. Tumazos also said Alcoa's sagging stock price, which is hovering near $10, makes the company a fairly inexpensive purchase. "Chinalco could buy Alcoa for about $8 billion plus a premium," he said. "That is less than it paid for a stake in Rio."

Alcoa said it doesn't comment on market speculation.

The aluminum maker has been in touch with Rio lately. It is a long shot, but Alcoa could buy some aluminum assets from its rival. Rio is looking to pay down some of its debt from when it bought the aluminum assets from Alcan in the first place.

But Rio Tinto executives knocked down that idea. "What would be in it for us," said Robin Walker, a spokesman for Rio.

U.S. airlines shrink capacity

By Ann Keeton

Falling fuel prices could help the U.S. airline industry turn a profit in 2009, but most carriers are making cuts in passenger capacity to deal with a slowdown in business and leisure travel.

Delta Air Lines Inc. said it would shed 8% to 10% of available domestic seats next year and cut international flights by 3% to 5%. Delta is already reducing U.S. capacity by 12% this year as it and other airlines trim unprofitable routes. On the international front, Delta's cutback is a reversal from its average annual capacity growth of 15% to 20% over the past few years.

Southwest Airlines Co. plans to trim its flight schedule between 4% and 5% in January, reflecting an expected slowdown in passenger traffic. "We saw bookings slow in November," said Gary Kelly, Southwest's chief executive, speaking at the Credit Suisse Global Airline Conference in New York Tuesday.

Capacity cuts can come from either reducing the number of flights or flying smaller planes with fewer seats.

Delta, which merged this year with Northwest Airlines to become the world's largest airline by passenger traffic, now has the flexibility to cut or reallocate flights around the world, said Ed Bastian, president of Delta, at the conference. He said global economic worries won't affect Delta's outlook for financial synergies from the merger, including a $500 million benefit in 2009.

United Airlines said that since oil prices have fallen from a high of $147 a barrel in July to less than $50 a barrel, its current plans to cut capacity by 11% this year should suffice, according to Kathryn Mikells, chief financial officer of the airline, a unit of **UAL** Corp. As with other carriers, United will lose money this year on out-of-the-money fuel hedges. By next year, the airline expects to turn a profit if fuel prices stay about where they are now, Ms. Mikells said.

U.S. airlines in recent years haven't had money to invest in new, more-fuel-efficient aircraft, which actually makes it easier for them to cut flights if they need to, said Gerald Laderman, senior vice president of finance at **Continental Airlines** Inc. "You hate to ground a plane if you're still paying for it," he said.

While United is grounding 100 older aircraft and hasn't placed orders for new planes, other carriers are planning to replace older, fuel-guzzling models. Mr. Laderman said Continental has arranged backstop financing with **Boeing** Co. for aircraft it plans to purchase in the near term. Current tight credit markets are making aircraft financing difficult now, Mr. Laderman said. "It's as challenging as any time I've seen," he said.

On Monday, Continental reported that November passenger revenue rose by about 1.5%, less than analysts had forecast. Jamie Baker from J.P. Morgan wrote in a research note that the Houston airline could report a wider-than-expected fourth-quarter loss. But he has an "overweight" rating on Continental's stock because he says Continental and some other U.S. airlines are poised to benefit from significantly lower fuel costs next year, even if ticket sales decline.

Southwest's Mr. Kelly, meanwhile, said that shrinking U.S. competition will provide growth opportunities for Southwest, although the low-cost carrier has no immediate plans to seize them. He said competing airlines have cut capacity by 15% to 20% this year in Southwest's markets.

German car sales drop; Italian group calls for aid

By Jan Hromadko

German new-car registrations fell 18% last month to around 233,800 vehicles amid lackluster consumer confidence, the Association of International Motor Vehicle Manufacturers, said Tuesday.

Adjusted for the number of working days, new-car registrations were down 10% from November 2007, continuing a streak of weak results in recent months. New-car registrations, which mirror car sales, had already slumped 8.2% in October and more than 10% for each of September and August.

For the first eleven months of the year, new-car registrations in Europe's largest automobile market were down 1.5% from a year earlier, at 2.86 million vehicles. The association warned that this year will be the worst for new registrations since 1990 as demand for cars has suffered amid concerns about the economy.

Also on Tuesday, Italian automotive-research group Centro Studi Promotor said that without government help, new-car registrations in the country are likely to fall drastically next year.

At a news conference in Bologna, the group's chairman, Gian Primo Quagliano, said he expects new-car registrations to reach only 1.85 million vehicles next year, down 14% from its estimate for 2008 and a 26% drop from last year.

The chairman urged the Italian government to approve a €2.5 billion, or roughly $3 billion, package aimed at boosting demand for new cars, which he said would help push up sales to 2.05 million vehicles next year.

Italy's Infrastructure Ministry said Monday that new-car registrations in the country dropped 30% last month.

—Rosario Murgida and Giada Zampano contributed to this article.

Toyota counters sales slump by curbing output in Japan

By Yoshio Takahashi

TOKYO—**Toyota Motor** Corp. said it will suspend some domestic production for two days this month amid a slump in global demand for new vehicles. The Japanese auto maker also reduced winter bonuses for its managers by an average of 10%.

The output cuts in Japan are the first by Toyota, the nation's biggest car maker by volume, in response to the economic slump. The move also follows a reduction in its sales projections and net-profit forecasts for the fiscal year through March.

Toyota said it will halt production on Dec. 24 and 25 of its luxury Lexus brand at the Tahara plant and all output at the Miyata plant run by its Toyota Motor Kyushu Inc. subsidiary, which manufactures models such as the Lexus RX and the Toyota Kluger sport-utility vehicles.

Toyota is one of several Japanese car makers cutting production in the second half through March, with auto makers world-wide suffering from faltering sales in major markets as the credit crunch deters consumers from buying cars.

Last month Toyota lowered its global production projection for the fiscal year to 7.92 million vehicles from its August forecast of 8.44 million, revising down sales projections for all regions except the Middle East.

Toyota's efforts to slash output partly affect operations at its truck-making subsidiary, Hino Motors Ltd. The truck maker said separately that it will stop all output at its Hamura plant in Tokyo on Dec. 25. It builds Toyota-brand sport-utility vehicles and trucks as well as its own brand trucks.

Meanwhile, Toyota said it cut winter bonuses for its 8,700 managers by an average of 10% from last year. The reduction in bonuses comes after the car maker more than halved its net profit forecast for its fiscal year to 550 billion yen ($5.9 billion) from 1.25 trillion yen last month.

Cost cuts helped Tata Steel's net more than triple in 2nd quarter

By Raghavendra Upadhyaya And John Satish Kumar

MUMBAI—**Tata Steel** Ltd. of India, part of the **Tata Group**, Tuesday said its consolidated net profit for the fiscal second quarter ended Sept. 30 more than tripled on the year, driven by its core steel business and cost-reduction measures.

Net profit for the July-September quarter was 47.04 billion rupees ($943.2 million), compared with 14.9 billion rupees a year earlier. Net sales increased 36% to 441.99 billion rupees.

B. Muthuraman, Tata Steel managing director, said factors that boosted profit included good cost controls and integration benefits from the company's Corus operation in Europe.

The results were sharply higher than the market expected. Mumbai-based brokerage Motilal Oswal Securities had estimated second-quarter consolidated net profit at 33.38 billion rupees.

The consolidated numbers also include the financial performance of Tata Steel's units in Singapore and Thailand and Anglo-Dutch steel producer Corus.

Mr. Muthuraman said that to weather the global economic slowdown, Tata Steel is taking steps to reduce costs and is postponing new expansion plans, although the company will go ahead with its plan to expand steel capacity at its Jamshedpur facility by three million metric tons by the end of 2010. It had earlier targeted completion for early 2011, Mr. Muthuraman said.

CORPORATE NEWS

Taiwan chip firm lowers forecast for 4th quarter

By Jessie Ho

TAIPEI—**Advanced Semiconductor Engineering** Inc. cut its fourth-quarter earnings outlook.

ASE's warning Tuesday came a day after **Taiwan Semiconductor Manufacturing** Co., the world's biggest contract chip maker by revenue, said it expects fourth-quarter revenue and operating profit margin to be lower than earlier expectations.

The chip firms' warnings highlight that semiconductor firms haven't been immune to a slowdown in demand for electronic products stemming from the global economic crisis. The news sent shares in major Asian chip firms sharply lower.

"I expect more chip companies to follow suit soon," said Jack Lu, an analyst at ABN Amro in Taipei. "No one can escape the swirl when a giant like TSMC slashes its business outlook."

ASE, the world's largest chip-testing and packaging company by revenue, said it now expects its fourth-quarter revenue to fall in the range of 25% to 28% from 25.81 billion New Taiwan dollars (US$774.3 million) in the third quarter. In October ASE predicted a 15% to 20% decline. The company also said its operating margin will likely slip to 14% to 15% in the fourth quarter from 15.1% in the third quarter.

"Market conditions in the fourth quarter by far did look worse than the company had expected," said ASE Assistant Vice President Freddie Liu.

Prior to the warning, ASE shares fell 6.6% to end at NT$10.60 in Taipei, while **Siliconware Precision Industries** Co. plunged by the 7% daily limit to close at NT$24.75. Siliconware Precision said the company is maintaining its fourth-quarter revenue forecast for now.

TSMC shares declined by their daily limit of 7% to NT$37.95. Smaller peer **United Microelectronics** Corp. fell 7% to NT$7.44. UMC maintained the fourth-quarter forecast it made at the end of October.

Late Monday, TSMC cut its revenue forecast for the October-December period to between NT$63 billion and NT$65 billion from NT$69 billion to NT$71 billion. The Hsinchu-based chip maker also cut its gross profit margin forecast for the fourth quarter to between 30% and 32% from 34% to 36%, and its operating profit margin forecast to 17% to 19% from 21% to 23%.

It was the first time TSMC cut its earnings forecast in seven years and comes as rival chip makers in Asia.

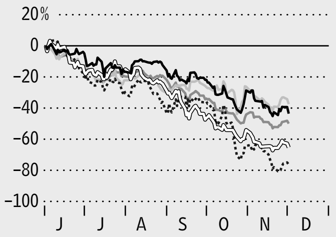
—Vincent Lee in Singapore contributed to this article.

INDEX VS. STOCKS

Asian chip makers

Six-month performance:

- Samsung Electronics, **–37%**
- TSMC, **–44%**
- Taiwan Weighted index, **–50%**
- Adv. Semiconductor Engr., **–65%**
- Hynix Semiconductor, **–76%**



Source: Thomson Reuters Datastream

Staples earnings shrink by 43%

Sales of furniture, computers decline as consumers retreat

By Andria Cheng

Staples Inc., the largest U.S. office-supplies chain, said its fiscal third-quarter profit dropped 43%, hurt by customers cutting back on purchases of furniture, computers and business machines.

Still, the results were better than Wall Street expected. Staples shares were up 88 cents, or 5.8%, at $16 in afternoon trading on the Nasdaq Stock Market.

Net income shrank to $156.7 million, or 22 cents a share, in the quarter ended Nov. 1 from $274.5 million, or 38 cents a share, a year earlier, when it took a $38 million charge for a lawsuit settlement.

Sales rose 34% to $6.95 billion, but would have declined 3% to $5 billion, excluding the effect of the company's acquisition last year of rival Corporate Express. Excluding costs related to the acquisition, profit in the latest quarter would have been 42 cents a share, Staples said.

The worsening economy both in the U.S. and Europe have led Staples' business and retail customers to postpone purchases that aren't considered urgent. Average order size has declined along with store traffic, the company said.

Staples, however, has opportunities to gain share from its smaller and weaker rivals **Office Depot** Inc. and **OfficeMax** Inc., analysts said. "Trends are really challenging right now," said Joe Feldman, an analyst at Telsey Advisory Group. "Businesses are just not spending as much. They spend on an as-needed basis. This is a very direct and honest management. They are operating as well as they can in this environment."

Staples' customers are postponing purchases they don't consider urgent.

North American delivery sales, consisting mostly of sales to business clients, rose 61% to $2.8 billion but would have fallen 1% to $1.7 billion excluding the Corporate Express purchase. Existing customers are spending less in durable categories such as furniture and business machines, the company said.

"We were impressed by relative strength of North American delivery in this challenging climate for businesses," said Standard & Poor's analyst Michael Souers. "The integration of Corporate Express should further entrench [Staples] as the market leader in this space."

North American retail sales fell 6% to $2.6 billion, and comparable-store sales fell 8%. Including $886 million of Corporate Express sales, international sales more than doubled to $1.6 billion. Excluding Corporate Express, overseas sales declined 1%. Comparable-store sales in Europe decreased 6%, hurt also by weakness in average order size and customer traffic.

CORPORATE NEWS

Associated Press

Sears Holdings posted weaker than expected results and said it may close more stores. Idella Coleman looked at decorations at a Sears store in Illinois last month.

Sears swings to a loss, considers store closings

Retailer abandons year-end forecast, citing weak economy

BY MIGUEL BUSTILLO

Sears Holdings Corp. said it may close more stores to reduce costs as a steeper-than-expected quarterly loss threatened its ability to weather the economic downturn.

Sears Holdings, the marriage of Sears and Kmart arranged by Wall Street hedge fund billionaire Edward S. Lampert three years ago, posted a net loss of $146 million, or $1.16 a share—more than twice the loss analysts had predicted. It earned $4 million, or three cents a share, a year ago. Revenue for the fiscal third-quarter quarter ended Nov. 1 declined 7.8% to $10.7 billion, from $11.6 billion a year ago.

Blaming the depressed housing market for a drop in its appliance business, and slowing consumer spending for declining purchases of household goods, the Hoffman Estates, Ill.-based retailer reported that U.S. same-store sales, or sales at stores open at least a year, dropped 9% from a year earlier. It's a bigger decline than most other retailers have suffered.

Sears Holdings raised the possibility of closing more Sears and Kmart stores in months to come, on top of the 22 store closings it recently confirmed. Citing "severe conditions in the economy," it withdrew an earlier estimate that earnings for the second half of the fiscal year ending Jan. 31 would top results of the same period last year.

The forecast, because it was based on store sales remaining flat or declining modestly compared with a year ago, is no longer valid, W. Bruce Johnson, Sears's interim chief executive, said in a statement. Mr. Johnson has been running the company, which operates roughly 3,900 Sears and Kmart stores in the U.S. and Canada, since former CEO Aylwin Lewis stepped down in January following disappointing holiday sales.

Sears Holdings has started aggressively promoting its wares online this year, and said it has seen a sales boost this holiday season because of its layaway plans, which have been popular with credit-strapped consumers. Most layaway sales won't be officially counted until this month, when consumers pay off purchases closer to Christmas, company officials noted.

The company also continues to rebuild its management ranks. It announced Tuesday that it had hired Scott Freidheim, formerly a chief administrative officer at **Lehman Brothers Holdings** Inc., as executive vice president of its operating and support businesses; Nick Coe, a former senior president of merchandising at **Gap** Inc.'s Banana Republic, to head its Lands' End wing; and Mark de Bruin, most recently an executive vice president at **Rite Aid** Corp., to lead its pharmacy division.

Still, Tuesday's dismal earnings report prompted retail analysts and consultants to criticize the lack of a cohesive growth strategy for Sears Holdings under Mr. Lampert, who is chairman. Some questioned how much longer the venerable retailer can survive when its loss of market share to nimbler rivals such as **Wal-Mart Stores** Inc., **Home Depot** Inc. and **Kohl's** Corp. appears to be accelerating.

Under Mr. Lampert, Sears Holdings has slashed capital spending to reduce costs, leaving some stores in poor repair. Mr. Lampert has played down the importance of improving same-store sales, which experts consider a vital indicator of retailer health, and aggressively spent the company's cash on repurchasing stock.

One of Sears's harshest critics, Howard Davidowitz, chairman of Davidowitz & Associates Inc., a retail consultancy, charged Mr. Lampert with making strategic blunders that have undermined the company. "Their prices have become noncompetitive," said Mr. Davidowitz. Mr. Lampert and other company officials declined to comment beyond the Tuesday earnings release, a spokesman said.

GLOBAL BUSINESS BRIEFS

Alcatel-Lucent SA

Chinese cellphone contract is valued at $230 million

Alcatel-Lucent SA unveiled a $230 million contract to upgrade **China Telecom** Corp.'s mobile-phone network, ahead of an expected investment boom from the award of third-generation licenses in China. China Telecom plans to invest 80 billion yuan, or about $11.5 billion, in the next three years to update its CDMA mobile-technology network. The contract award Tuesday suggests that France's Alcatel-Lucent is well placed to garner a share of China Telecom's future spending, albeit in the face of tough competition from Chinese gear companies **ZTE** Corp. and **Huawei Technologies** Co. Alcatel-Lucent said it is supplying base stations to deploy the network across 56 cities in nine Chinese provinces by year end. They can be upgraded to support 3G services in the future.

Bouygues SA

French building-to-broadcasting conglomerate **Bouygues** SA reported an 8.9% rise in third-quarter net profit, thanks to higher revenue, and confirmed its full-year revenue forecast. Net profit for the quarter ended Sept. 30 increased to €501 million ($631 million) from €460 million a year earlier. Last month, the company reported a 10% rise in third-quarter revenue to €8.81 billion. In the first nine months of 2008, net profit grew to €1.2 billion from €1.12 billion in 2007. Nine-month profit climbed across all of Bouygues's five main divisions except broadcaster Télévision Française 1 SA, which posted a decline on slowing activity and higher costs. Bouygues doesn't provide a divisional breakdown of profits for the third quarter. The company said it still targets 2008 revenue of €32.5 billion.

Ssangyong Motor Co.

Ssangyong Motor Co. on Tuesday said it asked its Chinese parent, **SAIC Motor** Corp., to inject emergency funds into the cash-strapped car maker. But it was unclear whether the funds would be coming, as SAIC Motor said Tuesday it hadn't received any request for funds. "SAIC will support Ssangyong's further development," an SAIC official said. "However, we have [not] heard of this...capital-injection request." A Ssangyong official said Tuesday that the company had asked SAIC Motor, which owns 51.3% of the Korean auto maker, to inject emergency funds to be used in developing new cars. Ssangyong Motor plans to launch a new small sport-utility vehicle and other new models starting next year.

Livzon Pharmaceutical Group

Livzon Pharmaceutical Group Inc. has become the first Chinese company to gain regulatory approval to buy back its B shares, raising hopes that a long-awaited revamp of the market for the foreign-currency-denominated stocks would happen soon. But analysts said the timing isn't ripe for the reform as many companies don't have the cash for buybacks, and China's securities regulator is likely to be deterred by the need to support the much larger A-share market. Livzon said in June that it intended to buy back about 10 million B shares at no more than 16 Hong Kong dollars (US$2.06) each. The company said Tuesday that it was approved to buy back up to HK$160 million (US$20.6 million) worth of its Hong Kong dollar-denominated B shares.

Volvo AB

Truck maker **Volvo** AB said its truck and construction-equipment divisions will temporarily halt production during the fourth quarter because of weakening demand. "The group's order intake has dropped substantially in several markets," Chief Executive Leif Johansson said. "Demand in Europe has slowed abruptly and the U.S. market has continued to decline from its already low level. Emerging markets in Eastern Europe and parts of Asia have also deteriorated rapidly, as has South America recently." The announcement comes after German truck maker **MAN** AG last month extended its planned production shutdown over Christmas because of a drop in demand. Volvo AB isn't affiliated with car maker Volvo, a unit of Ford Motor Co.

Thomas Cook Group PLC

Despite an increase in revenue, travel company **Thomas Cook Group** PLC posted a 9% drop in net profit for its fiscal full year because of higher costs on both its operations and its finances. In the year ended Sept. 30 net profit fell to £64 million ($95 million) from £70.3 million a year earlier, while revenue was up 12% at £8.81 billion. The bottom line was hit by finance costs of £85 million, above the year-earlier £7.9 million, as well as higher personnel and operating expenses. The year-earlier numbers are calculated as if the merger of Thomas Cook AG and MyTravel Group PLC, which was completed in June 2007, had been in effect throughout the whole fiscal year.

Teva Pharmaceutical Industries

The European Commission Tuesday extended its antitrust probe into **Teva Pharmaceutical Industries** Ltd.'s proposed takeover of fellow generic-drug maker **Barr Pharmaceuticals** Inc. by 10 working days because of commitments offered by Teva. The commission, the European Union's executive arm, wouldn't specify what the commitments were, but these usually include divestments in areas of overlap or high market-concentration. Israel-based Teva is buying New Jersey-based Barr for about $7.46 billion in an effort to boost its position in emerging markets and to expand its product portfolio. The new deadline to clear the deal is Dec. 22.

Unicredit SpA

Italy's largest bank, **Unicredit** SpA, said Tuesday it will suspend mortgage-payment requirements for 12 months without penalties for homeowners in financial difficulty. Unicredit said 260,000 homeowners whose income was below €25,000 ($31,485) at the time they took out their mortgages would be eligible for the relief in case of job loss, divorce for couples with children, or the death of a titleholder. The eligible pool comprises 30% of Unicredit's mortgages, the bank said. Italy has entered a recession, and with the economic slowdown hitting some of the country's most important industries, including tourism and autos, economists are expecting layoffs to rise sharply.

Metrocavesa SA

Spanish real-estate company **Metrovacesa** SA's main shareholder, Grupo Sanahuja, said Tuesday it had reached a debt-for-equity deal with creditor banks, who will take a 54% stake in Metrovacesa — the latest sign of how deep Spanish real-estate's downturn is going. The family agreed to cede the Metrovacesa's shares as it struggles to service its debts. Grupo Sanahuja has more than €4 billion ($5 billion) of debt, much of it generated by the building of the family's 80.6% stake in Metrovacesa. Sanahuja's main creditors include **Banco Santander** SA, **Banco Espanol de Credito** SA, **Banco Bilbao Vizcaya Argentaria** SA , **Banco Popular Espanol** SA, **La Caixa** and **Caja Madrid**, according to a person close to the situation.

Alitalia SpA

The relaunch of Italian airline **Alitalia** SpA by a group of Italian businessmen will be delayed until after Christmas to prevent travel disruptions during the peak holiday season, Italy's industry minister said Tuesday. He did not specify a date when Alitalia will officially operate under the CAI investor consortium's ownership, but the administrator overseeing the airline's bankruptcy said he would ensure Alitalia keeps flying until Jan. 12. "With all the problems we've had, this is definitely the least of them," said Industry Minister Claudio Scajola. The Italian government has been trying to sell loss-making Alitalia for more than two years. The deal with CAI was initially set to be wrapped up by Nov. 30, but it was delayed until Dec. 12 for technical reasons.

Deutsche Post AG

A state court said the former chief executive of Germany's **Deutsche Post** AG will go on trial next month on charges of evading roughly €1 million ($1.26 million) in taxes through a foundation in Liechtenstein. Prosecutors in the city of Bochum have charged Klaus Zumwinkel with avoiding taxes from 2002 to 2006 through his Devotion Family Foundation. Mr. Zumwinkel resigned from his position earlier this year after the prosecutors opened an investigation. He is the highest-profile suspect in a series of tax-evasion investigations by German citizens using banks in the small tax haven of Liechtenstein.

Edison SpA

Edison SpA, one of Italy's largest energy companies, said Tuesday it won the tender for Egypt's Abu Qir natural-gas field in a deal valued at $3.1 billion, allowing it to reach its gas supply targets. Edison said it will pay **Egyptian General Petroleum** Corp. $1.41 billion for the exploration, production and development of the offshore Abu Qir field. The Milan-based company said it estimates necessary investments at about $1.7 billion. "With this important contract, Edison will meet its medium-term target of covering 15% of Edison Group's gas needs through its own production," Chief Executive Umberto Quadrino said in a statement. The CEO added the field will allow the company to increase its own hydrocarbon reserves.

FirstRand Ltd.

South African financial-services company **FirstRand** Ltd. warned that net profit for its fiscal first half could fall by as much as 33% and said it has abandoned plans to enter the Brazilian vehicle-finance market. The Johannesburg-based company, which has a market capitalization of 82.47 billion rand ($7.85 billion), said earnings for the six months ending Dec. 31 could decline by 25% to 33% from 1.21 rand a share a year earlier, while fiscal full-year earnings per share could fall by 8% to 23% from 2.18 rand.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Journalist's beating draws Kremlin's ire

Critics say officials' new concern for media rights is a ploy to distract from financial crisis, Politkovskaya trial

By Andrew Osborn

MOSCOW—Dozens of Russian journalists have been murdered and assaulted in recent years, their fate attracting little official interest. But a brutal attack on the editor of a tiny, sporadically published newspaper has unexpectedly caught the Kremlin's eye.

Mikhail Beketov, 50 years old, a critic of local authorities in a town on Moscow's northern fringe, is recovering in a Moscow hospital after unidentified attackers beat him close to death last month, forcing the amputation of one leg. His case has received unusually copious coverage on state TV and a front-page story in the leading government newspaper, and has been taken up by a top Kremlin advisory body.

Pro-Kremlin officials say the attention shows the government is getting serious about protecting journalists. But local and international media-rights groups are skeptical. Some suspect it is a ploy to defuse social tension at a time of financial crisis and to deflect attention from the closely watched trial of murdered investigative journalist Anna Politkovskaya.

"It is such a U-turn that it's hard to believe it's sincere," says Elsa Vidal of Paris-based media watchdog Reporters Without Borders.

Even people close to the government say they have been surprised by the authorities' intense interest in Mr. Beketov's plight.

"What state does a journalist need to be beaten to before the Civic Chamber gets interested?" Oleg Mitvol, a well-known former environmental regulator, said of the Kremlin advisory body that is now monitoring the case, wondering why similar cases before had passed unnoticed.

Reuters

Last month, people stage a rally in support of reporter **Mikhail Beketov** in central Moscow

In the line of fire

2008 was another dangerous year for Russian journalists. These are some of the worst cases:

- **November:** Mikhail Beketov, an investigative reporter, is beaten close to death.
- **September:** Telman Alishayev, a TV reporter focused on Islamist extremism, is shot dead.
- **August:** Magomed Yevloyev, editor of an opposition news website, is shot dead while in police custody.
  Yuri Guselnikov, a website reporter, disappears while walking in Siberia.
- **July:** Vadim Shevtsov, a former TV reporter specializing in organized crime, disappears in Siberia.
- **March:** Gadji Abashilov, head of a local TV network, is shot dead.

Note: In total, Glasnost Defense Foundation lists 51 assaults, two disappearances, and five murders for 2008.

Source: Glasnost Defense Foundation

Members of the Civic Chamber deny their interest is motivated by anything other than genuine concern. "It's a tragic coincidence that there is so much attention to these questions now," Pavel Astakhov, a prominent lawyer and member of the advisory body, said in a phone interview. The idea that the case is part of an official campaign to improve Russia's image as a protector of journalists is "stupid," he added.

Vladimir Putin, now prime minister, and his successor as president, Dmitry Medvedev, have built solid popularity ratings thanks to eight years of economic stability. But as the global credit crunch threatens to unwind that legacy, political analysts speculate that the government is moving to remove sources of social unrest ahead of time—by allowing them to be aired.

"It's a message—not to turn people into political opponents," says Alexei Makarkin, an expert at the Moscow-based Center for Political Technologies. The Beketov case has already stirred emotion. Hundreds of protestors rallied over the weekend in his support, underlining the attack's social resonance.

Responding to the case, pro-Kremlin officials have proposed creating a new center to protect journalists and have suggested changing the law to punish their attackers more severely.

The reaction contrasts sharply with that to the murder two years ago of crusading journalist Ms. Politkovskaya. An outspoken critic of Mr. Putin, she was better known than Mr. Beketov and her articles on Russia's policy in Chechnya caused discomfort at a much higher level. Yet it took Mr. Putin two days to condemn her killing, and, when he did, he belittled her importance.

Reporters Without Borders says it suspects the furor around the Beketov case may be designed to deflect attention from the Politkovskaya murder trial that started in Moscow last month. So far, the trial has fueled doubt about the government's handling of the high-profile case.

Both the gunman and the crime's mastermind, whose identity is unknown, remain at large. Three men charged as accomplices are on trial instead; all protest their innocence. The pre-trial investigation was plagued by damaging leaks, and the trial has been marred by disputes over media access and the judge's suitability. On Tuesday, a defense lawyer at the trial said the suspected gunman had previously offered to turn himself in if he got certain security guarantees. The lawyer said the authorities had refused to provide them.

Earlier this year, Russia's Prosecutor General, Yuri Chaika, said the man has been wanted for other crimes committed in Russia since 2001. An international arrest warrant was out for him, he added, and investigators were working "vigorously" to establish the identity of the mastermind too.

International media bodies complain that dozens of Russian journalists have been murdered and attacked in the past eight years, attracting scant official interest. Mr. Beketov was targeted before, too, drawing no official response. In 2007, his car was torched, and last summer his dog was beaten to death by men wielding baseball bats.

"Nothing was investigated," says Alexei Simonov, head of the Glasnost Defense Foundation, a leading media-rights group, who advised Mr. Beketov. Mr. Simonov thinks the Beketov affair has become "fashionable" because of the sensationalist and gory detail that go with it. He says that state media are deliberately wallowing in that detail so as to avoid explaining why Mr. Beketov was targeted.

Mr. Beketov was a bare-knuckled critic of the local authorities in Khimki, a town just north of Moscow, opposing contentious road-building schemes and probing alleged fraud. His friends believe his near-fatal beating was organized to silence him.

—Daria Solovieva contributed to this article.

Reconstruction aid helps Georgia withstand global crisis

By Marc Champion And Samantha Shields

TBILISI, Georgia—As ex-Eastern bloc countries from Hungary to Ukraine stumble in the face of the global financial crisis, Georgia, which also suffered a war, has so far largely escaped. The reason: the war.

More than half a billion dollars in mainly U.S. reconstruction aid has already been allocated at high speed since the war between Russia and Georgia in August, filling holes in Georgia's budget and replacing financing for commercial and infrastructure projects that might otherwise have dried up.

Georgia hadn't run up massive deficits prior to the financial crisis.

"If there ever was a good time to have a war then this was it," said Roy Southworth, interviewed last Friday, shortly before retiring as country manager for the World Bank in Tbilisi last week.

Georgia was particularly fortunate, according to Mr. Southworth, with the timing of an Oct. 23 international donor's conference in Brussels, where countries pledged a total of $4.5 billion in aid that should help fill the gap left by an expected drop in foreign investment after the war. "The worst of the financial crisis was still a few days off—a week or two later and who knows if governments would have been so willing to pledge money," he said.

Most of Georgia's rapid economic growth in recent years has come from foreign direct investment, which made up close to 20% of gross domestic product in 2007, according to government figures. But the war has put that trend at risk.

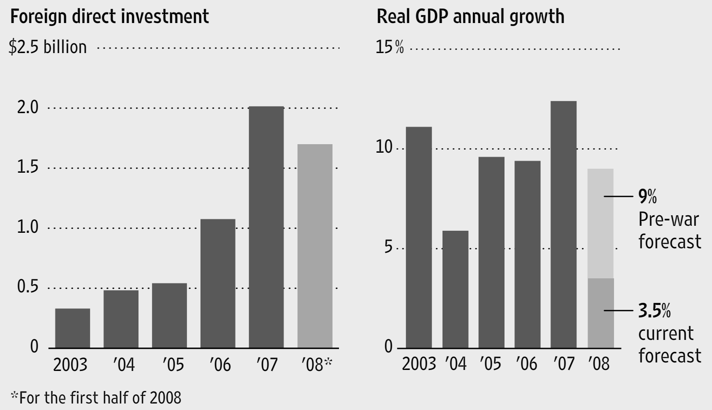
Kazakhstan said in September that it had ditched plans to build a $1 billion oil refinery in Batumi, and in October that it might consider selling its gas-distribution business in Georgia. Kazakhstan is a major investor in Georgia but must tread a fine line between balancing its interests in the country and keeping its bigger trading partner, Russia, happy.

With growth set to slow sharply to 3.5% this year from 12.4% in 2007, according to World Bank forecasts, unemployment is expected to rise, a prospect that has the government worried.

"Not a single Georgian would have wanted this money as a consequence of war," said Eka Sharashidze, Minister for Economic Development, at a signing ceremony Monday for $10.7 million in U.S. and European Bank for Reconstruction and Development grants and loans to overhaul the water-supply system in the city of Borjomi. "But this support will help Georgia get back on its feet."

Foreign lifeline

Foreign direct investment has accounted for much of Georgia's rapid growth



*For the first half of 2008

Sources: Georgian Government; World Bank (2008 GDP forecast)

Georgia's government can take credit for some of the economic stability during and after the war, said Mr. Southworth. Unlike some other East European economies, Georgia hadn't run up massive deficits prior to the financial crisis that made its currency vulnerable. The government recently said it will cut the nation's flat income-tax rate by five percentage points to 20% in January in an effort to stimulate the economy.

About $570 million of the $1 billion U.S. portion of the international aid has already been allocated, with $250 million to fill a hole in the government's budget, helping to pay politically sensitive state pensions and salaries.

Georgia also has fans in the foreign-investment community willing to wait and see. This year, the country leapt to the 15th-best place to do business in the world in the World Bank's annual rankings. As recently as 2005, Georgia ranked 112th.

Foreign investors "that already invested time or money are continuing, even if they are delayed a few months," said David Lee, general director of **MagtiCom** Ltd, Georgia's leading mobile-telecommunications company, adding that 70% of all companies in Georgia are his clients. "But the big question is—will new investors come?"

Mr. Southworth points to a slew of five-star hotels under construction in downtown Tbilisi as a bellwether for how bad the impact gets. Several seem likely to finish almost according to prewar schedules, despite the war. One, to be operated by **Hyatt International** LLC, is set to receive about $30 million in cheap finance from the U.S. Overseas Private Investment Corporation, or OPIC, part of a $176 million loan package for seven projects in late October.

"The OPIC finance is goodwill and assistance because private-equity funds won't invest in Georgia now, they won't take on the country risk or the high political risk," said Kakha Sharabidze, the Tbilisi-based CEO of **Loyal Estate**, the developer of the project.

Tata taps public for cash

Car maker will take deposits, pay interest to refinance its debt

BY NEELABH CHATURVEDI

NEW DELHI—**Tata Motors** Ltd. is seeking deposits from the public, in what could begin a trend of Indian companies calling on the country's burgeoning middle class to see them through the credit crunch.

While local banks and finance companies have always taken deposits, in recent days cash-strapped blue-chip companies have begun tapping India's large savings pools, their first such moves in more than a decade.

In a newspaper advertisement Monday, Tata Motors, India's biggest auto maker by sales, said it is accepting fixed-term deposits for the first time in 13 years, as it seeks to refinance debt it took on to buy Ford Motor Co.'s Jaguar and Land Rover brands this year.

Expanding on the plan, the company said Tuesday it is offering one-year, two-year and three-year deposits carrying interest rates between 10% and 11%. It said it could raise as much as 27 billion rupees ($541.4 million) from its deposit-taking plan.

Similar bank deposits fetch 9.5% to 10.5%.

Fertilisers and Chemicals Travancore Ltd., a state-run company, also said in a newspaper advertisement Tuesday that it is seeking retail deposits with terms similar to those Tata Motors is offering. The company's finance director declined to elaborate on how much it is seeking to raise.

"We could see an uptrend in corporate deposits in the coming days, especially from companies that have large funding requirements," said Prakash Subramanian K.V., managing director and regional head of capital markets at the Indian unit of Standard Chartered PLC. "Banks are already strained while mutual funds are still under pressure."

Corporate deposits were the rage in India among enterprises like Tata Group companies and Reliance Industries until the mid 1990s, when they lost favor as companies found cheaper sources of capital.

Indian regulations allow local entities to seek deposits without a banking license. A license is needed if a company wants to issue checks to the public.

As India's economy grew at an average annual rate of 8.8% in the past five fiscal years, share prices soared while overseas banks and financial institutions competed to lend money to Indian companies.

"Money was flowing from everywhere in the last few years for Indian companies, but the tap has now run dry," said Namrata Padhye, a fixed-income research analyst at IDBI Gilts. "There is a definite concern in the credit markets as borrowing costs for companies have not come down despite a raft of policy measures."

The Reserve Bank of India has trimmed its key lending rate, the repurchase rate, by 1.5 percentage points since October to 7.5%. It has lowered the proportion of deposits banks must set aside as cash with the central bank by 3.5 percentage points to 5.5%. And it has allowed mutual funds and nonbanking finance companies to access funds through a special liquidity window.

However, with initial public offerings and bond transactions difficult to complete, Indian companies are competing with each other for bank credit.

The pressure on the banking system may be exacerbated next year, Mr. Subramanian said. "Next year we have $80 billion of external commercial borrowings being redeemed, and on a best-case scenario, even if $40 billion of that gets rolled over or refinanced, the pressure on the banking system will still be huge," he said.

Drawing corporate deposits may also be easier at a time when most asset classes are falling.

"Bank deposit rates are unlikely to rise much from here given the soft bias in the monetary policy, while people are still averse to taking an exposure to equities," said an analyst at a local brokerage firm.

"The interest-rate pickup on corporate deposits is pretty good considering that the risk of default, especially among the large corporates, is pretty low," he said.

India's benchmark 30-stock Sensex index has shed 57% this year as foreign investors have fled.

Associated Press

U.S. Homeland Security Secretary Michael Chertoff is a new proponent of the use of 'soft power' abroad, such as foreign-aid programs and scholarships for foreign students.

New view on U.S. security emerges from Bush aide

BY CAM SIMPSON

WASHINGTON—The Bush administration's point man in protecting America against a terrorist attack says the best investment isn't just in more airport screening machines or border fences. Michael Chertoff says the U.S. should be spending more on foreign-aid programs, scholarships for foreign students and other tools of "soft power" overseas.

The message isn't new, but the messenger is. Mr. Chertoff, secretary of the Department of Homeland Security since February 2005, heads an agency known for its crackdowns on immigration and the ratcheting-up of passenger screening at airports. He spent the first three years of his tenure working to integrate the 22 agencies and roughly 200,000 employees that make up the department, which was formed after the Sept. 11, 2001, attacks.

Mr. Chertoff said he came to his views over the past six months or so, when he finally had some time to think about big-picture challenges. Now, he said, "a lasting victory in the safeguarding of the country" can be achieved only by marrying traditional security with winning "a contest of ideas, and a battle for the allegiance of men and women around the world."

It is a case that President George W. Bush's critics have pressed for years, although Mr. Chertoff is careful not to criticize his boss. The term "soft power" was coined and popularized in the 1990s by one such critic, Joseph Nye, a Harvard professor who is among the nation's pre-eminent liberal thinkers on foreign policy.

The homeland-security secretary's new views haven't had a big effect on policy at his agency, which isn't in charge of foreign policy, but he said he intends to keep speaking about the issue after he leaves office. His message resembles statements Monday by President-elect Barack Obama and others on his national-security team that the U.S. must rely on the power of its moral example alongside more traditional military means to achieve its goals abroad.

Mr. Chertoff acknowledged in an interview at his office on the campus of a former U.S. Navy station in northwest Washington that "arguing for the soft-power piece is a little bit running against type." But, he said, "I think when you are in this job, you see that you want to use all of the elements of power."

Mr. Chertoff said that in the short term, the nation is almost as secure as it can get. On a scale of one to 10, he said the U.S. is around an 8-plus. "I think in terms of the kind of short-term-to-medium-term things we need to do to maximize our ability to protect ourselves, recognizing that that's not a guarantee, I think we've gotten a lot of that done," he said.

But changing the long-term landscape, said the former federal prosecutor and judge, involves "thinking further out ahead—how do we change the dynamic?"

That is where soft power—defined by Mr. Nye as the ability of a nation to get what it wants through attraction rather than coercion—plays a role.

"I don't believe you can placate your way out of threat by terrorism," Mr. Chertoff said. But at the same time, "if you can affect the recruiting and the sympathy and the pool of people in which terrorists recruit, from a long-term standpoint, that's the effective strategy."

He said increasing exchange programs is vital, because most people who visit the U.S. carry away positive attitudes for a lifetime.

Mr. Chertoff's agency has tightened immigration control. He said the U.S. can't return to its pre-9/11 posture on border control, but he said he has worked to balance security concerns with easing access for foreign visitors and cited numbers showing that the number of foreign students is up following a sharp post-9/11 decline.

Foreign aid can also boost public perceptions of the U.S., as it did in Europe after World War II, he said, calling this "reverse-engineering of what the enemy does." Islamist extremists often provide social services in the areas where they recruit adherents, including Hamas in the Palestinian territories and Hezbollah in Lebanon.

An example cited by Mr. Chertoff and others is U.S. assistance to Indonesia following the tsunami in December 2004. He said the well-publicized relief effort, both public and private, helped boost U.S. favorability ratings in Indonesia, the world's most populous Muslim country.

Mr. Nye said he is surprised to see Mr. Chertoff arguing his case. "It is intriguing that he has taken this approach," Mr. Nye said. "One thought is: too bad it wasn't a little sooner."

Mr. Chertoff's views on fighting terrorism evolved from a bigger lesson he learned from the perch of a department charged with preventing disasters or, in the case of natural disasters such as hurricanes, lessening their impact. He said politicians are loath to invest in programs whose benefits don't appear for years. Whether it is flood-protection levees or money to change the environment terrorists thrive in, "the truth is, you are going to save a lot of money and a lot of pain in the long run if you invest on a consistent basis," he said.