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■ **Euro-zone indicators** for November slid, raising pressure on the ECB and on central banks in England and Sweden to deliver rate cuts. **Page 2**

■ **The U.K. government** will help financially stretched homeowners defer some mortgage payments for up to two years, in an effort to counter a rise in foreclosures. **Page 17**

■ **Economic activity** across the U.S. is weakening, a Fed survey shows, with few sectors spared the deepening downturn. **Page 3**

■ **Ukraine's currency** fell to a new low, as new data showed the country's population ditching the hryvnia in favor of the dollar faster than ever. **Page 3**

■ **U.S. stocks** seesawed, but ended higher, after a series of reports painted a mixed picture of the economic outlook. European shares rose. **Page 18**

■ **Infinion's quarterly loss** widened, hurt by restructuring charges and write-downs on its stake in Qimonda. **Page 4**

■ **Telecom Italia** unveiled a business plan to cut debt and trim costs that includes 4,000 additional job cuts. **Page 4**

■ **An Indian court** dismissed a challenge from a Vodafone unit that is contesting a \$2 billion capital-gains-tax bill. **Page 6**

■ **EDF offered** to pay up to \$6.5 billion for the assets of U.S. utility Constellation Energy, which has already agreed to sell itself to MidAmerican Energy. **Page 7**

■ **Harvard University's** endowment has suffered investment losses of about \$8 billion since the end of June. **Page 17**

■ **Research in Motion** cut its earnings outlook. **Page 6**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8591.69	+172.60	+2.05
Nasdaq	1492.38	+42.58	+2.94
DJ Stoxx 600	198.29	+1.09	+0.55
FTSE 100	4169.96	+47.10	+1.14
DAX	4567.24	+35.45	+0.78
CAC 40	3166.65	+13.75	+0.44
Euro	\$1.2683	-0.0037	-0.29
Nymex crude	\$46.79	-0.17	-0.36

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■ **Rice pressed Pakistan** to show "resolve and urgency" in finding those behind the assault on Mumbai as the U.S. sought to dial down tensions between South Asia's nuclear-armed rivals. Pakistani leaders are struggling to frame a response that wouldn't provoke a backlash from their own people and from the nation's military establishment. **Page 9**

■ **Thousands of Indians** rallied in the center of Mumbai, calling for answers from Indian politicians they accuse of failing to protect the public. **Page 10**

■ **The U.S. Treasury** is weighing a plan to revitalize the home market by cutting mortgage rates for new loans, people familiar with the matter said. **WSJ.com**

■ **U.S. aviation regulators** are moving to downgrade Israel's safety ranking and restrict its carriers from expanding service between the two nations. **Page 4**

■ **NATO ministers** affirmed support for U.S. plans to install missile defenses in Europe despite Russia's strong opposition.

■ **Obama's new adviser** on national security said a U.S. troop surge in Afghanistan will work only if other changes take hold there, including a strengthening of the police force. **Page 8**

■ **A French aid worker** kidnapped last month in the Afghan capital was released by his captors, Sarkozy announced.

■ **Pakistani airstrikes** and a suspected suicide attack left at least 30 dead near the Afghan border, security forces said.

■ **The number of attacks** in Iraq dropped in November to the lowest level since 2003 despite a recent spate of bombings, a top U.S. commander said.

■ **Attention in Thailand** turned to choosing a new prime minister, as protesters streamed out of Bangkok's airports. **Page 10**

■ **A suspected Basque** separatist gunman killed a businessman in the northern town of Azpeitia, Spanish officials said.

■ **An Italian judge** suspended a kidnapping trial linked to the CIA's rendition program after Rome said testimony could threaten Italy's national security.

■ **Afghanistan joined** dozens of nations in Norway signing a treaty banning cluster bombs.

EDITORIAL & OPINION

Durban II
The U.S. and Europe should skip this "anti-Semitic and anti-Western hate fest." **Page 11**

Lufthansa poised to buy ailing Austrian Airlines

Latest acquisition would involve funds from government

BY DANIEL MICHAELS

Deutsche Lufthansa AG said its supervisory board approved a plan to buy ailing Austrian Airlines AG, potentially pushing Germany's giant carrier further along one of the most ambitious airline acquisition sprees the global aviation industry has seen in years.

The Austrian government as soon as Friday could approve the deal, which values the national carrier at as much as €377.4 million (\$479.5 million) and aims to save it from collapse under mounting financial woes. A deal would require regulatory approval, in part because the Austrian government plans to spend €500 million helping to restructure the airline.

The proposed deal shows that although all airlines face big challenges from global economic upheaval and declining passenger de-



Lufthansa's plan to buy Austrian Airlines would prevent rivals from getting their hands on a close partner. Air France-KLM and Russia's S7 Airlines had shown interest.

mand, relatively strong carriers are able to capitalize on rivals' weakness. Lufthansa at the end of September had roughly €3.8 billion in cash and liquid assets on hand. It posted a nine-month net profit of

€551 million.

European airlines, including Lufthansa, Air France-KLM SA and British Airways PLC, and U.S. carriers, including Delta Air Lines Inc. *Please turn to page 31*

Suspect offers grim insights into massacre

BY PETER WONACOTT AND GEETA ANAND

MUMBAI—Shot in both arms, suspected terrorist Mohammed Ajmal Kasab, could no longer hold the AK-47 rifle police allege he had used to kill dozens of people during his three-hour rampage through Mumbai on the night of Nov. 26. So he fled the violent upheaval he had caused.

The subsequent police chase led to the death of his partner and Mr. Kasab's capture, giving authorities a wealth of insights into how a disaffected young man joined an Islamic militant group to carry out a mission of terror that left a total of 171 people dead in India's largest city.

When he was caught past midnight, near Chowpatty Beach, Mr. Kasab told police he and his partner were riding in a stolen car in search of a solitary place to remove the bullets in his arms. The two men had hoped to continue their rampage, according to Deven Bharti, a commissioner of Mumbai police's crime branch.

From repeated Mumbai police interrogations, a portrait of Mr. Kasab is emerging. He has told investigators he was from a poor family and was easily recruited two years ago by Lashkar-e-Taiba, the militant outfit that grew out of Pakistan's push for independence in India's contested region of Kashmir. In Lashkar's fold, Mr. Kasab thrived. He told investigators he passed through a succession of militant training *Please turn to page 31*



In August, Aerolíneas Argentinas employees demonstrated in favor of the renationalization of the company outside the Congress in Buenos Aires.

Latin America investments sour for Spanish companies

In recent years, Spanish companies poured money into Latin America, buying more utilities, airlines and other businesses in government auctions than firms from any other country.

Now, some of those bets are coming up lemons as Latin American

By Thomas Catan in Madrid and John Lyons in São Paulo

populist governments decry the "new Conquistadors" and seize their businesses.

On Wednesday, Argentina's Congress began debating a government-

backed bill to expropriate two airlines owned by Spain's biggest travel company, Grupo Marsans SA. Argentina wants to pay Marsans just one peso (30 cents) for the carrier Aerolíneas Argentinas and a smaller airline, Austral.

"The Argentine government has persecuted us," said Vicente Muñoz, corporate director of Marsans.

Marsans isn't the only Spanish company to be ensnared by populist economics. Oil major Repsol YPF SA, Banco Bilbao Vizcaya Argentaria SA and Banco Santander SA have seen their assets nationalized *Please turn to page 31*

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LEADING THE NEWS

Economic slump deepens

Wave of weak data presses central banks to cut rates further

BY JOE PARKINSON AND ILONA BILLINGTON

LONDON—European economic activity appeared to fall off a cliff in November, increasing pressure on the European Central Bank, the Bank of England and Sweden's central bank to deliver sharp interest rate cuts Thursday to revitalize growth.

Revised data released Wednesday showed that the purchasing managers index for the euro zone's services sector in November was lower than originally reported, falling to the lowest reading in the survey's 10-year history at 42.5, down

from 45.8 in October. A broader composite measure capturing total private-sector activity also sank to a record low. Separate figures from Eurostat, the statistical arm of the European Commission, showed euro-zone retail sales fell 0.8% in October from September and 2.1% from October 2007.

Some policy makers began warning the bloc is facing a period of deflation. Irish Finance Minister Brian Lenihan said the Irish economy faces a period of deflation in 2009, while Pier Carlo Padoan, deputy secretary-general of the Organization for Economic Cooperation and Development, stressed that deflation is "a risk that must be taken seriously."

In Britain, the purchasing managers index for the services sector, which accounts for 74% of gross domestic product, fell to 40.1 in November from 42.4 in October, the lowest level since the series began in 1996. The index for the manufacturing sector fell to a record low of 34.3, from 40.7 in October.

The gloomy news increased the likelihood that Europe's central banks will cut interest rates even more rapidly than previously expected. Analysts expect large cuts from the ECB and the British and Swedish central banks, which announce their next moves Thursday.

"The data show that the economy is clearly heading into a severe recession—in all likelihood, worse than the early 1990s," said Dominic Bryan, an economist at BNP Paribas.

Many analysts expect the ECB to lower its key rate by half a percentage point Thursday, from the current level of 3.25%. But Wednesday's economic data have added strength to the arguments of some analysts who are calling on the central bank to cut rates even faster.

"If ever there was a time to break the mold and cut by more than 50 basis points, tomorrow is it," Mr. Bryan said Wednesday.

In Britain, the gloomy news came as the Bank of England's Monetary Policy Committee began a two-day meeting on interest rates. A growing number of economists now expect the central bank to cut its bank rate to 2%, from 3% currently. A cut to 2% would be the lowest bank rate since the Bank of England was founded in 1694.

In Sweden, the central bank this week moved its regular monetary policy meeting two weeks early to Wednesday, and said it will announce the results Thursday. Many analysts expect a sharp interest-rate cut intended to spur economic activity.

—Joel Sherwood contributed to this article.

Romania's GDP jumps, but the boom is ending

BY CHRISTOPHER EMSDEN

Romania's economy expanded much faster than expected in the third quarter, even as its main trading partners in the euro zone slipped into recession. Nonetheless, recent indicators suggest the country's economic boom may be over.

Romania's gross domestic product grew 9.1% from the year-earlier quarter, the National Statistics Institute in Bucharest said. The strong performance was driven in part by 27% growth in agricultural output from the year-earlier period, when Romania experienced a drought.

Despite the strong figures, growth in private credit is slowing, the property market is seizing up, and trade flows around the region are starting to fall. Companies are announcing job cuts or production cutbacks. And new central-bank regulations calling for tougher screening of new loan applicants mean few qualify, especially for mortgages, at a time when house prices are falling, bankers say.

Last month, Mihai Ionescu, head of a Romanian exporters' lobby group, said existing orders for the fourth quarter were being cut by as much as 30%.

Forecasts for next year vary widely. The European Bank for Re-

construction and Development last week said it expects Romania's economy to grow 3.0% in 2009, down from 8.0% this year. Ratings agency Moody's Investors Services predicts a recession next year. Romanian central-bank Governor Mughur Isarescu, on the other hand, projects GDP will expand by 3% to 6% in 2009.

Romanian equity markets have shed more than two-thirds of their value this year, while short-term borrowing costs have jumped as the central bank intervened in money markets to prop up the leu. The currency has fallen around 20% against the euro since the summer of 2007.

A Nov. 30 general election produced no clear winner, and politicians are still jockeying to form a coalition. The major parties all promised tax cuts and higher public-sector wages, so next year's deficit could jump to 5.5% of GDP unless spending cuts are implemented, said ING senior economist Nicolae Alexandru. That is unlikely unless the parties compromise and form a government of technocrats.

The departing government is targeting a deficit of 2.3% of GDP this year, but many economists say it's likely to be higher. The government projects a deficit of 2% of GDP for 2009.

CORRECTIONS & AMPLIFICATIONS

Australian laws prevent any foreign entity from owning more than 25% of Qantas Airways Ltd., and foreign airlines in total can't own more than 35% of the national carrier. The total foreign holdings in Australian international airlines are limited at 49%. A Leading the News article Wednesday incorrectly said Australian laws forbid a foreign carrier from owning more than 35% of an Australian airline.

Core shareholders of Spanish property company Metrovacesa SA, the Sanahuja family, agreed on the details of a debt-for-equity deal with its creditor banks late Wednesday. A Global Business Brief in Wednesday's paper incorrectly said Grupo Sanahuja on Tuesday had agreed on a deal for the banks to take a 54% stake in Metrovacesa.

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LEADING THE NEWS



Ukraine's currency falls to crisis-inducing levels

BY GEOFFREY SMITH

KIEV—Ukraine's currency spiraled to a new low Wednesday as new data showed the country's population ditching the hryvnia in favor of the dollar faster than ever.

The former Soviet republic is entering a full-blown economic and financial crisis as global demand for steel, its main export, collapses, while Russia continues to threaten it with an ever-higher bill for its gas imports. Confidence in the politically divided government's anticrisis plan, which is backed by a \$16.5 billion loan from the International Monetary Fund, is fading as the outlook darkens.

November data released by the National Bank of Ukraine showed it had already hemorrhaged almost 80% of the first part of the emergency IMF loan within a month of receiving it. The National Bank's gross foreign reserves rose by only \$820 million in the month to \$32.74 billion, despite its receiving \$4.5 billion from the IMF through a hastily arranged stand-by arrangement.

The central bank also said it spent \$3.4 billion in foreign-exchange interventions in the course of the month to prop up the currency. From a peak of 4.50 to the U.S. dollar this spring, the hryvnia has now lost more than 60%. The dollar surged to 7.51 hryvnia on the interbank market Wednesday, above the central bank's official rate of 7.23.

The atmosphere at the country's exchange booths has become increasingly tense in recent weeks, with many running out of foreign currency, first due to the refusal of banks to comply with new central-bank regulations and then due to the sheer

weight of demand. Net purchases of dollars by the population more than doubled last month to \$2.3 billion from \$930 million in October.

Panic was further stoked by media reports earlier this week that President Viktor Yushchenko, one-time hero of the 2004 Orange Revolution, was preparing a decree ordering the forced conversion of the population's dollar deposits into hryvnia. Mr. Yushchenko denied the reports as "nonsense" Wednesday, vowing he wouldn't intervene in the NBU's monetary policy.

However, his spokeswoman, Irina Vannikova, had told a briefing earlier this week that Mr. Yushchenko would take "extreme measures" against the NBU if it failed to bring the currency crisis under control. Her comments were widely taken at the time as a veiled threat to sack the central-bank's chairman, Volodymyr Stelmakh.

Iryna Piontkivska, an economist with brokerage Troika Dialog in Kyiv, warned that the current crisis will weaken not only Mr. Yushchenko but also the parties of Prime Minister Yulia Tymoshenko, his former ally, and even the Party of Regions, the dominant force in Ukraine's industrialized and Russian-speaking east.

"Only the minority parties are gaining from this," Ms. Piontkivska said. "People are really upset with the ruling elite."

So far, mass demonstrations have been few and far between, with many of the country's industrial plants preferring to cut working hours radically rather than lay workers off entirely. However, national wage arrears have already surged to a two-year high, according to official statistics.

U.S. retail sales likely to decline, despite bump on Black Friday

BY PHIL IZZO

A bump in sales on Black Friday, the traditional kickoff to the holiday shopping season, wasn't enough to prevent November sales of apparel, luxury goods and electronics from plunging below year-ago levels, according to new data from MasterCard SpendingPulse.

The data suggest that when retailers report November sales Thursday, some chains could post double-digit drops for the four weeks ended Saturday. Sales fell 20% from a year earlier at apparel and department stores combined, 24% at luxury stores and 25% at electronics stores, according

to the MasterCard Inc. unit.

In the apparel category, sales of women's wear were weakest, falling 18%, while menswear dropped 16% and footwear fell 14%, the data show.

SpendingPulse, which tracks spending on credit cards as well as cash and checks, hadn't yet tallied the overall number for November. It also didn't break out spending at discounters such as Wal-Mart Stores Inc., which has outperformed competitors in recent months.

But its analysis indicates that "the further you go up the price spectrum, the more significant the declines" in sales, said Michael McNamara, vice president of SpendingPulse.

U.S. economy gets weaker

Tighter lending, falling sales plague almost every region

BY SUDEEP REDDY

Economic activity is weakening across the U.S., a new Federal Reserve survey shows, with few sectors or regions spared the deepening downturn.

Through late last month, nearly every area of the U.S. reported tighter lending, declining sales and manufacturing, and softening labor and real-estate markets, according to the Fed's Beige Book survey of regional economic activity. Sectors such as agriculture and energy, which until recently were bright spots, began to tarnish as commodity prices declined.

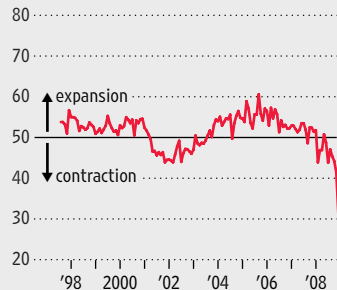
The Fed's report Wednesday followed other signs that employers are shedding jobs at a quickening pace as the economy slows.

The Institute for Supply Management's service-sector index fell 7.1 points to 37.3, a new low for the 11-year-old index. The most troubling signal from the survey of executives came in a measure of employment, which plummeted to 31.3 from 41.5. Index readings below 50 indicate contraction.

"It's ugly out there," said Anthony Nieves, chair of the ISM survey committee and a senior vice president for supply management at Hilton Hotels Corp. "It's not about doing away with the activities that were nice to have," Mr.

Contracting

The U.S. Institute for Supply Management's nonmanufacturing employment index



Source: Institute for Supply Management

Nieves said. "This is, how do we limp along until things get better? It looks like everyone is looking at all of 2009 as being this type of dismal economy."

A separate report prepared by payroll firm Automatic Data Processing Inc. and forecasting firm Macroeconomic Advisers estimated nonfarm payrolls excluding government jobs declined by 250,000 in November. Thus far this year, ADP has shown smaller payroll losses than the U.S. Labor Department, raising worries about the official government number due Friday.

Many forecasters had projected that the U.S. employment report for November will show a decline well above 300,000 jobs. Goldman Sachs economists on Wednesday downgraded their projections to show a monthly drop of 400,000, down from the previ-

ous estimate of 350,000, with the unemployment rate rising to 6.8% from 6.5%.

The Fed Beige Book found some employers reporting difficulty hiring certain skilled workers. But just about all others, including temporary-help firms, factories or retailers seeking seasonal workers, scaled back hiring. "Wage pressures were largely subdued," the report said.

Federal Reserve Bank of Richmond President Jeffrey Lacker said Wednesday that "uncertainty about the outlook is greater than usual" but the economy is still expected to "regain positive momentum sometime in 2009."

Since September, reports have indicated that "many households and firms are taking a 'wait and see' attitude, reducing or postponing nonessential outlays in response to a general sense of uncertainty about the potential meaning of these dramatic events for their own economic circumstances," Mr. Lacker said in remarks to the Charlotte, N.C., Chamber of Commerce.

Stimulative monetary policy from the Fed, lower commodity prices and a lessening drag from the housing sector should return the economy to growth, Mr. Lacker said.

Also Wednesday, the Labor Department revised its estimate of third-quarter productivity growth slightly higher to 2.1% from a year earlier, up from the earlier 2% estimate, as the number of hours worked declined more sharply than previously estimated. On an annualized basis, productivity increased at a 1.3% rate in the third quarter from the second quarter, higher than the earlier 1.1% figure.

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CORPORATE NEWS

U.S. looks to lower Israel air-safety grade

FAA also is reviewing India's aviation oversight; any downgrades could lead to restrictions on expanding service

BY ANDY PASZTOR

WASHINGTON—U.S. aviation regulators are moving to downgrade Israel's safety ranking and restrict its carriers from expanding service between the two countries, according to people familiar with the details.

Prompted by concerns about lax government oversight and a shortage of Israeli inspectors to oversee carriers, the Federal Aviation Administration has informed Israeli aviation regulators of its preliminary conclusions, these people said. No final decision has been made, and the head of Israel's Civil Aviation Administration is scrambling to set up meetings here this week that could change the outcome.

Unless an Israeli delegation persuades the FAA's leadership to alter course, the agency will deal a symbolic blow and create political embarrassment for a close U.S. ally. Specifically, the FAA will downgrade Israel to Category 2 from Category 1 under the agency's own international safety rankings.

The FAA's rankings aren't intended to gauge airline safety systems or procedures. Instead, they are focused on the adequacy of laws, regulations and day-to-day oversight of carrier operations by a specific government. If a country is placed into Category 2 under the FAA's rules, its airlines effectively are blocked from expanding services to and from the U.S. In the past, such decisions have prompted controversy in Latin America and Asia, with critics complaining that U.S. carriers bene-



Security checks are taken at Ben Gurion airport near Tel Aviv

Reuters

fit by picking up additional traffic on certain routes.

The FAA also has started a similar review of India's safety rankings under the agency's International Aviation Safety Assessment program, according to U.S. industry and government officials. That review is at an earlier stage and is expected to last several more months, but a downgrade of India would further damage tourist confidence in the wake of last week's terrorist rampage in Mumbai.

The FAA's moves underscore the problems many countries face in hiring and retaining qualified inspectors and other aviation professionals.

Without mentioning countries,

Flight Safety Foundation President William Voss said in a speech Tuesday at an FAA-sponsored conference that there are "examples of regulators nearly fading away," with "only a small handful of people doing what should be done by more than 100. We see it all over the world."

An Israeli government official familiar with the details said the recently appointed head of the Civil Aviation Administration is meeting with some FAA officials and the rating issue "obviously has been under discussion." The official said the talks "have been cooperative" but no resolution has been reached. After making a presentation at the safety conference, Bakshish Sing, an Indian aviation safety official,

said he was unaware of stepped-up FAA scrutiny.

Acting FAA Administrator Robert Sturgell declined to comment.

FAA safety downgrades have affected a number of developing countries, including Indonesia, Bangladesh, Ukraine and the Philippines, usually in the wake of fatal airliner accidents or high-profile incidents. More than 10 countries with air service to the U.S. are classified by the FAA as failing to meet basic international safety standards.

Both Israel and India were criticized for safety-oversight shortcomings in reports prepared in recent months by the International Civil Aviation Organization, an arm of the

Restricted access

Israel and India may join the U.S. government's list of countries, below, that for one reason or another do not meet its safety requirements.

- Bangladesh
- Cote D' Ivoire
- Croatia
- Ghana
- Guyana
- Indonesia
- Montenegro
- Nauru
- Philippines
- Serbia
- Ukraine

Source: U.S. Federal Aviation Administration

United Nations. The reports, according to industry and International Civil Aviation Organization officials, cite shortages of inspectors and other supervisory personnel. Israel's regulatory structure and supervision of airport operations also need to be improved and updated, according to the aviation organization's findings. The FAA rankings are largely based on compliance with the organization's standards and the findings of on-site review teams. Such an FAA team visited Israel weeks ago.

The possibility of a downgrade was earlier reported by news outlets in Israel, as well as an Israeli pilots union newsletter.

U.S. regulators briefly downgraded Israel in 1995. In recent weeks, Israel has told the FAA that it has taken steps to correct oversight deficiencies.

In the case of Israel, according to people familiar with the process, airline management and safety programs received high marks. But internal Israeli reviews previously highlighted some of the same lapses in government oversight that were documented by International Civil Aviation Organization audits, prompting a leadership shake-up inside the country's Civil Aviation Authority.

In 2007 the FAA downgraded the safety ranking of Indonesia, and in January it took the same step against the Philippines government. But often, countries are able to get back into the agency's good graces. This June, for example, the FAA reinstated Bulgaria to the agency's highest safety ranking.

Chip maker Infineon's loss swells

BY ARCHIBALD PREUSCHAT

NEUBIBERG, Germany—Chip maker Infineon Technologies AG posted a sharply wider net loss for its fiscal fourth quarter, hit by restructuring charges and write-downs on its stake in unprofitable Qimonda AG.

Infineon said it expects to post an operating loss for fiscal 2009, despite more intensive cost-cutting measures. The disclosure sent its shares plunging 40%.

Infineon posted a net loss of €763 million (\$969.4 million) for the quarter ended Sept. 30, compared with a year-earlier loss of €280 million.

Infineon's revenue rose 2.3% to €1.15 billion from €1.13 billion.

Infineon, a producer of logic chips mainly for the auto and communications industries, has a 77.5% stake in Qimonda, which makes chips for mobile phones, personal computers and notebooks—segments that have been hit particularly hard by the credit crunch.

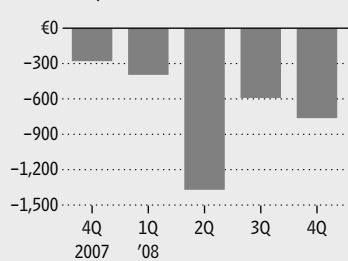
Infineon joined other peers in warning of tough times ahead. On Friday, STMicroelectronics NV, Europe's biggest chip maker, cut its fourth-quarter revenue forecast, and earlier this week, Taiwanese companies Advanced Semiconductor Engineering Inc. and Taiwan Semiconductor Manufacturing Co. slashed their outlooks for the fourth quarter.

"The financial crisis and economic slowdown have already impacted the world-wide semiconduc-

Expecting a loss

Infineon Technologies' shares dropped on Wednesday after its net loss widened sharply in the fourth quarter

Net loss*, in millions



*Fiscal year ends Sept. 30

Sources: the company (net loss); Thomson Reuters Datastream (share price)

52-week share performance



tor market," said Chief Executive Peter Bauer, adding he is concerned about prospects for coming quarters.

In response to the challenging en-

Write-downs on Infineon's 77.5% stake in Qimonda hurt results.

vironment, Infineon said it would increase its cost-cutting goal to €250 million a year from €200 million, and is considering shorter hours for its

workers and forced holidays.

The company, based in Neubiberg, Germany, said it expects revenue in fiscal 2009 to fall at least 15% from the previous year's €4.32 billion. In the current quarter, ending Dec. 31,

Total profit at the company's core business segments, which it defines as adjusted operating income, is expected to be negative for fiscal 2009, the company said. The category excludes various charges, such as asset impairments and restructuring costs.

Independent Research downgraded Infineon to sell from buy and cut its target price to €1.10 from €2.50 on the "exceptionally negative" forecast for 2009.

Telecom Italia unveils plan to cut more jobs, trim debt

BY GIADA ZAMPANO

ROME—Telecom Italia SpA Wednesday unveiled a long-awaited business plan that would allow the company to reduce its debt and trim costs through an additional 4,000 job cuts and disposals of noncore assets valued at as much as €3 billion (\$3.8 billion).

In a package of broadly expected measures, Italy's largest telecommunications company maintained a focus on its core markets, Italy and Brazil, but stopped short of announcing any aggressive moves.

The 4,000 job cuts come on top of the 5,000 announced in June. Together, the moves will reduce Telecom Italia's work force by 14%, to 55,000 from 64,000.

"The conditions that have emerged on the market and in the real economy mean it is necessary to be even more incisive in our priority of debt reduction," Chief Executive Franco Bernabè said.

Telecom Italia's net debt totaled €35.77 billion as of Sept. 30. The company pledged to reduce its ratio of debt to earnings before interest, taxes, depreciation and amortization, or Ebitda, to 2.9 times by the end of next year and to 2.3 times by the end of 2011, from about three times at the end of 2008.

"The debt target is a pretty good

one. But I don't think €3 billion in asset sales will be enough to reach it. I see a possible cut in 2008 dividends by 20% to 25%," said Gianpaolo Rivano, asset manager for GestiRe in Milan.

Mr. Bernabè declined to comment on future dividend moves and said the company will make a decision in February. Traders said the dividend uncertainty hurt Telecom Italia's share price, which erased earlier gains and was down 1.6% to €1.03 Wednesday, in an overall negative market.

Italy's former telecommunications monopoly said it will finance €4.8 billion in investments next year, when revenue and Ebitda are expected to be in line with 2008 levels. It targets average annual revenue growth of more than 2% over the plan's time span and an Ebitda margin above 39% by 2011.

Mr. Bernabè said German broadband unit HanseNet is among the assets earmarked for a possible sale. Telecom Italia said it has received expressions of interests in some of its assets but said it was too early to talk about prices.

The company also said it intends to expand its presence in Argentina by exercising its call option to increase its shareholding in Sofora SA, with the support of a local partner.

—Kathy Sandler in London contributed to this article.

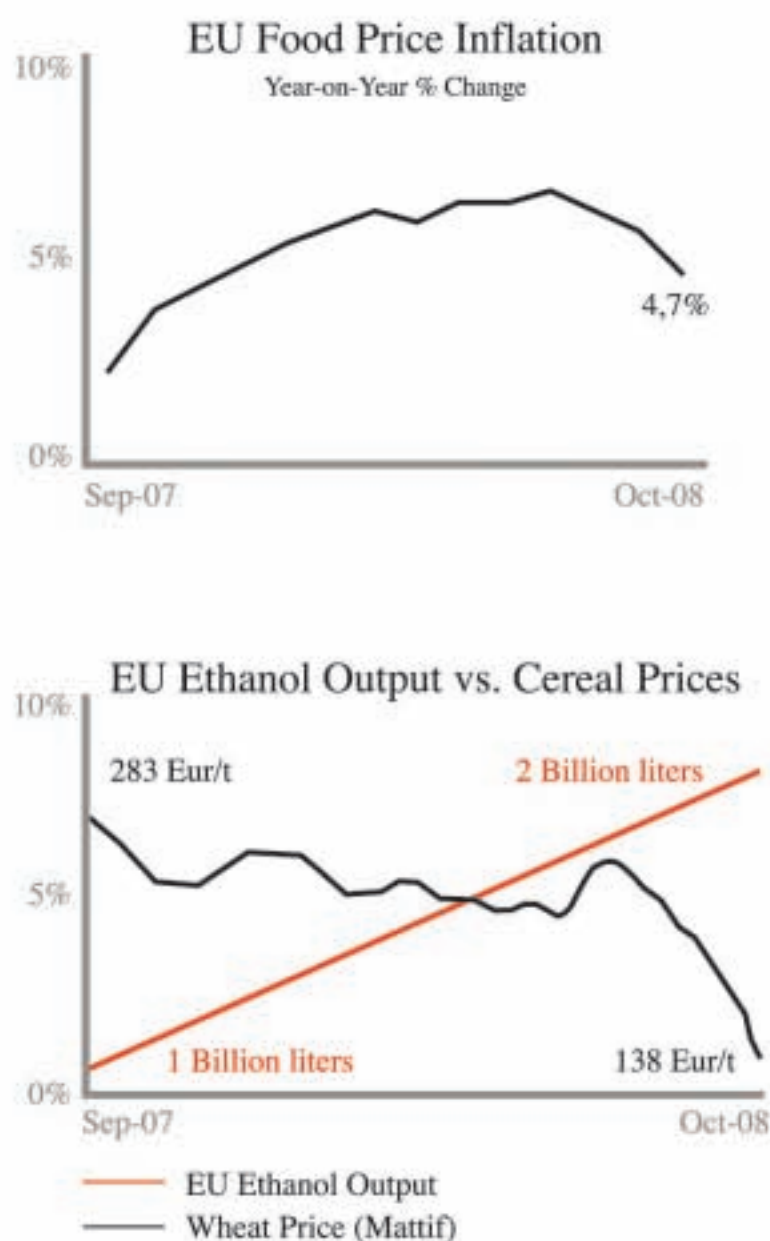
Shall Biofuels be also blamed for the economic crisis ?

Evidence shows ethanol demand for cereals is not the main factor behind food and cereal price hikes:

- Cereal prices decreased 50% in the past 12 months while EU ethanol production doubled over the same period. (*)
- EU food price inflation increased 4.7% year-on-year in October while corn and wheat prices dropped more than 50% from a year ago. (**)

(*) Sources: Ebio, Mattif

(**) Sources: Mattif, Eurostat: EU Food Price Index (HICP)



Biofuels are under attack. We dispute the claim that biofuels shall be also blamed for the economic crisis. We have decided to stand up and contest this claim with supported evidence. We believe it is the right thing to do.

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CORPORATE NEWS

A new antipiracy effort

Blackwater offers protection to ships in dangerous waters

BY AUGUST COLE

Private security firm **Blackwater Worldwide** began holding meetings in London on Tuesday with potential clients for a new business venture—protection from pirates.

The Moyock, N.C., firm, which has grown rapidly through U.S. State Department security work in Iraq, has been courting shippers and insurance firms about protecting ships in pirate-infested waters. It is meeting with more than a dozen firms this week and hopes to drum up its first contract.

There have been almost 100 attempts this year to seize ships off East Africa, fewer than half of which were successful, according to the U.S. Navy. On Nov. 30, two skiffs harassed an **Oceania Cruises Inc.** ship passing through the Gulf of Aden. Eight shots were fired at the cruise liner, which evaded the boats, according to the Miami-based company.

A chemical tanker in the Gulf of Aden was seized by pirates last week, and earlier in November pirates grabbed a Saudi tanker loaded with \$100 million of oil, which is still being held.

Navies from the U.S., India, Russia and Europe, including the British navy, have stepped up their patrols off the coasts of Somalia and Kenya and in the Gulf of Aden, but don't have the resources to protect all of the vessels that ply those waters. On Tuesday, the United Nations Security Council passed a resolution supporting a European Union naval mission to combat piracy off the coast of Somalia.

The EU said Wednesday a flotilla



Blackwater says the McArthur could be deployed to scare off pirates. The ship can carry helicopters, inflatable boats and 30 guards as well as 15 crew members.

will begin antipiracy operations off the coast of Somalia next week. The six warships and three maritime reconnaissance aircraft will replace a NATO naval force that has been patrolling the region and escorting cargo ships carrying relief aid to Somalia since the end of October.

The U.S. Navy is warning that ships need to be ready to fend for themselves. "We've made a lot of recommendations that range from keeping ladders up on the ships' sides to putting professional security teams on board," said a Navy official.

The pirates, often armed with automatic weapons and rocket-propelled grenades, have lured ships with false distress calls and even attempted assaults with fast-moving boats, according to reports from the International Maritime Bureau's Piracy Reporting Centre on recent attacks.

Blackwater already has a ship it says could be deployed abroad to scare off or even challenge pirates:

the 56-meter **McArthur**, which the company bought in 2006. It can carry two helicopters as well as rigid-hull inflatable boats favored by naval commandoes, and 30 guards in addition to a crew of 15.

"Its primary goal would be one of deterrence, that's the idea here," said a Blackwater spokeswoman. The company would prefer to keep its guards aboard its own ship because of legal uncertainties. "We would be allowed to fire if fired upon; the right of self-defense is one that exists in international waters," she said.

Blackwater's push to land its first antipiracy contract is part of a strategy to build its business outside its State Department security work in Iraq, which brings in \$300 million to \$400 million a year. There are concerns that costs and legal risks in Iraq could skyrocket because, under a new accord, foreign contractors there are set to lose their immunity from local law next year.

Roling, Unwin leave EMI Group as projects are completed

BY AARON O. PATRICK

Two senior executives have left **EMI Group Ltd.**, the troubled music company that was purchased last year by London-based private equity firm **Terra Firma Capital Partners Ltd.**, according to people familiar with the matter.

Chris Roling, the president of EMI's music division, left the company in September after completing projects there, a person familiar with the matter said. Ashley Unwin, the president of EMI music's U.K. and Irish businesses, left recently, the person said. They will not be re-

placed, the person said. An EMI spokesman declined to comment.

Both men were Terra Firma executives who worked on the acquisition of EMI. They joined EMI after the deal closed as part of an effort to stabilize the business, which was losing money amid rampant piracy in the music industry.

Messrs. Roling and Unwin couldn't immediately be reached for comment. The departures were first reported in the *Daily Telegraph*.

In July, Terra Firma Chief Executive Guy Hands appointed a former Procter & Gamble Co. manager, Elio Leoni-Sceti, chief executive of EMI's music division. Early last month, Mr. Leoni-Sceti restructured the division, splitting it into three units: new music, catalog and music services.

At Terra Firma, Mr. Roling was managing director of portfolio business, making him responsible for planning what the private equity firm would do with businesses it had purchased, according to the firm's Web site. Mr. Unwin was managing director of talent, giving him responsibility for recruiting executives for Terra Firma's businesses, the Web site says.

The latest figures available show EMI lost £414 million (\$616.8 million) in the nine months ended March 31.

To spruce up handsets, HTC buys design firm

BY NICK WINGFIELD

In a bid to create new eye-catching mobile phones, **HTC Corp.** has struck a deal that will expand the handset maker's creative team to include designers of furniture, housewares and athletic gear.

HTC of Taoyuan, Taiwan, said it has acquired an 18-person San Francisco firm called **One & Co. Design Inc.** that specializes in designing a broad range of consumer products.

Terms weren't disclosed.

Designers from HTC and One & Co. previously collaborated on several phones that helped establish HTC's reputation for producing slick-looking gadgets, including the **HTC Diamond**, a smartphone with a large touch-screen and distinctively shaped black case.

The alliance could give HTC greater access to creative talent as design and technology become more deeply intertwined in the mobile-phone market, a trend illustrated by the success of **Apple Inc.**'s iPhone.

HTC plans to let One & Co. continue to consult for clients outside the mobile-phone business. In the past, the firm has designed products ranging from snowboard boots for sporting-goods maker **K2** to a credenza for **Council Design**.

Court rebuffs Vodafone in an Indian tax case

An Indian court Wednesday dismissed a challenge from a unit of **Vodafone Group PLC**, which is contesting demands that it pay an estimated \$2 billion in capital-gains tax.

The company said it would appeal the Bombay High Court's deci-

By Raghavendra Upadhyaya in Mumbai and Kathy Sandler in London

sion to India's Supreme Court.

Vodafone International Holdings BV, a Dutch company wholly owned by U.K.-based **Vodafone Group**, has long challenged Indian tax authorities' jurisdiction to recover the tax.

The \$2 billion tax bill relates to Vodafone's \$11.1 billion acquisition of a controlling stake in mobile operator **Hutchison Essar**, since renamed **Vodafone Essar**, from Hong Kong's **Hutchison Whampoa Ltd.**

In an issue that has huge potential significance for future foreign investment in India, the Indian income-tax department argues that Vodafone is liable to pay the tax, as the 2007 transaction involved the transfer of an Indian asset and Vodafone should have withheld tax on behalf of the Indian government.

Vodafone, the world's largest mobile operator by revenue, asserts that the deal between its Dutch unit and Hutchison's Cayman Islands-registered vehicle isn't liable to be taxed in India, as it took place on foreign soil.

The dismissal Wednesday allows the Indian tax authorities the jurisdiction to investigate Vodafone's acquisition, but the Bombay High Court has given Vodafone eight weeks to file a fresh appeal to the Supreme Court, and the company said it will do so.

Until the appeal is heard, which is unlikely to be before next year, the tax authorities can't act, and if they do win jurisdiction, the process of auditing the acquisition



India is Vodafone's big growth market, offsetting the slowdown in Europe.

could take months. Even then, Vodafone has avenues of appeal, and any resolution could be some way off. The company hasn't made provisions for the Indian tax claim in its financial accounts.

Vodafone said it was disappointed by the court's decision. "It is important to note that this decision does not mean that Vodafone is liable to have deducted withholding tax on the proceeds paid by us to Hutchison Telecommunications International Group," the company said.

India is Vodafone's flagship growth market, driving emerging-market sales and offsetting the slowdown in mature European countries.

While earnings margins have come under pressure lately as more competition in India drives prices down, there are still huge penetration opportunities, and the company's revenue in the country grew 41% on a like-for-like basis in the first half of the year from a year earlier.

RIM cuts outlook on delay of rollouts, weaker demand

BY SARA SILVER

Research In Motion Ltd. was forced to lower its earnings outlook for the latest quarter, as slowing U.S. demand for older BlackBerry devices, delayed rollouts of new models and a stronger U.S. dollar combined to damp the company's growth.

The Canadian smartphone maker said it still expected sales to be 65% higher than a year earlier, however, on generally strong demand for its email devices, which now include touch screens and other features for watching videos and surfing the Internet.

RIM's lowered forecast followed a similar warning from rival **Palm Inc.** this week, as the global economic slowdown causes consumers to delay purchases of new cellphones. Those consumers upgrading to do-everything smartphones can now choose from a wider range of products, including the iPhone from **Apple Inc.** and the Google-based **G1** by **HTC Corp.**

RIM shares rose 1% to \$37.64 in afternoon trading Wednesday on the Nasdaq Stock Market after falling earlier in the session. The company issued its warning Tuesday night after U.S. markets had closed. Its shares

have lost three-quarters of their value since late June, when a booming market for smartphones pushed their price above \$140.

RIM predicted earnings for its fiscal third quarter, which ended Saturday, of 81 to 83 cents a share on sales of \$2.75 billion to \$2.78 billion. In September, RIM had projected profit of 89 to 97 cents a share and sales of \$2.95 billion to \$3.1 billion. That outlook itself was below analysts' expectations.

The Waterloo, Ontario, company has been rolling out a slew of new models to attract consumers to the work-horse devices favored by many business users. This quarter saw the introduction of the touch-screen **BlackBerry Storm**, designed to compete directly against the iPhone, and the high-speed **Bold**, whose screen is designed to enhance video viewing. But those products reached the market later than expected and coincided with the implosion of consumer demand on fears of a deep recession.

There were 2.6 million new BlackBerry subscribers in the latest quarter, up 57% from a year earlier. New subscribers reached a record level on Nov. 21, when the **BlackBerry Storm** launched in the U.S.

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CORPORATE NEWS

EDF in blockbuster bid for Constellation Energy

Firm tries to thwart Warren Buffett's bid with a big premium

BY ADAM MITCHELL
AND GERALDINE AMIEL

Électricité de France SA Wednesday offered to pay as much as \$6.5 billion for assets of Constellation Energy Group Inc., the U.S. utility that has agreed to sell itself to Warren Buffett's MidAmerican Energy Holdings Co.

State-controlled EDF, the world's biggest nuclear utility, said it would pay \$4.5 billion for 50% of the Baltimore-based company's nuclear assets. The bid values Constellation at around \$52 a share, EDF said, representing a 107% premium to Constellation's 4 p.m. share price of \$25.15 Tuesday.

In afternoon trading Wednesday in New York, Constellation's shares were up 11% to \$27.98. In Paris, EDF's shares fell to €44.34 (\$56.33), down 22 European cents.

As part of the deal, the French utility is offering to inject \$1 billion into Constellation immediately in exchange for preferred shares. EDF also said it would buy as much as \$2 billion in nonnuclear assets from Constellation.

The proposal counters a September agreement for Constellation to be sold to MidAmerican Energy, a unit of Berkshire Hathaway Inc., for \$4.7 billion, or \$26.50 a share. Constellation shareholders are scheduled to vote on Dec. 23 on whether or not to approve MidAmerican's offer.

Constellation Energy said its board would review the offer "as soon as practicable." The company also said it hasn't withdrawn, modified or qualified its recommendation for its shareholders to vote in favor of the deal with MidAmerican.

EDF already has a 9.5% stake in Constellation and a joint venture with the company, called UniStar Nuclear Energy, established to build and operate nuclear power plants in the U.S.

—Mark Long
contributed to this article.

More melamine-tainted eggs are found in Hong Kong

A WSJ NEWS ROUNDUP

Hong Kong authorities said they found excessive amounts of the industrial chemical melamine in a fourth batch of eggs from mainland China, more than a month after they last found elevated melamine levels in eggs from the mainland.

Separately, Saudi Arabia's Food and Drug Authority warned of traces of melamine in some of the milk products from Nestlé SA, the Swiss food and beverage giant.

The Saudi food regulator said on its Web site that it detected melamine in four products of China-made Nestlé milk powder and in chocolate wafers from a Malaysian company.

Nestlé defended its dairy prod-

ucts as "absolutely safe for consumption," a company representative said.

Meanwhile, European Union regulators banned imports of Chinese soy-based food products for infants and young children after melamine was found in Chinese soybean meal, the EU said on Wednesday.

Rich in nitrogen, melamine can be added to substandard or watered-down milk to fool quality checks, which often use nitrogen to measure protein levels in milk.

In Hong Kong, food-safety authorities said egg samples from northeastern China's Jilin province were found to contain 4.7 parts per million of melamine, nearly double Hong Kong's legal limit of 2.5 parts per million.

Order slowdown hits U.S. Steel; cutback to idle 13% of work force

BY ROBERT GUY MATTHEWS

U.S. Steel Corp. on Tuesday said it would lay off 3,500 salaried and union workers, or more than 13% of its 26,100 work force in North America.

The U.S.'s largest steelmaker said a falloff in orders and customers is prompting the new layoffs, the largest single number in the most recent downturn in the U.S. industry. In the past few weeks, several steelmakers, including Arcelor-Mittal and AK Steel Holding Corp., have announced production curtailments and layoffs to better match falling demand for automobiles, appliances and construction.

U.S. Steel said the layoffs will begin over the next few weeks as it idles an iron-ore-mining and -pelletizing facility in Keewatin, Minn., and two other steel plants: Great Lakes Works near Detroit and Granite City Works near St. Louis. John

Armstrong, a company spokesman, said there was no firm timeline when the plants would go back into production and laid-off workers could return to their jobs.

The latest round of cuts stems from the sudden slowdown in the world economy. Car makers, equipment manufacturers and construction companies, all big purchasers of steel, have pulled back on their orders, fearing that the buyers may not materialize given the tightening credit and overall gloom of the economy.

That has caused steelmakers to slam the brakes on output in order to keep prices from falling further. Prices for steel hovered around \$1,100 a metric ton earlier this year but have since fallen to about \$690 a metric ton.

Three weeks ago, U.S. Steel said it intended to lay off about 675 workers because of slow demand.

GLOBAL BUSINESS BRIEFS

British Airways PLC

Traffic falls 5.9% as slump keeps more people at home

British Airways PLC saw a 5.9% drop in November traffic and filled fewer seats as would-be travelers stayed home amid the increasingly grim economic environment. The airline carried 2.4 million passengers last month, 7.8% fewer than a year earlier. Premium traffic was down 11% while non-premium traffic dropped 4.8%. Even though the British flag carrier reduced its capacity by 3.1%, its passenger load factor, which measures the percentage of filled seats in plane, fell 2.2 percentage points to 74.4%. Low-cost airline Ryanair Holdings PLC, meanwhile, said it carried 4.32 million passengers in November, up 11% from a year earlier. Its load factor rose one percentage point to 79%.

MAN AG

MAN AG Chief Executive Hakan Samuelsson said he expects the current economic crisis to last longer than previous downturns, and pledged to cut costs to ensure the German truck maker and engineering company will reach its minimum return-on-sales target next year. Separately, Swedish truck maker Scania AB said it will halt its truck production at five plants in Europe for one month, starting Dec. 19, because of a drop in orders. MAN's Mr. Samuelsson said he expects the crisis to last between two and 2½ years. The company expects commercial-vehicle sales to drop around 30% in 2009 from the previous year, Mr. Samuelsson said. He said MAN will cut costs at its truck business by 30% to ensure it will reach its minimum return-on-sales target of 6.5% next year.

OAO Gazprom

Russian gas monopoly OAO Gazprom plans to invest a total of 920 billion rubles (\$32.95 billion) in 2009, part of which may be provided by the state, Chief Executive Alexei Miller said Wednesday at the launch of the company's new Bovanenkovo-Ukhta pipeline project. State funding would be cheaper than other sources, he said. About one-fourth of investments in 2009 and 2010 have been earmarked for projects on the Arctic Yamal peninsula, he said. Top Gazprom officials met with the local government in Yamal on Wednesday to launch work on the pipeline, which will transport Yamal gas into Russia's centralized gas system. Yamal is Gazprom's key source of future output as production falls at mature deposits in West Siberia. Gazprom's 2008 investment plan was approved by the state at 821.66 billion rubles.

Evrz Group SA

Russian steelmaker Evraz Group SA Wednesday said Alexander Abramov has been elected chairman, succeeding Chief Executive Alexander Frolov. Mr. Abramov will be responsible for leading the company's board and coordinating its activities. He will also ensure there is an effective dialogue with all of the company's shareholders. Mr. Frolov will be in charge of the daily management of the steel and mining divisions inside and outside Russia, as well as realizing synergies of vertical and horizontal integration between the company's businesses world-wide. Evraz said splitting the roles of chairman and chief executive will ensure the company, which is part-owned by billionaire Roman Abramovich, is best positioned to deliver its strategic and operational goals.

Anglo Irish Bank Corp.

Anglo Irish Bank Corp. Wednesday posted a 33% drop in net profit for its fiscal full year because of bad loans and investments, as well as expectations of more losses from the financial crisis. In the year ended Sept. 30, net profit plunged to €670 million (\$851 million) from €998 million a year earlier. The Dublin-based bank said it suffered unprecedented losses on its loans, chiefly to property developers and owners of commercial properties. It reported a €224 million loss from loans and a €155 million loss on failed investments, including in subprime mortgages, Icelandic banks, and collapsed lenders Lehman Brothers and Washington Mutual in the U.S. The bank deducted a further €500 million for potential loan losses.

StatoilHydro ASA

Norwegian oil and gas company StatoilHydro ASA said it reached an agreement with its six-largest partners over onshore restructuring costs and will book payments of 1.46 billion Norwegian kroner (\$207 million) before taxes in the fourth quarter. The company had been in dispute over the costs with partners Exxon Mobil Corp., Petoro AS, Total SA, Royal Dutch Shell PLC, ConocoPhillips and Eni SpA since the merger of Statoil and Hydro's ASA oil and gas activities late last year. The costs, which are lower than the originally expected 2 billion kroner, cover onshore activities on the Norwegian continental shelf. StatoilHydro said that an arbitration case brought by its partners will be withdrawn.

British Broadcasting Corp.

A planned online-television joint venture between British Broadcasting Corp., ITV PLC and Channel Four Television Corp. would restrict competition in the supply of video-on-demand services in the U.K., antitrust authorities said Thursday. The U.K. Competition Commission said in a preliminary report that the joint venture, known

as Project Kangaroo, is likely to substantially limit competition in the supply of video-on-demand content at both the wholesale and retail level. The Web-based service would give viewers access to recently aired television programs and archived content. The commission, which has suggested solutions to address the loss of competition, will hold consultations before publishing its final decision by Feb. 8, 2009.

GlaxoSmithKline PLC

Drug maker GlaxoSmithKline PLC Wednesday said it will cut 200 jobs at its manufacturing plant in Barnard Castle, northern England, over the next 12 to 18 months. The decision follows the arrival of generic competition for half of the medicines made at the site, including the antinausea treatment Zofran. A GlaxoSmithKline spokesman said the drug maker expects demand for Zofran to fall from eight million vials in 2008 to "virtually zero" in 2009. Despite the staff reduction, the plant will continue to operate and is set to receive £17 million (\$25.3 million) in investments next year, the company said.

Eni SpA

Italian oil company Eni SpA has declared force majeure on 15,000 to 18,000 barrels a day of its share of Nigerian crude output, a company spokesman said Wednesday. The move, which gives Eni legal protection for not meeting its contractual obligations to customers, follows damage to a pipeline from its Brass River oil field in the Niger Delta. The spokesman couldn't give an indication on when the force majeure would expire. Eni said it hadn't yet established the cause of the pipeline damage. The Brass facility provides crude to seven state-run Indian Oil Corp. refineries. Pipelines at the facility have been sabotaged by militant groups, causing intermittent disruptions.

—Compiled from staff
and wire service reports.

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ECONOMY & POLITICS

Broader changes urged for Afghanistan

Obama's pick for national-security adviser wants international focus on judiciary and police, not just more troops

BY NEIL KING JR.

WASHINGTON—James Jones, President-elect Barack Obama's new national security adviser, said a U.S. troop surge in Afghanistan will work only if other changes take hold there, including a strengthening of the judiciary and national police force.

In an interview Tuesday, the retired Marine Corps general said Mr. Obama's campaign pledge to move as many as 10,000 U.S. troops from Iraq to Afghanistan must mesh with a concentrated international effort to bolster government and eradicate the vast heroin trade.

"You can always put more troops into Afghanistan," he said. "But if that's all you do, you will just be prolonging the problem."

Gen. Jones's prescription for what ails Afghanistan offers a glimpse at the role he will likely play as Mr. Obama's right-hand man on national security and the top foreign-policy referee within the White House.

In announcing Gen. Jones this week as his pick to head the National Security Council, Mr. Obama emphasized the general's military and diplomatic experience. "He has commanded a platoon in battle, served as supreme allied commander in a time of war, and worked

on behalf of peace in the Middle East," Mr. Obama said Monday.

Gen. Jones will have to mediate between the likes of Defense Secretary Robert Gates and Sen. Hillary Clinton, who was nominated as secretary of state. The Obama White House also will team with such strong personalities as Rep. Rahm Emanuel, named as chief of staff, and Larry Summers, the incoming head of the National Economic Council.

For his part, Gen. Jones tends toward the sober and methodical. He said he has "every reason to believe" the team can work together. "We have a serious boatload of problems facing us and the only way out of it is for us all to pull on the same oar," he said. Gen. Jones's friends say that despite 40 years in the Marines Corps, his conversations are profanity-free. The general has a penchant for words like "holistic" and "embryonic."

Mr. Obama has often mentioned the need to turn more U.S. military attention toward Afghanistan, and describes South Asia as the biggest menace to U.S. security.

The Jones pick met with approval from European diplomats, many of whom know the general from his years in Belgium as the military head of the North Atlantic Treaty Organization. But Gen. Jones put much of



Retired Marine Gen. James Jones says a troop surge in Afghanistan will work only if an effort is also made to bolster the government and eradicate the heroin trade.

the blame for Afghanistan's deepening woes on NATO's military effort that he said "has let too many things slip through the cracks."

An internationalist at heart, Gen. Jones said the incoming administration is eager to enlist the support of Europe and the rest of the world to grapple with the challenge of Iran and its nuclear program. He said it was too early to

talk specifics on Iran policy.

Gen. Jones brings an unusual résumé to the White House post. He spoke English and French as a child in Paris, where his father was an International Harvester executive. He played basketball at Georgetown University, where he graduated from the School of Foreign Service before joining the Marine Corps. He commanded a platoon for two years in Vietnam. In the early 1980s, he served as a Marine liaison to the Senate. His boss was the future Sen. John McCain.

He also has nurtured close ties to

the Democrats, serving as a senior military assistant in the Clinton Pentagon, and then as Marine commandant. Under President Bush, he became the military head of NATO in 2003 and took charge of all U.S. forces in Europe.

Gen. Jones spent most of the last two years running an energy task force at the U.S. Chamber of Commerce, a job that he said reinforced his conviction that the U.S. "urgently needs a comprehensive energy strategy." He intends to make that quest a key part of his new job, and to enlarge the National Security Council to include a top energy adviser.

Gen. Jones also hit on a key foreign-policy theme of the incoming administration: that the U.S. must be judicious in its use of hard power. "There is power and then there is influence," he said. "If we say what we mean and do what we say, that will help forgo the classic use of power in the military sense."

The international fascination with this year's presidential election, Gen. Jones said, reinforced his view that U.S. influence isn't waning as rapidly as some critics say. "I am not ready to concede yet that American era is behind us," he said.

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Read excerpts from the interview with Gen. Jones, plus review Obama's cabinet picks so far, at WSJ.com/Politics

Richardson is Commerce nominee

BY JONATHAN WEISMAN

U.S. President-elect Barack Obama named New Mexico Gov. Bill Richardson as his commerce secretary Wednesday, adding the first Latino to his fast-filling cabinet.

Mr. Richardson had been a leading contender for secretary of state, but Mr. Obama ultimately chose Sen. Hillary Clinton for the job in a bid to heal rifts created by the Democrats' hard-fought primary battle. With Mr. Richardson's nomination, that effort continues.

Mr. Richardson had served as energy secretary and ambassador to the United Nations under former President Bill Clinton. He broke with the Clintons in March when he endorsed Mr. Obama at the height of the primary fight.

Mr. Obama, in prepared remarks, said: "Bill understands the steps we must take to build a new, clean-energy industry and create the green jobs of the 21st Century. Jobs that pay well and won't be shipped overseas—jobs that will help us end our dependence on foreign oil."

Latino and business groups praised the selection of Mr. Richardson, whose appointment requires Senate confirmation. Bruce Josten, chief lobbyist for the U.S. Chamber of Commerce, said that as head of U.S. trade missions, Mr. Richardson will be able to tap his extensive foreign-policy experience and his acquaintance with foreign leaders to help pry open new markets for struggling U.S. exporters.

Latino groups had pushed hard for Mr. Richardson's nomination to head the State Department, arguing that a strong Hispanic turnout had delivered Nevada, Colorado and New Mexico to Mr. Obama, and had helped him win Virginia as well.



President-elect Barack Obama nominated New Mexico Gov. Bill Richardson, left, to be U.S. commerce secretary.

Janet Murguía, president of the National Council of La Raza, the country's largest Latino organization, said Latinos are pleased that Mr. Richardson will be in the cabinet, and that he will be running the department that will oversee the 2010 census. Minority groups have long contended that the Census Bureau has been undercounting their ranks and have pushed for more-sophisticated statistical sampling to improve accuracy in census-taking.

The Commerce Department's domain is large and diverse. It includes the Bureau of Economic Analysis, which tracks gross domestic product, the broadest measure of economic output; the National Institute of Standards and Technology, which conducts basic

research; and the National Oceanic and Atmospheric Administration.

The Obama transition team has named La Raza's top lobbyist, Cecilia Muñoz, to a senior White House staff position. And Rep. Raul Grijalva (D., Ariz.) is a finalist for interior secretary.

Traditionally, the commerce secretary slot has gone to business executives, especially those who provided financial backing for the president's election bid. The current secretary, Carlos M. Gutierrez, had been chief executive of cereal giant Kellogg Co. President George W. Bush's first commerce secretary, Don Evans, was an oil-services company executive and one of the leaders of Mr. Bush's campaign team in 2000.

Gates seeks Congress's help in shutting Guantanamo

BY YOCHI J. DREAZEN

WASHINGTON—Defense Secretary Robert Gates said closing the U.S. prison camp at Guantanamo Bay is a "high priority," and he called on Congress to work with the new administration on legislation to make it happen.

Mr. Gates also said he is now comfortable with President-elect Barack Obama's call for U.S. combat forces to leave Iraq by the middle of 2010, after earlier questioning Mr. Obama's withdrawal timeline during the presidential campaign.

Mr. Gates, who will remain in his post in the Obama administration, was one of the first senior members of the Bush cabinet to push publicly for the Guantanamo prison's closure, but his calls largely fell on deaf ears.

Speaking to reporters at the Pentagon Tuesday, Mr. Gates said the Democratic-controlled Congress would need to craft legislation resolving legal issues before the prison could be closed. Specifically, he said the bill would have to bar freed prisoners from seeking asylum in the U.S. "I think it is possible to close it," he said of the facility, which is at a U.S. base on Cuban territory. "Trying to move forward on that, at least from my standpoint, should be a high priority."

Mr. Obama has pledged to close

the prison, but aides say it is easier said than done. The president-elect will have to make decisions on issues such as the fate of prisoners who have been approved for release, but whom no other country is willing to accept.

More than a dozen Uighurs, Chinese Muslims who were captured near the Afghan border, have been cleared of terrorism charges but remain locked up at Guantanamo because they face persecution in China and no country will accept them. A federal judge's order to free them in the U.S. is on hold while the Bush administration appeals.

Mr. Obama will also have to decide whether, and how, to prosecute "high-value detainees" such as Khalid Sheikh Mohammed, the alleged mastermind of

the Sept. 11, 2001, attacks. Central Intelligence Agency officials have acknowledged that Mr. Mohammed was subjected to waterboarding, a form of simulated drowning, and statements obtained through coercion are difficult to use in court.

Some Obama aides had speculated that Mr. Gates would remain in his post for 12 to 18 months, but he said his tenure is "open-ended," and added, "I have no intention of being a caretaker secretary."

—Jess Bravin and Siobhan Gorman contributed to this article.



Robert Gates

ECONOMY & POLITICS

U.S. presses Pakistan to aid Mumbai probe

Strains rise as India seeks terror suspects from across border

U.S. Secretary of State Condoleezza Rice pressed Pakistan to show "resolve and urgency" in finding those behind last week's brutal assault on Mumbai as Washington sought to dial down the rising tension between South Asia's nuclear-armed rivals.

India is demanding Pakistan hand over about 20 suspects in the

By Jackie Range in New Delhi, Matthew Rosenberg in Mumbai, and Zahid Hussain in Islamabad

wake of the terrorist attacks on Mumbai, which killed 171 at latest count. India claims the attacks originated in Pakistan, with a terrorist group that was outlawed in 2002 but still operates openly there.

Pakistani leaders are struggling to frame a response that wouldn't provoke a backlash from their own people and, perhaps more importantly, the country's powerful military establishment.

Even among moderate Pakistanis, sending suspects to India—a country that has fought three wars with Pakistan—could provoke widespread outrage.

Pakistani leaders also have to deal with the Pakistan's Islamist militants, such as the Taliban, who have volunteered to stop battling Pakistani soldiers and instead fight alongside them if a conflict with India breaks out.

Pakistan needs to "cooperate fully and transparently," Ms. Rice told reporters in New Delhi. "I know too this is a time when cooperation of all parties who have any information is really required."

Though India and Pakistan are both U.S. allies, their traditional enmity and distrust make for a massive challenge for Ms. Rice in the twilight of her term as secretary of state. The U.S. has long been an ally of Pakistan's—a relationship enhanced in the aftermath of the 2001 terrorist attacks in the U.S. But in recent years, the U.S. has moved much closer to India after decades when India tilted



Indian Foreign Minister Pranab Mukherjee, right, didn't rule out a military response to last week's terror attacks in Mumbai, but U.S. Secretary of State Condoleezza Rice, left, said any response must avoid 'other, unintended consequences or difficulties.'

closer to the former Soviet Union.

Ms. Rice said any response to the attacks "needs to be judged by its effectiveness in prevention and also by not creating other, unintended consequences or difficulties."

The two countries seem further apart now than they did immediately after last week's attacks. India initially referred to the terrorists coming from Pakistan only in veiled terms, while Pakistan's senior leaders condemned the attacks and pledged cooperation.

But as India gathers what it says is firm evidence that the attacks were launched from Pakistani soil, Pakistan has become more prickly. Islamabad says it has yet to be presented with any evidence the attacks were launched from Pakistan and now is disputing Indian claims that the one captured terrorist hails from there, despite what Indian authorities say is his extensive testimony about his upbringing in Pakistan.

India also has firmed up its rhetoric in the past couple of days. On Tuesday, an official at the Ministry of External Affairs told diplomats in New Delhi that it wasn't massing troops at the border, according to a diplomat who attended. But Tuesday night on Indian television and again with Ms. Rice Wednesday, India's For-

eign Minister Pranab Mukherjee emphasized New Delhi's right to protect its territorial integrity.

Ms. Rice's effort to ease India's concerns were matched on the other side of the border by Adm. Mike Mullen, the chairman of the U.S. Joint Chiefs of Staff, who spent six hours Wednesday meeting with top Pakistani military and civilian officials in Islamabad. He "encouraged Pakistani leaders to take more—and more concerted—action against militant extremists," the U.S. Embassy said in a statement following the meetings.

India has blamed Lashkar-e-Taiba, a Pakistani Islamist militant group, for the terror attacks at a pair of upscale hotels, a train station, a Jewish center and other targets.

Lashkar-e-Taiba has been blamed for a slew of earlier attacks on India and allegedly took part in a 2001 assault on the country's Parliament that left 15 people dead and brought India and Pakistan to the brink of war. That is a scenario the U.S. is desperate to avoid, especially with India now refusing to rule out military action.

India is "determined to act decisively to protect India's territorial integrity and the right of our citizens to a peaceful life with all the needs

at our disposal," said Mr. Mukherjee at a joint news conference with Ms. Rice. "There is no doubt that the terrorists' attack in Mumbai were perpetrated by individuals who came from Pakistan and whose controllers are in Pakistan."

U.S. officials have said the evidence—a confession from the sole captured terrorist, phone intercepts and other intelligence—points to Lashkar-e-Taiba, which is believed to have links to al Qaeda and elements in Pakistan's Inter-Services Intelligence spy agency. Pakistan denies providing any support for Lashkar-e-Taiba.

The U.S. is working with India to find the attackers and is "actively engaged in information sharing, in forensic help," Ms. Rice said.

But she stopped short of placing blame Wednesday. "Whether there is a direct al Qaeda hand or not, this is clearly the kind of terror in which al Qaeda participates," she said.

Pakistani President Asif Ali Zardari has pledged to fully cooperate with India in finding the perpetrators, and his foreign minister has offered to set up a joint investigation. Ms. Rice said the U.S. plans to hold them to their word. "I'm going to take as a firm commitment Pakistan's stated commitment to get to

the bottom of this and to know that these are enemies of Pakistan as well as they are enemies of India," she said.

How far Mr. Zardari can go in pursuing the perpetrators remains an open question. Any move against Lashkar-e-Taiba by his shaky government, Pakistan's first civilian government in nearly a decade, could create a huge backlash from Islamist students marched in Islamabad on Wednesday shouting anti-U.S. and anti-Indian slogans.

A top Pakistani security official said among the militant leaders who would stand by Mr. Zardari's government in the event of war with India is Baitullah Mehsud, the man accused of assassinating Mr. Zardari's wife, former Prime Minister Benazir Bhutto, in December 2007. Mr. Mehsud has denied involvement.

In a reflection of the military's ambivalent relationship with militants, particularly when India is concerned, the official said: "We have no big issues with Mr. Mehsud. There are some misunderstandings which can be resolved."

The extradition of suspects to India would be highly provocative in Pakistan. "Send a Pakistani to face Indian justice? No, no, that will not do," said a retired Pakistani general who lives in Rawalpindi, the garrison city on the edge of Islamabad where Pakistan's vast military establishment is centered.

The general, who said he maintains close contact with his former colleagues, said the military is taking a wait-and-see approach to the investigation and India's demands for cooperation. "We are not prejudging anything," he said. But, he cautioned: "the president has to be very careful. This is a delicate time."

The sensitivity of the situation seems to be reflected in Pakistan's seemingly ever-changing response to India's demands. First, Islamabad said it would send its spy chief to aid in the investigation but then said only a lower-level official would go at some point. Now Mr. Zardari is balking at India's demand to turn over suspects.

"If we had the proof, we would try them in our courts and we would try them in our land and we would sentence them," Mr. Zardari said on CNN's "Larry King Live."

Police allege accomplice's role

Some 10 months before the Mumbai attacks, an Indian Muslim working for Lashkar-e-Taiba was examining some of the sites that would later be struck, according to Indian police. His story may provide clues to a mys-

By Matthew Rosenberg, Peter Wonacott and Yaroslav Trofimov

tery puzzling investigators: How 10 outsiders managed to operate with such ease in Mumbai, displaying detailed knowledge of their targets.

The Indian operative, Faheem Ahmed Ansari, was arrested Feb. 10 in Rampur, in the northern Indian state of Uttar Pradesh. He was apprehended along with two other alleged Lashkar-e-Taiba members who are believed to have aided in a gun and grenade attack on a police station on New Year's Eve, killing several officers.

Found in Mr. Ansari's possession was a list and maps identifying nine

locations in Mumbai, all of them in the southern part where last week's attacks took place. Some of the places had been sketched. He had basic layouts drawn up for a few others, including the Taj Mahal hotel and the train station, said Amitabh Yash, a senior officer in the Special Task Force of the Uttar Pradesh police.

A member of India's 150 million-strong Muslim minority, Mr. Ansari grew up in the Motilal Nagar slum on the edge of Mumbai, Mr. Yash said. In 2005, he took a job as a mechanic at a printing press in Dubai. That's where investigators believe he encountered Lashkar-e-Taiba recruiters.

A year later, he was handed over to another set of Lashkar members in the United Arab Emirates city of Al Ain, on the border with Oman, and then traveled to Karachi, Mr. Yash said.

Once in Pakistan, Mr. Ansari traveled to a Lashkar camp in Muzaffarabad, the capital of the Pakistani-con-

trolled part of Kashmir. There he met Yusuf Muzammil, accused by India of orchestrating the Mumbai attacks, and was trained in combat techniques, a senior Indian police official said. The terror suspect captured in the Mumbai attacks, Mohammed Ajmal Kasab, told investigators he underwent his own preparation in that camp.

In the fall of 2007, Mr. Ansari told police he flew to Nepal and then crossed into India by land and made his way to Mumbai by bus and train. In Mumbai, he rented an apartment, signed up for a computer course and got a driver's license, Mr. Yash said. He stayed until early February, reconnoitering targets; then after a brief trip to Nepal to meet his Lashkar contact, went to the north Indian state of Uttar Pradesh.

Acting on a tip, police arrested him and other suspected militants Feb. 10. Mr. Ansari remains in police custody in Mumbai.

Official implies U.S. response to attacks would be more effective

By CAM SIMPSON

WASHINGTON—U.S. Homeland Security chief Michael Chertoff said it is impossible to completely stop armed attacks such as last week's assault in Mumbai, but he suggested the American response to such an attack would be more effective.

Mr. Chertoff told reporters Wednesday that the Federal Bureau of Investigation and Department of Homeland Security are preparing a report on "lessons learned" from the Mumbai attacks for police departments and others across the U.S.

The homeland-security chief noted that mass violence by armed men has been a fact of life in the U.S. for decades, whether the killers have been crazed loners, students or ideological extremists.

"Let's remember, we have lived

in this country with people who pick up guns and kill other people for as long as I remember, and probably for decades before that," Mr. Chertoff said. "You're not going to prevent that from happening 100%."

He said the U.S. has integrated prevention, mitigation and response to terrorist attacks through a single entity—namely his department, which was formed after the Sept. 11, 2001, attacks in New York and Washington.

That was an implicit comparison to India's efforts, which have drawn criticism for being poorly mounted and poorly coordinated. The assaults on two luxury hotels and other targets in Mumbai by terrorists wielding guns and grenades started Nov. 26 and stretched until Saturday, when the attackers were killed or captured. More than 170 people were murdered.

ECONOMY & POLITICS

Investment in India will continue

While projects slow, companies say effect of attacks won't last

BY SANTANU CHOUDHURY

Last week's terror attacks in Mumbai, India's business and financial capital, won't halt major investments from local and overseas manufacturing companies but may prompt some to defer projects by a few months to reassess security risks, executives and analysts said.

The three-day siege in Mumbai left at least 171 people dead, including foreign nationals. Analysts expect the attacks will further damp business sentiment, already weak because of the global economic slowdown. In the wake of the attacks, executives of multinational companies and tourists have curtailed travel to India and some countries have issued travel advisories.

But companies and executives said India is unlikely to suffer a sustained impact on foreign direct investment, as its growth prospects remain strong. Investors doing business in the South Asian country have also long taken into account the risk of a terrorist attack.

Companies in sectors like steel, automobiles and textiles had already announced production cuts to cope with slowing demand in the Indian market and overseas. The worsening global credit crunch has also reduced availability of funds and increased the cost of funding.

"Our [investment] plans remain unchanged," said P. Balendran, vice president of General Motors Corp.'s local unit. Mr. Balendran said sales



A worker at the GM plant in Pune, India

"are going to get more impacted" after the terror attacks because market sentiment is down. "But, I think it will be a temporary aberration and the medium- to long-term story of India remains intact," he said.

GM has two factories in India, including one in the western state of Maharashtra, whose capital is Mumbai. The Maharashtra plant, built with an investment of about \$300 million, began production in September to supplement an existing factory in the western state of Gujarat.

GM is also investing \$200 million to construct an engine and transmission plant adjacent to its car factory in Maharashtra. The engine plant is to open in early 2010.

Separately, Volkswagen AG, Europe's biggest auto maker by sales, said it will proceed with a €580 million (\$736.9 million) investment in India despite the terrorist attacks and a slowdown in the local vehicle market.

"We continue to invest in India

as planned before," said Kurt Rippholz, Volkswagen Group's head of communications for India. "There are no changes."

Volkswagen is building a car factory in Maharashtra. The plant is scheduled to start operations in the spring of 2009 and expects to have annual capacity of 110,000 vehicles.

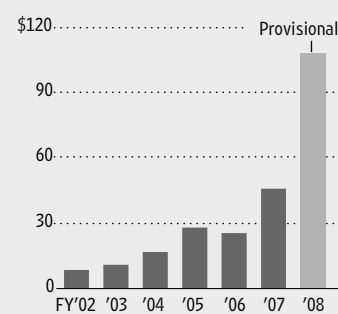
GM, Volkswagen, Toyota Motor Corp. and other auto makers have announced combined investments of more than \$7 billion in India on expectations that an expanding economy and rising incomes will boost car sales. But, higher loan rates and lack of financing have forced prospective customers to defer new-vehicle purchases this year.

Car sales in October dropped 6.6%, the biggest percentage decline since July 2005. Sales fell in three out of four months since July.

Declining sales led Tata Motors Ltd., Maruti Suzuki India Ltd., Ashok Leyland Ltd. and other auto makers to cut production. Steel pro-

Growing money

India's total capital inflows, in billions of dollars



Note: Fiscal years end March 31 of year shown

Source: Reserve Bank of India

ducers such as Tata Steel Ltd. and JSW Steel Ltd. have also announced production cuts amid the continuing global economic slowdown.

Mahesh Patil, who oversees the equivalent of \$8 billion in assets at Birla Sun Life Asset Management Co. in Mumbai, said "Tourism and aviation could see some impact but I don't think there will be major delays or cancellations in projects unless there is a big security risk."

Manufacturing output in India grew 5% from a year earlier during the July-September period, lower than a 9.2% increase last year. Manufacturing and services together account for more than three-quarters of India's more than \$1 trillion economy.

Weak manufacturing activity hindered India's gross domestic product growth. GDP grew 7.6% in the July-September period, the slowest expansion pace in almost four years, down from 9.3% growth a year earlier.

Indian protesters assail politicians for lack of security

BY NIRAJ SHETH AND TARIQ ENGINEER

MUMBAI—Thousands of Indians congregated near the iconic Gateway of India and burned-out Taj Mahal Palace & Tower hotel Wednesday, shouting nationalist slogans and angrily calling for answers from an Indian political establishment they accuse of failing to protect the public.

Amid groups holding candlelight vigils for victims of last week's terrorist attacks, protesters marched in the streets with signs reading "Enough is Enough" and "Politicians are a bigger threat, not terrorists." Chants of "Long Live India!" and "Death to Pakistan!" rang in the air. India says the attackers arrived from Pakistan.

As the marches took place, police said they had found and defused two unexploded bombs at the Chhatrapati Shivaji Terminus train station where two terrorists went on a killing rampage one week ago. The bombs were discovered in luggage amid piles of bags left behind at the station.

Terrorists are believed to have planted a bomb in a taxicab they took after arriving in Mumbai last Wednesday in what police say was an attempt to erase their steps once they had left the car. The bomb exploded and killed the taxi driver.

The station has reopened since the attacks, and it was unclear why it took until now for the bombs to be discovered. A Mumbai police spokesman couldn't immediately be reached for comment.

In the days since the attacks on the city killed 171 people, Indian politicians as a group have come under fire from the media and the public. Many protesters on the streets Wednesday said they were furious with Indian politicians in general, regardless of whether they were from the ruling Congress party or the opposition Bharatiya Janata Party.

"Why has no one shot the chief minister?" asked Meghna Kadakia, a 26-year-old in Mumbai's film industry. "These people should be slaughtered to death."

An estimated tens of thousands of people participated in the rally, though no official tally was available from the police. Crowds blanketed the cordoned-off streets in the city's Colaba neighborhood, epicenter of last week's attacks. They included young and old, rich and poor, Hindu and Muslim, and some figures from Bollywood, Mumbai's popular film industry.

The number of protesters and the emotionally charged atmosphere were surprising, people at the rally said. "This is the first time since the Emergency I have seen people like this," said Pankaj Bhatia, a 55-year-old insurance agent from Mumbai, referring to former Prime Minister Indira Gandhi's declaration of a state of emergency in 1975 to secure her position in power.

People who attended the rally said they had heard of the protest by word of mouth, emails, social networking sites and text messages.

One protester singled out the government's bungled response after the strikes began. "It shouldn't have taken nine hours" for the National Security Guard to arrive, said Kunal Sayani, a self-employed businessman, referring to the Indian strike force. The 26-year-old said the attacks have motivated him to vote for the first time in the coming general elections.

Thais turn focus to choice of new premier

BY PATRICK BARTA

BANGKOK—With antigovernment protesters streaming out of Thailand's main airports after an eight-day siege and the courts having ousted the premier, attention has turned to the next potential flashpoint: Choosing a new prime minister.

The decision could come as early as next week, as members of three political parties dissolved Tuesday by a Constitutional Court for election violations, maneuver to build a new ruling coalition much like the last one. The court also banned then-Prime Minister Somchai Wongsawat and some of his allies from politics for five years, forcing the premier to step down. The newly disbanded political parties were accused of engaging in electoral fraud in a parliamentary election in December 2007 that brought to power the coalition government.

Many elected representatives who backed Mr. Somchai's ruling coalition weren't disqualified and remain members of parliament. They are now reorganizing in newly minted political parties and plan to form a new ruling coalition similar to the one that previously controlled Thailand's legislature.

Forming a similar coalition could plunge Thailand into another paralyzing cycle of protests. Protest leaders, believed to have the backing of Bangkok's social and business establishment, have threatened to resume their demonstrations if the



Protesters at Bangkok's Suvarnabhumi international airport wave a giant Thai flag in celebration of a court decision to oust their premier, ending an eight-day siege.

same Thaksin-backed political parties return to power in a new guise.

This past week, thousands of antigovernment demonstrators occupied Bangkok's two main airports, demanding the resignation of Mr. Somchai and his allies. Since August, other protesters had occupied Government House, Thailand's administrative headquarters in Bangkok.

The protesters accused Mr. Somchai's government of being a corrupt proxy for former populist Prime Minister Thaksin Shinawatra, a telecommunications tycoon-turned-politician who was deposed in a military

coup in 2006. Although he is now in self-imposed exile, he is widely believed to control the dominant parties of Thai politics. Mr. Somchai is his brother-in-law.

After Tuesday's court ruling, the anti-Thaksin protesters agreed to lift their airport sieges, which have severely damaged Thailand's image as a premier tourist destination and cost exporters several hundred million dollars in disrupted trade.

Fears of renewed protests center on the men seen as possible new premier: Thai Health Minister Chalerm Yubamrung and former Deputy

Prime Minister Mingswan Sangsuan. Both are viewed as Thaksin allies. Whatever happens, asserted a politician involved in discussions on a new government, Mr. Thaksin "will be the one who decides who is the next prime minister."

Meanwhile, protesters left Bangkok's airports without serious incident on Wednesday. Aviation officials said they hoped to resume full services at Suvarnabhumi, the main international airport, as soon as possible, perhaps as early as this week. Even with the resumption of some flights, it could take a week or longer to get the more than 350,000 stranded travelers on flights out of the country.

Authorities are beginning to react to concerns over the economic fallout of the airport siege. The Bank of Thailand slashed its main interest rate by a full percentage point to 2.75% Wednesday, far more than market participants had anticipated, signaling that the central bank fears a sharp slowdown in economic growth. Already, official projections of a 4% expansion in gross domestic product in 2009 are being revised down.

Officials have said they fear tourist arrivals next year could fall by half, putting a million or more jobs in the tourism industry at risk. Even if the decline isn't that drastic, hotels and resorts already have seen a spike in cancellations for the peak year-end holiday season.

—Costas Paris
contributed to this article.