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■ **Microsoft remains keen** to buy Yahoo's search business, but no new talks are underway, CEO Ballmer said. Page 29

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8376.24	-215.45	-2.51
Nasdaq	1445.56	-46.82	-3.14
DJ Stoxx 600	197.40	-0.89	-0.45
FTSE 100	4163.61	-6.35	-0.15
DAX	4564.23	-3.01	-0.07
CAC 40	3161.16	-5.49	-0.17
Euro	$1.2734	+0.0051	+0.40
Nymex crude	$43.67	-3.12	-6.67

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World-Wide

The U.S. lost half a million jobs in November, the largest one-month drop since 1974, as employers brace for a recession that is expected to stretch through much of 2009. Nonfarm payrolls declined 533,000 for the month. Obama's stimulus plan would dole out a half-trillion dollars over two years on tax-rebate checks and an array of "green" projects. Pages 16-17

■ **Pakistani officials said** a bellicose phone call to President Asif Ali Zardari from India's foreign ministry on Nov. 28 prompted Pakistan to put its air force on high alert for 24 hours, but India's foreign minister said the call was a hoax.

■ **Gunmen stormed** a transport depot in Peshawar, Pakistan, destroying scores of vehicles destined for NATO troops in Afghanistan, officials said.

■ **A shootout between police** and Taliban fighters in southern Afghanistan left nine militants dead, an official said.

■ **Rioters rampaged** through Athens and the northern city of Thessaloniki after protests against the fatal police shooting of a teenager erupted into chaos.

■ **Czech ruling right-of-center** Civic Democratic Party Sunday re-elected Prime Minister Mirek Topolanek as its chairman.

■ **China strongly protested** French President Nicolas Sarkozy's meeting with the Dalai Lama, calling it a "rude intervention" into Chinese affairs.

■ **Armed robbers**, some dressed in drag, made off with about $100 million in loot from a jewelry-store theft in central Paris.

■ **European supermarkets** were ordered to clear their shelves of Irish pork products on concerns they may contain toxic dioxins.

■ **Foreign troops** should prepare to intervene in Zimbabwe and Mugabe should be investigated for crimes against humanity, Kenya's prime minister said.

■ **Rice said** Zimbabwe's cholera outbreak endangered all of southern Africa and the global community was failing the country.

■ **Ghana's voters flocked** to the polls in Sunday's presidential elections, testing the nation's reputation as a democratic role model for the continent. Page 12

EDITORIAL & OPINION

Hope for Zimbabwe
If Africa's leaders are really tired of Mugabe's act, they might force him out. Page 13

GM chief's job in danger as bailout gains support

Key senator echoes industry sentiment; 'auto czar' debated

By John D. Stoll in Detroit and Matthew Dolan and Greg Hitt in Washington

Reuters

United Auto Workers President Ron Gettelfinger, left, and GM Chief Executive Richard Wagoner talked before the start of a congressional hearing last month.

Now that Congress appears to be moving forward with at least an initial injection of federal money for **General Motors** Corp. and **Chrysler** LLC, the two troubled auto makers are under pressure to push ahead with tough measures to change how they do business—including the possible replacement of GM Chairman and Chief Executive Rick Wagoner.

Sen. Chris Dodd (D., Conn.), a key supporter of aid for Detroit, suggested Sunday that Mr. Wagoner should go as part of any broader bailout package. "I think you've got to consider new leadership," the senator said on CBS's "Face The Nation" talk show. "If you're going to restructure, you've got to bring in a new team to do this," he said. "I think [Mr. Wagoner] has to move on."

Although GM's board has voiced strong support for Mr. Wagoner in the last few days, Mr. Dodd's comments echoed the sentiment that a handful of influential auto executives have been expressing to Congress in the last few weeks, people familiar with the matter said.

Some of Mr. Wagoner's perceived allies in Detroit, including United Auto Workers President Ron Gettelfinger, are expected to keep silent on debates over management, according to people familiar with the situation. While Mr. Gettelfinger has been publicly complimen-

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Reuters/Itar Tass

A portrait of Gurbanguly Berdymukhamedov overlooks a racetrack in Ashgabat, but the legacy of the Turkmen president's predecessor still looms large over the nation.

In gas-rich Turkmenistan, autocrat's legacy won't die

By Guy Chazan

ASHGABAT, Turkmenistan—When it came to dismantling the legacy of Turkmenistan's egomaniacal dictator, it was easy to know where to start: January.

The late President Saparmurat Niyazov—a k a Turkmenbashi, or Leader of the Turkmen—had renamed the month after himself and April after his mother, Gurbansoltan. He called September "Ruhnama," after a spiritual guide he wrote, which was required reading for residents of this resource-rich Caspian nation of five million.

This summer, the 51-year-old dentist who took over soon after Turkmenbashi's death in December 2006 restored the calendar's old names. His subjects, who had struggled with the new ones, breathed a sigh of relief.

Soon, Turkmenbashi's bans on certain cultural pursuits—such as the opera and the circus—were lifted. Children were no longer forced to study the "Ruhnama" at school, nor were civil servants tested on their knowledge of it.

But some aspects of his legacy have proven harder to uproot. Take the huge golden statue of Turkmenbashi in the center of Ashgabat that

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Merrill board, Thain at odds over his bonus

By Susanne Craig

Merrill Lynch & Co. Chairman and Chief Executive John Thain is at odds with some of the battered securities firm's directors over whether he deserves a bonus for 2008, according to people familiar with the matter.

Mr. Thain, who took over at Merrill last December but then arranged the shotgun sale of the 94-year-old company to **Bank of America** Corp. in September, has suggested informally to directors on the compensation committee of Merrill's board that he get a multimillion-dollar bonus, these people said. As directors began weighing the issue earlier this year, they received a proposal from Merrill suggesting he be paid in excess of $30 million. It isn't known if Mr. Thain knew of this first approach. Since then, he has directly approached some directors to make his case for a sizable bonus, albeit lower than $30 million.

Some Merrill directors are resistant, and the compensation committee is inclined to deny Mr. Thain and other top Merrill executives any bonus for this year when the committee and full board meet Monday, people familiar with the situation said. No final decision has been made,

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THE WALL STREET JOURNAL.

LEADING THE NEWS

Clock is ticking for EMI

Private-equity buyer may need to add cash to avoid loan default

By Aaron O. Patrick and Dana Cimilluca

Time may be running out for Guy Hands, the British private-equity chief who bought **EMI Group** Ltd. in one of the last big deals before the credit crunch.

EMI is entering a crucial phase. The music company needs to generate enough cash to satisfy its banker, Citigroup, by March. And it needs strong sales over the holidays and early 2009 to revive its weak music division.

Both could be tough to achieve. EMI's CD lineup for Christmas, the busiest period of the year for music sales, doesn't look strong with releases such as an album of new songs from Tom Jones and a Coldplay album that includes songs that didn't make it onto the band's last hit, "Viva La Vida."

Mr. Hands' investment company, Terra Firma Capital Partners Ltd., in March may have to inject additional cash into EMI to avoid default on a loan from Citigroup, according to people familiar with the situation. Citigroup has about £2.7 billion ($4 billion) in loans to EMI. Three months ago, Terra Firma put in about £10 million to keep EMI from defaulting on its loan, a person familiar with the situation said. It's unclear how much a possible new injection would be.

EMI is one of Terra Firma's largest investments. The private-equity firm agreed to pay £2.4 billion in May 2007, at the height of the buyout boom, for EMI, the storied but struggling company known for signing the likes of Robbie Williams, Queen, Iron Maiden and the Beatles. The firm raised £250 million last year for contingencies, which would be used if an injection of funds is necessary, people familiar with the matter said.

In a sign that the market increasingly thinks EMI could default on its loans, the price of insuring against a default by EMI is rising. It currently costs £931,000 to insure £10 million of EMI debt, up from £868,000 a month ago, according to Markit, a data provider.

That said, EMI's internal forecasts are that it will generate enough cash. EMI expects to generate £280 million in earnings before interest, tax, depreciation and amortization in the fiscal year ending March 30, a person familiar with the matter said. If it meets this target, Terra Firma will likely avoid having to inject additional cash into the business, the person said.

EMI's finances have improved in recent quarters as the company has started shipping fewer CDs than it used to for each new album, reducing the number returned by shops unsold, people familiar with the matter said. As well, its publishing arm, which licenses the rights to artists' music and lyrics, isn't dependent on Christmas sales.

As the music industry suffers from rampant piracy and other problems that have depressed sales, EMI is hurting more than most, losing market share to rivals. Terra Firma has brought in new management and moved to cut costs, cutting staff and firing 1,000 unprofitable artists from its labels, which include Virgin Records, Capitol Records and Parlophone.

But fewer artists and a failure to release new, big acts appear to be hurting sales. Terra Firma's clampdown on costs made it harder for talent scouts to hire new artists, former EMI executives say. The Beatles' songs, meanwhile, have never been released digitally, denying EMI a lucrative stream of revenue.

EMI has been losing market share in the U.S. and U.K. Its share of album sales fell to 9.2% in the U.S. in the first three quarters from 9.7% in the year-earlier period, according to Billboard magazine. Its share of the album market in the U.K. is 9.6% so far this year, compared with 25.7% for Sony BMG and 43.8% for Universal, according to data from the Official Chart Co., which tracks sales. Last year, its share of the same market was 15.7%. The figures cover CDs and computer downloads.

EMI's new release slate for the first quarter, apart from new albums by country singer Keith Urban and English singer-songwriter Lily Allen, includes the little-known German singer LaFee.

—Neil Shah and Ethan Smith contributed to this article.

Associated Press

EMI, which recently signed a deal with Depeche Mode, pictured above, is losing market share to rivals as the entire music industry tries to deal with lower sales.

CORRECTIONS & AMPLIFICATIONS

The last name of Simonetta Di Pippo, director of human spaceflight at the European Space Agency, was incorrectly given as Di Pippa in a Technology Journal article Thursday about the International Space Station.

Russia lets ruble fall another 1%; more losses seen

By Andrew Langley

MOSCOW—Russia on Friday allowed the ruble to weaken for the fourth time since early November, guiding it 1% lower against a basket of dollars and euros.

The central bank, under pressure to depreciate the national currency after a plunge in oil prices and an exodus of capital, guided the ruble to 31.60 to the basket in early trade on the Moscow Interbank Currency Exchange, down from Thursday's close of 31.30 rubles, a person at the bank said. It closed at 31.59 rubles against the basket, which is composed of 55% dollars and 45% euros.

The ruble has now fallen 4% since authorities began what analysts believe will eventually be a gradual depreciation of as much as 20%.

"A strong and hard devaluation is what the central bank would prefer," said Pavel Galanichev, a currency trader at UniCredit SpA in Moscow. "But there's political pressure to slow down the process."

The central bank has been burning through billions of dollars in reserves to keep the ruble stable and make good on promises by government officials that there won't be a sharp devaluation.

The bank Thursday reported a weekly rise of $5 billion in reserves because of a variety of technical factors, leaving them at $454.9 billion after eight straight weeks of declines.

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Roche chief cites innovation gap

Drug-firm shakeout likely, Schwan says; persuading insurers

BY JEANNE WHALEN

As the global pharmaceutical market gets tougher, some drug makers probably will fail because they won't have enough innovative medicines that health insurers will be willing to pay for, the chief executive of **Roche Holding** AG, Severin Schwan, said in an interview.

Some drug makers might be forced into bankruptcy in coming years, Mr. Schwan said. Others could be forced into mergers, or forced to diversify into other businesses.

While the drug industry has struggled to bring new products to market in recent years for a variety of reasons, Mr. Schwan's assessment was unusually blunt.

Among the problems, company scientists have been largely unsuccessful at discovering new medicines; regulators, including the U.S. Food and Drug Administration, are applying stricter safety standards in approving new drugs for sale; and budget-minded insurers and other payers have increasingly refused to pay for new drugs that cost more than older treatments without providing much additional benefit.

"Those who fail to bring sufficient innovation will be squeezed out," Mr. Schwan said at Roche headquarters in Basel, Switzerland.

Roche's strategy is to be increasingly selective about the drugs it chooses to develop, jettisoning all but the most promising. The company recently stopped investing in a diabetes drug that did well in studies, but didn't have benefits far enough beyond a similar pill already sold by **Merck** & Co.

Roche is also boosting its research-and-development spending as a percentage of its sales, in a bid to spur drug development, Mr. Schwan said.

A key executive at cross-town rival **Novartis** AG, another of the world's biggest drug companies, also expects some large drug makers to face serious problems. "In the 90s everybody won," Joe Jimenez, head of Novartis's pharmaceuticals division, said in an interview. But share prices of some companies have fallen sharply as investors worry about the companies' ability to keep growing.

Some stocks will continue to decline until the value of the companies' drugs and other assets exceeds their market capitalization, Mr. Jimenez said. At that point, they will be taken over by stronger companies and broken up, he said.

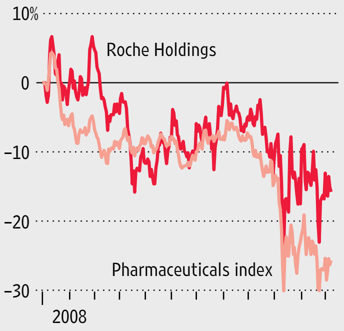
Roche and Novartis have stronger price/earnings ratios than most of their industry. Roche shares in Zurich trading are down 26% from a year ago, at 168.50 Swiss francs ($137.85). Novartis shares are down 14% from a year ago, to 55.90 francs.

Soon after the 41-year-old Mr. Schwan took over as CEO this year, Roche made a bid to buy the 44% of U.S. biotech company **Genentech** Inc. it doesn't already own. Roche's takeover bid is stalled, however, because Genentech's board rejected Roche's offer of $44 billion, or $89 a share, as too low, and because tight credit markets are making it tough for Roche to raise funding for the purchase, according to people familiar with the matter.

"We are committed to the deal, and as such, we are committed to make everything happen which will eventually make this transaction happen," Mr. Schwan said.

Avoiding the trend

Roche Holdings daily share price and DJ Wilshire global pharmaceuticals index, year-to-date performance



Source: Dow Jones Indexes (pharmaceuticals); Thomson Reuters Datastream (Roche Holdings)

HSBC increases mortgage funds to $22.1 billion

BY SARA SCHAEFER MUÑOZ

LONDON—**HSBC Holdings** PLC said it plans to increase the amount of funding it makes available for U.K. mortgages by 20% to £15 billion ($22.1 billion) in 2009.

As many banks have reined in lending amid the credit crunch and the economic downturn, the U.K. Treasury has urged banks to continue making credit available to businesses and consumers as part of its £400 billion bank-rescue package. The Treasury's new Lending Panel is expected to ratchet up pressure on banks to lend more when it holds its first meeting with banks, likely this week.

An HSBC spokesman said the bank's plan to increase mortgage lending wasn't in response to the government's request, but rather a way to expand in an area where HSBC has traditionally held only about a 4% market share. The bank hopes the move will increase its share of the U.K. mortgage market to 5% next year, he said. The bank said it won't relax its lending standards.

HSBC thinks the plan will help long-term relationships with customers, said bank spokesman Richard Lindsay. "They will remember when we were there for them when nobody else was," he said.

HSBC has been able to navigate the recent financial turmoil better than most of its peers, and declined the offer of government aid in October. Royal Bank of Scotland Group PLC, Lloyds TSB Group PLC and HBOS PLC all sold shares to the U.K. government to raise their capital levels, while HSBC raised capital levels at its U.K. subsidiary with its own funds.

The bank recently said its third-quarter pretax profit was ahead of the year-earlier period, thanks largely to growth in Asia, though its U.S. consumer-finance services reported loan impairments totaling $4.3 billion, up by $700 million since the second quarter.

The bank also said over the weekend that it created a $5 billion fund to lend to small and medium-size businesses globally, with £1 billion, or about $1.5 billion, allocated for businesses in the U.K.

CORPORATE NEWS

U.S. auto dealers rally for aid

Reticence lingers for some, as federal help could accelerate the closure of sales networks

By Elizabeth Williamson

NEW CARROLLTON, Md.—At a Chrysler dealership here Wednesday, dealers rallying in support of a government bailout for Detroit's Big Three grew emotional over the threat to "our way of life," as one put it.

But even as they backed Detroit's plea, they acknowledged being late to the lobbying effort.

"We probably should have done this across the country," Tammy Darvish, who owns the DarCars dealership that hosted the gathering, told a crowd.

The National Automobile Dealers Association says the nation's 20,000 auto dealers directly employ 1.1 million people, and as the nation's largest retail businesses, generated $693 billion in revenues last year. The public face of the auto industry, dealers have a business presence in every congressional district.

Only in the past two weeks have dealers put their full heft into a lobbying effort that has faltered, one reason why support for Detroit in Congress has been so tepid.

One factor behind their reticence, some dealers say: Federal help could speed their demise. Analysts and the domestic auto makers themselves say their sprawling dealer networks need streamlining.

Plans to cut dealerships were spelled out in restructuring plans that all three companies presented to Congress.

On the other hand, a bankruptcy of one of the Big Three would cause enormous disruption. Dealers also say they are an efficient distribution channel that costs manufacturers little to operate. "I think dealers have been lost in this equation some," said Michael Martin, dealer and owner of Dudley Martin Chevrolet and Saturn of Manassas, Va.

Wheeling and dealing

U.S. car dealers are ratcheting up lobbying efforts as Congress considers a bailout bill. A look at past political donations and industry trends:

House members receiving the most money from car dealers during 2007–'08 election cycle*

House member	Amount
Vernon Buchanan (R-Florida)	$61,300
Eric Cantor (R-Virginia)	37,200
Joe Knollenberg (R-Michigan)	35,900
Roy Blunt (R-Missouri)	33,300
Ron Klein (D-Florida)	29,300

Metro areas with the largest decline in car dealerships, Dec. 31, 2007–Oct. 31†

Metro area	Decline
Providence Rhode Island	12.9%
Sacramento, California	11.7
San Francisco, California	8.1
Rochester, New York	7.7
San Jose, California	7.7
Nashville, Tennessee	6.6
Albany, New York	6.6

†Among top 50 metro areas

*From PACs and individuals giving $200 or more, reported by the FEC, Nov. 17
Sources: Center for Responsive Politics (contributions); Urban Science (dealerships)

The Big Three's dealership structure is one reason they have been harder hit by the recession than foreign manufacturers, whose smaller networks have helped their bottom lines as auto sales have fallen.

State franchise laws protect dealerships, making it expensive for auto makers to close them. In an interview Wednesday, **Ford Motor** Co. Chief Executive Alan Mulally said that the number of Big Three dealers was still too high, but "There isn't enough money in the world to buy everybody out."

Ford expects to have cut its dealership base by 14% from 2005 to the end of this year, to 3,790 outlets.

General Motors Corp. hopes to reduce its dealerships by as many as 1,800—to 4,000 outlets by 2012. Chief Executive Rick Wagoner has pointed out that would leave GM with four times more outlets than **Toyota Motor** Corp.

Regardless of what happens in Congress, said Paul Melville, a principal at restructuring advisers Grant Thornton LLP who specialize in the auto industry, dealers have "to realize that they are part of the solution and they can't stand on the side and do nothing."

When the auto makers first appeared in Washington to press for federal help, some dealers hung back, even as other sector players such as parts suppliers lobbied hard. Some say they wrongly assumed the auto makers would secure the funding with little problem.

"I think they probably should have made their case a little more clearly," said Mike Catron, a manager at DarCars in Rockville, Md. Until the auto makers were rejected, "we didn't realize the urgency."

Other dealers oppose a rescue. As typically fiercely independent, fiscal conservatives, some have questioned why the auto makers need what some called a bailout.

"I'm somewhat conflicted supporting any requests for government assistance....If those companies were making a lot of money they wouldn't offer to pay more taxes or reduce the national debt," said Greg Kelly, president of the Kelly Automotive Group, which operates seven dealerships in Pennsylvania's Lehigh Valley, speaking before the auto makers' first appearance before Congress.

Mr. Kelly and others say the threat of bankruptcy at GM, **Chrysler** LLC or both has drawn dealers off the fence. Bolstered by recent industry research, they say Americans won't buy a car from a bankrupt company.

The rally in Maryland drew scores of dealers, local businesses and charities. "We're not having to persuade dealers" to lobby, said Annette Sykora, a Texas car dealer who heads theNational Automobile Dealers Association. "This is our livelihood."

—Matthew Dolan contributed to this article.

Honda pulls out of Formula One

By Yoshio Takahashi

TOKYO—Disappointing results off the track have forced **Honda Motor** Co. to quit Formula One racing.

With auto demand tumbling, pressure has built on the Japanese car maker to cut costs. Even so, closing the doors on its team in the high-profile auto sport, which costs it tens of billions of yen annually, was still a tough decision for a company that takes pride in its aggressive involvement in motor sports.

"We want to continue [Formula One] even now. But the situation doesn't allow for it," Honda President Takeo Fukui said.

It is the third withdrawal from Formula One for Honda, which first entered the auto-racing championship in 1964.

It re-entered the sport in 2000 after a seven-year absence, but earned just 14 points in this year's season, finishing near the bottom of the constructors' table.

European Pressphoto Agency

Honda, which displayed this Formula One car Friday in Bologna, Italy, will leave the auto-racing circuit in an effort to reduce costs amid the economic downturn.

The withdrawal highlights how severe business conditions in the auto industry have become.

Japan's second-biggest car maker by volume after **Toyota Motor** Corp. is striving to reduce production and cut jobs as its rivals are doing. The economic slowdown is cutting into auto sales in major markets such as the U.S. and, more recently, emerging markets.

Reflecting the market conditions, Honda revised down its earnings forecast in October. It expects annual net profit to fall 19% to 485 billion yen ($5.22 billion) in the current fiscal year ending March 31.

The president cited the costs of running the Formula One team amid the current tough earnings environment as a reason for the exit.

Mr. Fukui said about 400 engineers engaged in Formula One will be transferred to the research and development of mass-production vehicles, and seek to establish a new way of manufacturing.

The Federation Internationale de l'Automobile, which operates the Formula One championship, said the move "confirmed the FIA's long-standing concern that the cost of competing in the World Championship is unsustainable...the global economic downturn has only exacerbated an already critical situation."

The decision presages a fundamental change in the auto industry in the long term, Mr. Fukui said.

"The auto industry had prospered in the past 100 years, and we are in a time of change, entering another 100-year period," he said.

Toyota, another Japanese car maker operating a Formula One team, said it is regrettable that a Japanese team will be leaving the sport. It added that it has no plans to pull out of the competition.

Proton creates vehicle alliance with Mitsubishi

A WSJ News Roundup

Malaysian national car maker **Proton Holdings** Bhd. has formed an alliance with Japan-based **Mitsubishi Motors** Corp. to jointly develop a new Proton vehicle in an effort to modernize its vehicle lineup and improve component quality.

As part of the deal, Proton can use Mitsubishi Motors' technical assistance and technical information to restyle or modify the new model, as well as to manufacture local parts and provide after-sales services, Proton said.

Mitsubishi Motors also will provide work and services for Proton's manufacturing of the new model, under an engineering-services agreement. Both companies will explore possibilities on export and contract assembly for their vehicles, according to Proton.

Proton has improved its domestic market share to 33% so far this year from 24% last year after introducing several inexpensive models, but its exports remain weak. The car maker is pinning hope on the new multipurpose vehicle to prop up sales next year.

Toyota planning more output cuts in North America

By Kate Linebaugh

DETROIT—**Toyota Motor** Corp. announced more production cuts in North America, trimming its output across the board to adjust for a sharp sales drop that has hurt both foreign auto makers and Detroit's Big Three.

Toyota is expanding the number of nonproduction days at each facility this month and next month at varying levels, depending on the products and inventory. This adds to cuts announced last month, when two production days were taken out at all the plants in December and about 250 temporary workers were laid off.

"This affects production at each plant we have in North America," said company spokesman Mike Goss. "Suffice [it] to say, inventory is too high in general."

General Motors Corp. also outlined further production cuts on Friday, saying it will lay off about 2,000 workers early next year. The company will cut production shifts at auto plants in Lordstown, Ohio; Orion Township, Mich.; and Oshawa, Ontario, in February.

Manufacturers have been scrambling to adjust output amid the sales decline.

Lordstown was booming this summer when high gasoline prices caused a spike in sales of the small cars GM makes there, the Chevrolet Cobalt and the Pontiac G5. But sales have slowed now that gas is selling for less than $2 a gallon.

The Orion plant assembles two midsize sedans, the Chevrolet Malibu and Pontiac G6. Oshawa makes the Chevrolet Impala large sedan.

Manufacturers have been scrambling to adjust production because of the sales decline. Honda Motor Co. added to production cuts in North America last month. In November, industrywide sales fell to their lowest annual rate since October 1982, according to Autodata Corp. Toyota's November sales fell 34% from a year earlier, with sales of cars dropping 31% and trucks and sport-utility vehicles declining 37%. Sales of its Camry sedan were down 29% for the month.

At Toyota's plant in Georgetown, Ky., where the Camry, Avalon, Solara and Venza sedans are built, the company added seven nonproduction days over the next two months, for a total of nine days. In Indiana, it will add six nonproduction days to the Sienna line and one day to the Sequoia line, which is already running at a reduced rate.

At its plants in Canada, the line that produces Corollas and Matrix cars will add 10 nonproduction days to the end of January. The Lexus line and the new RAV4 line will add five days the first week of January. In California, the company will announce cuts after informing its workers.

The plant in Texas where the Tundra pickup truck is built won't be affected, but it is only running one shift currently.

Toyota announced a three-month shutdown of production this summer as high gasoline prices led to swelling inventory levels of the Tundra and Sequoia SUV.

CORPORATE NEWS

Boeing jet delay looms

Dreamliner delivery could move to 2010 in wake of walkout

By J. Lynn Lunsford

Boeing Co. may further delay first deliveries of its flagship 787 Dreamliner by at least six months to account for the recent strike by union machinists and other snags.

According to people familiar with the situation, Boeing officials are expected to announce later this month that first deliveries of the fuel-efficient jet might not occur until summer 2010, more than two years after the jet was originally scheduled to enter service. Boeing's most recent schedule called for initial deliveries in the third quarter of 2009.

In recent days, these people said, Boeing has been meeting with suppliers and partners on the jet program to address a number of challenges that have sprung up in part because of the volume of work that Boeing had outsourced.

Problems with the jetliner project have become a growing embarrassment for Boeing, which had prided itself on delivering its jets on time. Another delay would mark the fourth time that Boeing would have to tell the customers holding orders for almost 900 of the planes that it will be late. Each time, Boeing officials assured customers and investors that the new schedule would be reliable, only to be subsequently surprised by new problems.

A Boeing spokesman declined to comment about potential new 787 delays, saying the company is "currently reviewing the schedule" and would have an announcement at a later date.

Dreamliner delays have bled into other development programs, such as Boeing's efforts to update its 747 jumbo jet. Last month, Boeing said a new version of the four-engine plane would be as much as nine months late entering the market, in part because engineering resources were being gobbled up by the Dreamliner.

Problems with the Dreamliner, coupled with delays from a strike by the Machinists union that forced the shut down of Seattle-area assembly lines for almost all of September and October, have caused some Boeing customers to lose patience.

A person who has been involved in the discussions said "there is no question" that the Dreamliner will be delayed further. "The real issue right now is that Boeing wants to make sure it has a believable date before going back to the customers with more bad news."

In a recent interview, **Virgin Atlantic Airways** Chief Executive Steve Ridgeway voiced customers' growing frustration. "We're pretty fed up," he said. "We've got no clarity from Boeing." Virgin was originally due to receive its first Dreamliner in 2011, but "we don't know how long the delay is now," Mr. Ridgeway said. He referred to the Dreamliner as "the world's rarest airplane."

As the first airline to fly one of Airbus's recent models, Virgin has experience with the problems that new jetliners encounter. Mr. Ridgeway said a lot of attention has been focused on when Boeing will deliver its first Dreamliner, "but nobody's talking about production run rates" or problems the plane may encounter when it goes into service.

"Just getting the first ones delivered to a handful of airlines isn't the end of the story," Mr. Ridgeway said.

People familiar with the program said that Boeing managers are still unsure how much time they should build into the plane's schedule. Not only must Boeing find a way to produce the airplane reliably, it must also allow the Federal Aviation Administration in the U.S. adequate time to certify the plane as safe to fly. That process alone could take as much as a year, say these people.

According to suppliers and others on the 787 program, Boeing has encountered surprises on a regular basis, ranging from minor annoyances to those that require notifying Boeing Chairman and Chief Executive James McNerney at the company's headquarters in Chicago.

A chief concern, these people said, is difficulty in working out bugs in the millions of lines of computer code that run the airplane's systems, ranging from electric brakes to cockpit instruments.

Suppliers who were having trouble delivering completed sections of the airplane to Boeing have worked through the worst of their problems, but some officials at Boeing are still concerned about the ability of suppliers to turn out sufficient parts for seven or more airplanes a month.

Boeing said last month that it was adding as many as 10 weeks to the delivery dates for all 3,734 jetliners in its order book to account for Machinists strike. The company acknowledged that the strike made it impossible for the first Dreamliner to make its maiden flight before the end of the year as planned, but it held off on updating the overall Dreamliner schedule.

—Daniel Michaels contributed to this article.

Associated Press

Delivery of the first 787 Dreamliner, like the jet in the 2007 photo above, could be delayed at least six months, in part because of a Machinists union strike.

CORPORATE NEWS

Vodafone tax case could bite India

Row over $2 billion could deter investors from acquisitions

By Romit Guha

NEW DELHI—**Vodafone Group** PLC's tax woes in India could have broader implications for other acquisitions in the country and possibly deter future deals as foreign investors grow wary of changing rules after the event.

Analysts say India's demand of a $2 billion tax from Vodafone several months after the British company bought a stake in a local mobile-phone company is likely to create uncertainty among investors.

"In the near term, we will see a deceleration in investments," said V.N. Srinivasa Rao a partner in Ernst & Young's tax and regulatory services.

Earlier last week, the Bombay High Court dismissed a challenge from a unit of Vodafone Group, which is contesting demands that it pay capital-gains tax on its $11 billion acquisition of Hutchison Essar from **Hutchison Telecommunications International** Ltd. It first received the tax charge in late 2007, months after the deal was finalized in February the same year.

"We are disappointed that the court was unable to agree with Vodafone that the taxability or not of the transaction could be decided now," Vodafone said after the court's decision.

Vodafone said it will appeal the decision.

"In general, an overaggressive tax administration will have a negative influence on an investment decision. Anybody, which is perceived as creating new rules, makes it difficult [for investors] to assess what the profitability will be," said Harry L. "Hank" Gutman, director of KPMG's tax governance institute.

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, suggesting the deal between its Dutch unit and Hong Kong's **Hutchison Whampoa** Ltd.'s Cayman Islands-registered vehicle isn't liable to be taxed in India, as it took place on foreign soil.

The Indian income-tax department argues that Vodafone is liable to pay the tax, as the transaction involved the transfer of an Indian asset and Vodafone should have withheld tax on behalf of the Indian government.

"Attempts to expand jurisdiction beyond what is thought to be normal jurisdiction, is very troublesome," Mr. Gutman said.

The ruling in the Vodafone tax case isn't final as Vodafone has eight weeks to appeal. Experts predict it will take at least two years for the final word to be heard.

If the Supreme Court upholds the High Court decision, then the tax department has to screen the financial details of the deal, and then arrive at a final tax liability. This will again be followed by a process of appeals and counterappeals.

"Vodafone, based on advice received, continues to believe that the transaction is not subject to tax in India and is confident of a positive outcome ultimately," Vodafone has said.

Still, experts point out that companies will be wary that a mergers-and-acquisitions deal—which has received all necessary approvals—may come under financial scrutiny even at a later date with retrospective effect.

"It would definitely affect M&A deals—not only in telecom but also in other sectors," said Neha Gupta, senior research analyst at research firm Gartner Inc.

"If the Bombay High Court's move comes through, those deals where there is offshore transfer of ownership of shares would now start attracting tax," she said.

—Raghavendra Upadhyaya and Jai Krishna contributed to this article.

AFP/Getty Images

India demanded $2 billion in taxes several months after Vodafone purchased a stake in a local cellphone firm.

Libya to acquire as much as 10% of Italy's Eni

Libya's state-run energy fund plans to acquire a minority stake in Italian oil and gas company **Eni** SpA and might push for representation on Eni's board, according to top Libyan officials.

In a phone interview on Sunday from Tripoli, Shokri Ghanem, head of Libya's **National Oil** Co., said the state-run Libyan Energy Fund was set to buy Eni shares on the open market with the aim of building a stake of as much as 10% in the company.

*By **Spencer Swartz** in London and **Stacy Meichtry** in Rome*

"It could be a 2% stake, 10%, it depends on market conditions, but it will be only a minority stake" in Eni, Mr. Ghanem said without providing a timeline as to when the fund would begin buying.

Libyan officials are likely to push for a seat on Eni's board if market conditions allow the fund to buy a "significant" stake in Eni, said Hafed Gaddur, Libya's ambassador to Italy, in a phone interview. Board representation, however, is a "secondary interest" to finding the right price for the stake, Mr. Gaddur said, declining to say how much Libya aimed to spend on the Eni investment.

The Libyan pursuit of an Eni stake shows how the former Italian colony is taking advantage of the financial crisis to gain a foothold in Italy's top companies. Libya is flush with cash and taking aim at companies once considered off-limits to foreign sovereign funds.

In October Libyan state-owned institutions took a 4.9% stake in UniCredit SpA, after a sharp drop in the shares of Italy's second-biggest bank. Later that month Mr. Ghanem attended a conference in Rome with the chief executive of Eni and other Italian companies, describing Libya as a "bargain-hunter" in Italy. Shares in Eni, the biggest foreign investor in Libya's oil industry, are down 39% over the past six months.

Libya informed Italy of its plans to invest in Eni with "the declared absence of any intention to interfere in the management of the company," the Italian government said in a statement Saturday. Eni is controlled by the Italian government, which holds a 30.2% stake.

Mr. Ghanem said a partnership with Eni would enable the two companies to more easily pursue joint energy projects in third countries. "We would pursue projects together using our joint capital, their technology," he said.

Mr. Ghanem said Libya is interested in buying shares in other publicly traded oil companies, but declined to say which firms Libya was eyeing. "They will remain nameless for now," he said.

Eni will keep the financial market informed of any relevant changes in its share structure in line with stock market rules, a company spokeswoman said. According to Italian securities rules, an equity holding of 2% or more has to be declared.

Italy agreed to invest $5 billion in Libya for infrastructure projects over the next 25 years following an accord signed in August between the two countries that ended all disputes referring to Italy's colonial past in Libya.

—Liam Moloney in Rome contributed to this article.

Deal would ease cross-border money transfers

By Amol Sharma

Vodafone Group PLC plans to announce a partnership Monday with **Western Union** Co. to allow international money transfers via mobile phones, as the wireless carrier seeks to tap into the increasing flow of cross-border remittances.

The companies are initially launching a pilot program that will allow residents of Reading in the United Kingdom to send money to family members and friends in Kenya, where Vodafone is the 40% owner of local wireless operator **Safaricom** Ltd. If that program is successful, the companies will expand it to other countries.

There is growing interest in using cellphones as a conduit for money transfers, with financial institutions such as **Citigroup** Inc. and **Visa** Inc. taking steps into the business, along with Silicon Valley start-up **Obopay** Inc. Wireless carriers in the U.S. and in emerging markets such as India and the Philippines are having some success with programs that let users transfer money domestically via cellphones.

Now U.K.-based Vodafone and other wireless operators have set their sights on cross-border remittances. Research firm Aite Group expects that by 2010 global workers' remittances will amount to $465 billion, up from $369 billion last year.

International remittances are growing rapidly and becoming a big contributor to gross domestic product in many emerging markets as workers migrate around the globe, maintaining ties to family in their native countries. Most of these transfers are in the range of $300 to $350 and happen a few times a month, but Vodafone wants to encourage much smaller and more frequent money transfers via cellphone.

Vodafone, which owns or has stakes in wireless operators in Africa, the Middle East and India, sees mobile money transfers as an attractive add-on service in markets where users generally just buy prepaid phone minutes. "It's got the backing of the company to take into our emerging-market footprint," said Nick Hughes, Vodafone's head of international mobile payments.

The telecom company's international remittance service builds on its domestic money-transfer business, which it started in Kenya last year and has since expanded to Tanzania and Afghanistan. That service, known as M-Pesa ("cash" in Swahili), has signed up more than four million customers—often urban workers who use it to ship money to relatives in rural areas. Senders can visit any of 4,000 locations, including Safaricom retail outlets and gas stations, to hand over cash that gets deposited into their phone accounts, and then send it via text message. Recipients go to another M-Pesa location to pick up the cash.

Expanding the service to allow cross-border transfers through Western Union agents allows Vodafone to not only increase the volume of cash it is handling, but also move into a higher-margin business: It charges only 18 U.S. cents for domestic money transfers in Kenya, but the charge for international remittances from the U.K. will be £4.90 ($7.22) for as much as £100, and £6.90 for larger amounts.

Western Union, which processed $64 billion in cross-border remittances last year and has 365,000 agents in 200 countries, is hoping to expand its reach through cellphones. "Mobile financial services have tremendous potential in places where people don't have other choices," said Matt Dill, head of digital ventures for the company. He said Kenya has relatively few workers with bank accounts, yet 10 million cellphone users. Western Union only has 400 agents in Kenya, mostly in urban areas.

Mr. Dill said Western Union is partnering with various other carriers for international money transfers, including **Globe Telecom** Inc. and **Smart Communications** Inc. in the Philippines, Cairo-based **Orascom Telecom Holding** S.A.E, and **Bharti Airtel** Ltd. of India.

Obopay, based in Redwood City, Calif., offers domestic money-transfer services in the U.S. and India. Users set up a PayPal-like account online, and then send money via text message, mobile Web browser or specialized software applications they download onto their phone. They can withdraw money from their cellphone accounts using special Obopay debit cards at ATM machines. Obopay is trying out a service with Citibank that allows users to link their existing bank accounts directly to their cellphones, so it is easier to send and withdraw money.

Chief Executive Carol Realini said Obopay is working on a service to handle remittances between the U.S., and India, whose $27 billion in cross-border receipts leads all countries. Regulations have been a major hurdle, she said. In addition to getting approval from 41 U.S. states and meeting requirements of the U.S. Patriot Act and Bank Secrecy Act, Obopay must comply with various Indian government rules as well.

In India, Obopay plans to link mobile money transfers to electronic-payment services, so consumers can refill their prepaid phone minutes or even pay their utility bills. "This may be the first time many of these people have access to electronic payments—previously they've been a cash-based consumer," Ms. Realini said.

Coming to tiny screens all over the place

Korea offers evidence consumers will view video on cellphones

BY EVAN RAMSTAD

SEOUL—Watching TV and movies on cellphones is so common in South Korea, people no longer think twice about it.

Since 2005, South Koreans have been able to buy cellphones and other portable devices that pick up TV broadcasts sent on a special frequency, a system created here and known as digital multimedia broadcasting, or DMB. And last year, two of the country's three cellphone-service providers upgraded their networks to third-generation, or 3G, technology that enables big improvements to video streaming and downloading services.

The result: an explosion of video usage on cellphones and other mobile gizmos, including car navigation systems and iPod-like portable media devices.

With almost an entire country able to watch video just about anywhere it wants, South Korea's experience can provide valuable lessons for companies in countries still on the threshold of the mobile-video revolution. Among those lessons: what kinds of programs bring in the most viewers, how advertising has had to adapt—and how difficult it is to make money from the new services.

So far, there is no clear winner among the different technologies being used here. About 14 million devices equipped for DMB signals have been sold, including 6.5 million cellphones. Of some 45 million cellphone subscribers, 15 million or so have upgraded to 3G, and of those, carriers say about two million watch some video via clips they download to their phones.

For the moment, service providers here are betting that the two technologies will coexist for years to come. **SK Telecom** Co., for one, the nation's largest cellular company by subscribers, offers video in both 3G and DMB. The two complement each other, says Ki Jeong-kuk, a manager in the company's movie and media business-development team. "DMB service provides real-time video content," he says, like the main TV networks, while 3G "will position itself as a video-on-demand provider as it enables interactive two-way service." The company's 3G option includes on-demand service for archived TV shows and 300 movies.

From the beginning, many South Koreans have embraced the possibilities of mobile video. When Han Kyung-san bought a cellphone three years ago, she splurged on a $700 model that could receive then-new DMB signals. (The average cellphone costs about half that much. But models with DMB have come down in price.) She pays about $15 a month in extra fees for 16 channels.

"When I bought the phone, no one had it," says Ms. Han, a 28-year-old secretary in Okcheon, a small town in central South Korea. "I would turn it on and place it on the table just to show off. These days, many people have it."

In rush hour, any random subway car in Seoul is likely to have a handful of people watching video on their cellphones. Cab drivers can buy systems that combine street navigation with DMB reception of TV signals. At night, it's becoming common to jump into a cab where the screen on the driver's dash contains a split image—half is a 3-D map of the city and half is a live TV broadcast, usually news or sports.

But so far, mobile video hasn't produced big revenue gains for its providers. The free DMB signals from the country's four main TV broadcasters draw the most viewers, yet none of these ad-supported services is profitable. Nor are the pay services that offer cable-like menus of channels in either DMB or 3G for $10 to $30 a month, nor 3G pay-per-use options, which cost about 35 cents plus data charges—generally about $10 a day. Some people find early on that those get to be quite expensive and quickly cut back their usage.

Industry observers generally agree that mobile-video services for both 3G and DMB have been financially disappointing. "We are very good at making technology and new services," says Chung Yun-ho, a telecom industry consultant and managing partner of Seoul-based consulting firm Veyond Partners. "But considering the business model wisely is not something we are good at."

At SK Telecom, executives recently told analysts they're willing to accept a short-term decline in a key metric, average revenue per user, because they believe new marketing activities, including joint sales with the company's fixed-line services, will yield gains next year. At **KT Freetel** Co., South Korea's second-largest wireless carrier, a spokesman noted that revenue from video is substantially higher on the company's 3G system than on earlier networks. The companies didn't comment about the profit outlook.

Cellphone carriers here, as in other countries, spent billions installing their 3G networks, and planned to make that money back with services, like video, that encouraged customers to spend more time on the phone and boost their data usage. But after an initial jump in all data usage after 3G's introduction, growth in data-related fees has slowed. So far, data usage as a percentage of revenue has remained at around 20%.

"The incremental return [on 3G networks] hasn't exceeded the incremental cost of rolling them out," says Matthew Jamieson, head of Asia Pacific telecom-media practice at international credit-rating agency Fitch Ratings.

South Korea isn't the only country with mobile video, but it's ahead of most. Japan has had digital broadcast service for phones and other portable gizmos since late 2004. Germany, Italy and Finland got in the game in 2006. The U.S. has two services available, both of which use 3G: V Cast, from Verizon Wireless, owned by **Verizon Communications** Inc. and **Vodafone Group** PLC, is available in about 50 cities; AT&T Mobile TV, from **AT&T** Inc., works in about 30 cities.

South Korea got a jump on other countries partly because its small size and dense population made building high-speed wireless networks more affordable. In addition, the country was racing to catch up with efforts in the European Union to establish international standards in digital-television broadcasts. The South Korean communications agency in 2003 introduced DMB, the first standard for making digital video signals work in portable devices. **Samsung Electronics** Co. and **LG Electronics** Co. created the format, with university and government help. The next year, the agency put a satellite in space to provide nationwide coverage. The country's carriers and TV networks then did the rest.

Since the launch, those companies have learned a lot about the viewing habits of their customers, and have adjusted their offerings accordingly.

For instance, surveys show the typical DMB user watches about 15 minutes of video a day. As a result, advertisers have adjusted by shortening commercials—which are interspersed throughout programming—to 15 or 30 seconds from the typical 60-second spot. Commercials are also simpler for a small screen. Tschaik Lee, director of global interactive business at **Cheil Worldwide,** South Korea's largest ad agency, says that it routinely produces separate versions of TV ads for mobile video systems like DMB and 3G. "The usage behavior and mobility has to be carefully considered when we plan for mobile ad campaigns," Mr. Lee says.

He adds that DMB presents a unique opportunity for advertisers because it takes a few seconds for the receivers to change channels. DMB-equipped cellphones and receivers receive and display a "switching spot ad" when the device is changing channels, he says. "It masks the switching process."

TV ANYTIME: South Koreans routinely watch television programs on their cellphones while commuting or in bed before they go to sleep

Lots of DMB viewing occurs during rush hours, when commuters on buses and trains watch to pass the time. But the heaviest use starts around 11 p.m. and peaks close to midnight, when people watch in bed before going to sleep. Ms. Han, the secretary in Okcheon, says that's when she tends to watch the most. "It helps me wind down," she says.

The most popular broadcasts are short news updates, live sports and rebroadcasts of serial dramas that aired on the main TV channels a day earlier. "Content is time-critical," says Mr. Chung, the consultant. "News or sports events, or something you are fond of but cannot view at the traditional time."

Waiting for a train in Daejeon recently, Park So-hyeon, a 21-year-old college student, hunched over her DMB phone with a friend to watch a rebroadcast of a comedy show from one of the networks. Ms. Park says she doesn't own a regular TV, relying instead on her computer to watch DVDs and downloaded videos. "When my computer was broken," she says, holding up the phone, "I watched this."

—SungHa Park contributed to this article.

CORPORATE NEWS

Intel cites data advance

Effort would bolster transmission speed; claim is challenged

By Don Clark

Intel Corp. is claiming another advance in creating optical communications components from silicon, an effort designed to reduce the cost and increase the speed of transmitting computer data.

The company said it combined silicon—the low-cost foundation for most computer chips—with the element germanium to make a device called an avalanche photo detector that achieved record performance. Intel said the development marks the first time that a silicon-based optical component exceeded the performance of an equivalent device made from more costly conventional materials, such as indium phosphide.

But the importance of Intel's announcement was challenged by researchers at **Luxtera**, a closely held company that is already producing silicon-based optical components.

Optical communications involves encoding information on streams of light particles, generated by lasers. The technology brings big benefits in speed over standard electrical connections, and uses thin glass fibers rather than bulky cables. But optical connections are now mainly used for high-volume long-distance communications—or connecting servers in massive supercomputers—because key components often cost tens to hundreds of dollars each.

Researchers are hoping to drive those costs down to pennies by using materials found in conventional chips, a field known as silicon photonics. Intel, in particular, has been churning out a series of research papers describing prototype optical components made from silicon.

Its latest development, which was jointly funded by the U.S. Defense Advanced Research Projects Agency, is described in a paper in the journal Nature Photonics. Intel engineers collaborated with counterparts at **Numonyx** BV, a company comprised of former operations of Intel and **STMicroelectronics** NV. Experts at the University of Virginia and the University of California at Santa Barbara provided consulting and testing, Intel said.

Photo detectors are used to sense and amplify light pulses generated by lasers. The new prototype detector achieved a "gain-bandwith product" of 340 gigahertz, which is the highest result recorded to date on that key metric of detector performance, said Mario Paniccia, who directs Intel's photonics-technology lab and holds the title of fellow.

Improvements in detector performance could be exploited in different ways, including boosting the speed data is sent, increasing the distance a signal goes or reducing the energy needed to send a signal a constant length, Mr. Paniccia said. "And we believe we can continue to improve the performance," he said.

Intel initially expects silicon-based optical components to send data between servers in a computer room and between chips in a system, though it later hopes to have optical connections inside its microprocessor chips, too. Mr. Paniccia said silicon-based detectors also could find uses outside commmunications, in applications such as optical sensors, cryptography and medicine. He didn't give a precise timetable for turning the new components into products, but indicated it would take several years to perfect the technology.

Meanwhile, Luxtera is "ramping up" production of its silicon-based optical components, said Greg Young, chief executive of the Carlsbad, Calif., company. He said the performance described in Intel's paper is "tremendous." But Mr. Young contends that Luxtera researchers actually were the first to top the performance of indium-phosphide photo detectors in research results published more than a year ago.

Mr. Young also asserted that Intel's prototype photo detector is incompatible with conventional semiconductor-production processes, so the device couldn't be easily combined with other components to make a complete silicon-based communications system. "It's useful, but it's not manufacturable as part of a communication system," he said.

An Intel spokeswoman didn't respond to requests for comment on Mr. Young's remarks.

Prisa is in talks to sell Digital+

By Jason Sinclair in Madrid and Jethro Mullen in Paris

In a move to trim its towering debt, Spanish media company **Promotora de Informaciones** SA said Friday that it was in talks with **Vivendi** SA and **Telefónica** SA over a sale of its pay-satellite-TV platform Digital+.

The company, known as Prisa, put Digital+ on the block earlier this year to reduce the €4.8 billion ($6.1 billion) debt it accumulated in an expansion drive at home and abroad.

"We are advancing in talks with a consortium led by Vivendi that includes Telefónica as a partner, before beginning formal negotiations," Prisa Chief Executive Juan Luis Cebrián said at an extraordinary general meeting Friday. Mr. Cebrián added Prisa had received additional offers, but didn't elaborate.

French entertainment and telecommunications Vivendi confirmed it was in talks with Spain's Telefónica about a partnership to buy Digital+. "The talks are still at a preliminary stage," a Vivendi spokesman said.

A Telefónica spokesman declined to comment further on the status of the potential sale. Senior Telefónica executives have said Digital+ would complement its current business.

The sale has been delayed by a gap between Prisa's asking price and what investors are willing to pay for Digital+, market participants say. The deadline for binding bids expired in November.

The sale process is also dragging on because of uncertainty over whether Digital+ will retain broadcasting rights for Spanish top-league football games, a key revenue driver. Prisa is battling rival media company **Mediapro** SA in court over the broadcasting rights.

Analysts have valued Digital+ at around €3 billion, though bankers say the price tag would be significantly lower without the football rights.

If the potential sale goes ahead, Telefónica and Vivendi could split up Digital+'s clients and assets between them to address potential concerns from antitrust regulators over Telefónica's grip on the Spanish market, analysts say.

Telefónica is Spain's only phone company with a fixed-line network. It is the country's dominant Internet provider and the No. 1 cellular operator. It already owns Spain's biggest Internet-based pay-TV operator, Imagenio. Vivendi, meanwhile, operates Canal Plus, the dominant pay-TV operator in France. Vivendi's interest in Digital+ isn't popular in the market, said Paris-based Kepler analyst Conor O'Shea, and "seems like a needless distraction."

In addition to Digital+, Prisa's assets include El País, the country's leading daily newspaper; radio networks in Spain, Portugal, Latin America and the U.S.; and publishing companies in the music and educational sectors; and free-to-air channel Cuatro.

—Christopher Bjork and Santiago Perez in Madrid contributed to this article.

Eskom puts nuclear plant on hold

By Robb M. Stewart

JOHANNESBURG—South Africa's state power company, which has been forced to ration electricity to mines and smelters, Friday shelved plans to build the country's second nuclear power station, saying it can't afford to make the investment.

The government said the planned project wasn't affordable for **Eskom Holdings** Ltd., particularly in light of the global financial crisis. However, it said the country remained committed to nuclear energy.

The cancellation of an order for a nuclear power plant will mean a greater reliance on coal for the country.

The utility had been expected to make a decision by the end of the year between two 1,650-megawatt reactors proposed by a consortium led by French nuclear-engineering giant **Areva** SA and three 1,140-megawatt reactors to be built by a group led by **Toshiba** Corp.'s Westinghouse.

—Adam Mitchell in Paris contributed to this article.

GLOBAL BUSINESS BRIEFS

Deutsche Lufthansa AG

Government's sale paves way for Austrian Airlines deal

Deutsche Lufthansa AG continued its acquisition spree Friday as the Austrian government sold its 42% stake in struggling **Austrian Airlines** AG to the German carrier, paving the way for a full takeover. The move was widely expected after Lufthansa said Wednesday that it intended to buy the Austrian government's stake and make a public tender offer for the remaining shares, paying as much as €377.4 million ($479.9 million) for the whole airline, depending on its financial performance. The deal comes amid growing consolidation in the global airline industry as carriers seek synergies and cost cuts. Lufthansa has agreed to operate Austrian Airilnes as a legally independent company with its head office in Austria and its own brand.

RAB Capital PLC

RAB Capital PLC, a U.K. hedge-fund company that manages more than $2 billion, has started consulting with staff about a "significant" number of job cuts, according to a person familiar with the matter. The consultation process, which the person said is expected to take place over the next two weeks, comes after the company announced in mid-November that it planned to close some funds because of the financial crisis. Many hedge funds have been under pressure in recent months as banks have become unwilling to lend. The performance of many funds also has deteriorated, prompting investors to pull out cash. RAB Capital warned in November that investor redemptions would drain around $800 million from the company by the end of the year.

BT Group PLC

U.K. communications regulator Ofcom Friday proposed to increase the wholesale prices that **BT Group** PLC's Openreach division can charge rivals for access to its services. The proposals, if Ofcom goes ahead with them following a period of consultation with industry players, would come into effect in April and would boost BT's net income, according to analysts. For the year 2009/10, Ofcom said it would propose annual rental charges for a fully unbundled line of between £85 and £91 ($125 to $134), up from £81.69. A BT spokesman said the increase wouldn't cover the rise in inflation since the 2006 set-up of Openreach, which operates as a separate business providing wholesale access telecoms services to communications providers such as **Carphone Warehouse** PLC.

EADS

European Aeronautic Defence & Space Co. will recapitalize the national units of its wholly owned Airbus subsidiary, but can do it without injecting capital from the parent company, a spokesman for Airbus said. The commercial-aircraft builder's French, German, British and Spanish operating units have become undercapitalized because of losses incurred in 2006 and 2007. EADS will shuffle capital from subsidiary Airbus Holding SAS, a France-based holding company that controls the national units. At the end of September, EADS had net cash of €9 billion ($11.45 billion). Airbus has been pushed into the red by cost overruns on two aircraft programs—the A380 double-decker superjumbo and the A400M military airlifter—and by the weak dollar.

Woolworths PLC

Woolworths PLC is cutting 450 jobs from its support operations, the British retailer's administrators said Friday, as they remained locked in talks aimed at finding a buyer for the chain. The positions will be cut at Woolworths's support operations in London and Rochdale, northwest England, which together employ more than 1,100 people, said Deloitte. No jobs will be cut at the retailer's 800 stores and four distribution centers, which employ 25,000. There also won't be any job losses at Entertainment U.K. Ltd., Woolworths's wholesale distributor of entertainment products. "Our expectation remains that stores will remain open beyond Christmas and that all staff in the stores will be paid in full," said Neville Kahn, joint administrator and reorganization-services partner at Deloitte.

AstraZeneca PLC

The U.S. Food and Drug Administration sent a warning letter to British drug maker **AstraZeneca** PLC, saying a sales representative pitched an unapproved use for the company's antipsychotic Seroquel to a doctor. The letter, posted on the FDA's Web site Thursday, said an unidentified AstraZeneca representative told the doctor on Jan. 3 that Seroquel was approved for treatment of major depressive disorder, or chronic depression. In fact, Seroquel is approved only for bipolar disorder and schizophrenia. Doctors in the U.S. may use FDA-approved products as they see fit, but companies aren't allowed to promote unapproved uses. A company spokeswoman said AstraZeneca takes the allegations seriously and is conducting a full investigation.

Edison SpA

Italian energy company **Edison** SpA said it will boost investments by 16% in a six-year plan to expand in hydrocarbons, after securing the large Abu Qir Egyptian natural-gas field last week. Edison, which is controlled by **Éléctricité de France** SA and Italian municipal utility **A2A** SpA, said its board approved the €7.2 billion ($9.16 billion) plan. The investments through 2014 will be equally split between Edison's hydrocarbon and renewable-electricity operations, the Milan-based company said. "Exploration and production is the big jump," Chief Executive Umberto Quadrino said on a conference call. Edison is moving to increase supply contracts as European demand for natural gas is forecast to rise over the next few years.

Motorola Inc.

Standard & Poor's Ratings Services downgraded **Motorola** Inc.'s long-term corporate-credit rating to junk status, saying it expects losses in the company's cellphone unit to continue for the next several quarters. Motorola's mobile-devices unit has posted operational losses of $2.8 billion since the start of last year. S&P cut its rating two notches to double-B-plus. While Motorola has about $3.1 billion more cash than debt, S&P said it didn't expect the issues in mobile devices to stop "in the intermediate term." It also cited weakness in the business that makes network gear for telecommunications operators. Motorola, based in Schaumburg, Illinois, said the move "undervalues the strength" of the company's balance sheet and turnaround efforts.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.K. cuts immigration as economy slows

Points-based system, raising hurdles for all but the most highly skilled, may decrease available positions 20%

BY ALISTAIR MACDONALD

LONDON—It's becoming tougher to get into Britain.

Faced with an economic downturn, rising unemployment and increasing terrorism concerns, the U.K.—long one of the world's most open countries—is taking a turn against immigration. Politicians are paying more attention to issues such as national identity, and the government is putting in place measures that foreigners say have made the country less welcoming.

A new points-based immigration system, parts of which were introduced last month, raises hurdles for all but the most highly skilled workers. The system, modeled after one in use in Australia, grades workers and students hoping to enter the U.K. on criteria including education, age and need for their skills. The system is expected to cut the number of positions available to foreigners by 20%, to 800,000 annually.

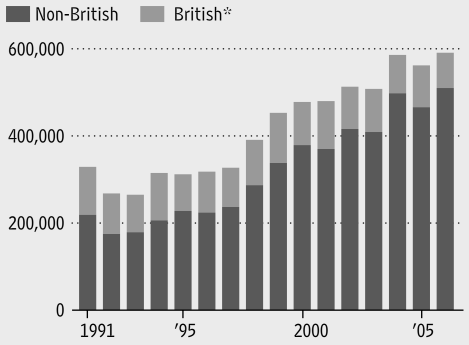
The government says the system streamlines the country's immigration process and provides a flexible way to meet demand for workers while ensuring British citizens are first in line.

Other European countries are also clamping down on new immigration as their economies slow and citizens complain too many people are being allowed in. Britain, however, along with France and Germany, was among the first to open its borders to large-scale immigration from non-European countries after World War II.

In other breaks from the past, foreign nationals living in the U.K. were recently told to begin applying for ID cards they must eventually carry, and anyone coming into the U.K. on a visa will be fingerprinted.

Past the borders

Estimated number of citizens migrating to the U.K.



*British citizens returning to the country after being out of it for more than a year, including people from abroad able to take on British citizenship through family ties.

Source: U.K. Office for National Statistics

Associated Press

"There's not been such a drastic change in the regulation of immigration since the 1970s," says Paul White, a professor at the University of Sheffield who specializes in international migration. "The political agenda has changed on a combination of security concerns, concerns over community cohesion, and concerns about strains in the labor market."

The moves come at a time when the U.K.'s flagging economic prospects and weakening pound are making the country a less-attractive destination for workers from less-wealthy countries looking for better-paying jobs. The number of people arriving from the new members of the European Union fell by 39% in the third quarter from the year-earlier period, to 38,000. Nevertheless, immigration from outside the EU remains an issue.

A spokesman from the Government's Border Agency denied the country was less welcoming to foreigners. "We welcome anyone who is prepared to come along and work hard and play by the rules and contribute to the British economy," he said.

While the slowdown in immigration could alleviate pressure on the U.K.'s job market, it has potential to aggravate the country's economic woes. The U.K. depends heavily on migrants to fill jobs in service industries such as restaurants and nursing homes, and tuition-paying foreigners make up about 15% of universities' student bodies, according to government figures.

At the Gandhi Tandoori restaurant in south London, owner Nur-Ur Rahman Khondaker says he's already feeling the effects of the tougher immigration regime. Although U.K. unemployment is rising at its fastest rate in more than 15 years, he is struggling to fill vacancies. "The government is making it tougher, tougher every day to get foreign workers," he says.

Valeria Guimaraes, a Brazilian student, is feeling the changes, too. In August 2004, she says, she arrived in the U.K. and with minimal hassle received a visa to study and work in the country. But when she tried to return earlier this year after spending time at home in Brazil, the process was much tougher. The list of requirements and details needed had increased, including a requirement for a Brazilian sponsor, her grandmother, to show six months of bank statements to prove she had over £20,000 ($39,000) in a bank account.

"They asked me such hard questions," she said. "'What did you study in Brazil, what did you learn?' It's becoming very hard to get in." She said two friends with whom she arrived in London were refused entry.

In 2009, England, which receives the majority of Britain's immigrants, is expected to overtake the Netherlands and become the most densely populated country in Europe. According to government calculations, immigration will add seven million to the U.K.'s population of nearly 61 million by 2031. Critics say this is placing a huge burden on public services, as hospitals and schools see increased demand but no increase in their budgets.

While anti-immigration parties have never been a force in U.K. politics as they have in other European countries such as France and the Netherlands, more mainstream politicians are asking why the U.K. is admitting so many immigrants. The opposition Conservative Party says it would put a cap on immigration every year depending on demand for workers, and wants to establish a special border police unit to tackle illegal immigration. Hundreds of migrants are currently camped out in Calais, France, in hopes of illegally crossing into Britain to find work.

In May 2004, the U.K. was one of the few EU countries to allow workers from the new Eastern European entrants, such as Poland, to immigrate. Most of the new arrivals headed to towns and villages in the southeast of England, causing a sudden influx in area unused to mass immigration, a large backlash, and soul-searching by politicians.

The once-taboo subject has even been raised in the left-leaning ruling Labour Party. In April, Frank Field, a Labour member of Parliament, with a member of the Conservatives launched a cross-party group to campaign for a cap on immigration.

"We are growing the population largely by immigration, and that is changing what we mean by England," says Mr. Field. "And the voters of England have never been consulted."

Turkey predicts an IMF deal soon

BY CHRISTOPHER EMSDEN

Turkey said Friday, as important industrial indicators collapsed, that it will soon have a deal with the International Monetary Fund.

The government and the IMF have agreed on the broad conditions for IMF assistance, Economy Minister Mehmet Simsek said in Ankara. "The amount and the period of an IMF program will be decided at the last stage."

Caroline Atkinson, director of the IMF's external-relations department, said in Washington on Friday that Turkish officials "have not formally requested a program from the IMF," but discussions are taking place.

The government-run Anatolian News Agency said an IMF delegation will arrive in Turkey on Dec. 15.

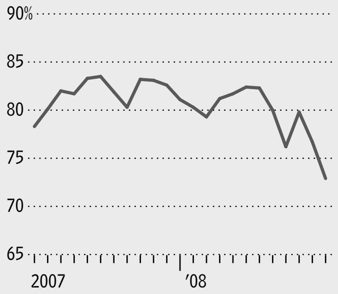
Turkey's economy held up for much of the year but is now showing dramatic signs of deterioration.

Industrial output fell 8.5% in October from a year earlier—much sharper than expected and much steeper than the 5.2% annual drop the previous month, the statistics office said Friday. Meanwhile, manufacturing capacity utilization dropped to 73% in November, its lowest level in years and four percentage points lower than the previous month.

Separately, Turkey's central bank lowered the required reserves that local banks must hold to 9% from 11% and indicated that the rate might be lowered again.

Slowing down

Turkish industrial capacity-utilization rates are plummeting



Source: Turkish Statistical Institute

Economists have warned that Turkey needs help from the IMF to mitigate the risk of a damaging currency collapse.

Prime Minister Recep Tayyip Erdogan is eager to boost public spending, including major infrastructure projects in the poor southeastern regions, rather than clip spending in an austerity budget that might worsen the economic downtown. But on Thursday he signaled that talks with the IMF were at an advanced stage, saying that "not many sticking points remain."

Mr. Erdogan had previously objected to the idea as IMF loans usually come with a host of conditions. Turkey holds local elections next spring.

Any deal with the fund will likely involve some tax increases and spending cuts but should also pave the way for Turkey's central bank to cut its 15.75% interest rate, said Goldman Sachs economist Ahmet Akarli.

Turkey's real economy is now exposed to a double blow as low-cost Asian countries are pummeling its traditional textile sector, while its new factories, many built to integrate with Europe, are suffering from the recession in the West. On Friday, **Daimler** AG's Mercedes-Benz unit announced a five-week production stop at a Turkish truck-making plant, which employs 1,500 workers.

Official unemployment is 9.8% and rising, but that figure is widely considered to understate the reality.

Turkey faces as much as $140 billion in gross external financing requirements next year, but that figure is roughly offset by central-bank reserves and hard-currency deposits held by Turkish households, according to Christian Keller, an economist at Barclays Capital. He said an IMF package of $20 billion to $25 billion "would do the trick in terms of putting concerns to rest."

German stimulus proceeds

A WSJ NEWS ROUNDUP

FRANKFURT—The German parliament completed passage of a €31 billion ($39.6 billion) stimulus program Friday, and the central bank warned of a considerable contraction ahead.

The plan, approved by the upper house after a cost-sharing dispute between state and federal governments, is to run two years. The government calculates the package will provide a €50 billion boost to the economy after private investment that is expected to accompany the government funds.

Sweden, meanwhile, unveiled an 8.3 billion kronor ($1.01 billion) stimulus package, a day after its central bank cut rates.

In Germany, the government wants to safeguard a million jobs by providing incentives for public and private investment, creating conditions for a quick recovery. Other European governments have criticized the plan as insufficient as it represents just 1.3% of gross domestic product.

Some members of German ruling parties have pushed for additional measures, such as tax cuts or direct cash for consumers, but so far Chancellor Angela Merkel's government has declined to go along.

Russia court clears commentator

BY DARIA SOLOVIEVA

MOSCOW—A Moscow court Friday ended a probe of a prominent political commentator and Kremlin critic that had raised fears of a Kremlin crackdown on opponents last year.

The Basmanny District Court accepted a finding by a panel of experts that Andrei Piontkovsky's book, "Unloved Country," didn't fall under the definition of extremism that prosecutors had charged when they brought the case in the summer of 2007.

The Kremlin tightened extremism laws last year to cover some kinds of criticism of officials, a step civil-rights groups criticized as a move toward censorship.

Mr. Piontkovsky's book, a collection of his online columns on Russian politics, was harshly critical of then-President Vladimir Putin. A finding of extremism also could have brought penalties for the opposition Yabloko party that distributed the book.

Mr. Piontkovsky, now a visiting fellow at the Hudson Institute in the U.S., welcomed the ruling as a sign Russia's political climate is improving.

ECONOMY & POLITICS

China growth faces snags

Social spending key, not just investments in new infrastructure

By Andrew Batson

BEIJING—In its drive to avoid a sharp economic downturn, China plans to spend four trillion yuan ($581 billion) on a stimulus package that focuses on railways, airports and other hard assets. But just 1% of that sum is going to increased social services.

That balance needs to be corrected, many scholars say, if China is to keep growing rapidly and improving living standards in the years ahead. More spending by its own consumers would both support growth and reduce reliance on exports, but that isn't going to happen unless the government eases the burden on families to provide for education, health care and old age. A healthier and better-educated populace should also be more productive.

THE OUTLOOK

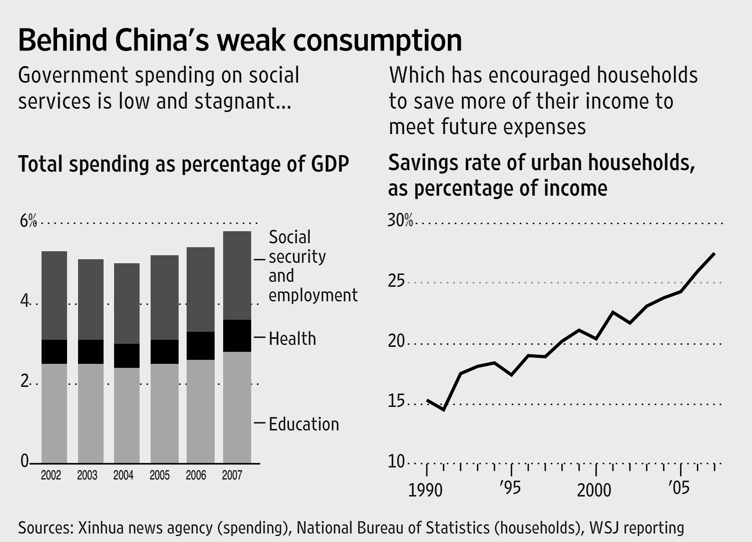
"You need investment in human capital to produce high growth rates in the future," says Khalid Malik, head of the United Nations Development Program in China.

It is easy to understand why China is investing so heavily in infrastructure. Construction is the part of the economy that has slowed most sharply, and thus is most in need of support. Putting money into infrastructure has a quick payoff and is a tested strategy that China employed in 1998 to pull out of the Asian financial crisis.

But improving infrastructure may not be enough to support long-term growth—especially in China, which already has one of the highest investment rates of any major economy. Some worry that China could eventually go down the same road as Japan, which kept spending even after officials ran out of worthwhile projects.

Yet weaving a social safety net has proved a particularly tricky task in China. President Hu Jintao and Premier Wen Jiabao have made social programs a higher priority, but spending has usually lagged behind government promises. In 1997, the government said it would spend 4% of China's annual gross domestic product on education by 2000. The goal was never reached: Last year spending totaled 2.8% of GDP.

"We have no shortage of goals and targets. What we lack are specific policies and measures to achieve these targets," Zhao Dianguo, director of the department of rural social security at the Ministry of Human Resources and Social Security, said at a recent U.N. forum.



Sources: Xinhua news agency (spending), National Bureau of Statistics (households), WSJ reporting

In the U.S., expansion of social programs is a conventional part of measures to cope with economic downturns. Congress has already passed an extension of unemployment benefits, and more measures are likely in the stimulus package President-elect Barack Obama has promised to push through after he takes office in January. Options being discussed include increasing support for lower-income families' health-care costs, expanding food stamps and college grants, and further extending jobless benefits.

Earlier, the administration of President George W. Bush offered tax rebates to boost consumer spending. But fiddling with personal taxes wouldn't help as much in China. That is because the country's nascent tax system covers so few people to begin with.

And increasing social spending is surprisingly difficult in China because it is often unclear which parts of government are responsible for funding and operating the programs. China is a huge country with a bureaucracy to match: It has 31 provinces, 333 municipalities, 2,859 counties and 694,745 rural villages. For decades, there has been little direction on this issue from Beijing, which generally lets local governments fend for themselves financially.

Local officials are often more interested in supporting industrial projects that boost their tax revenue than in expanding social programs that only cost them money. For instance, the program to support incomes of the worst-off—the urban minimum living allowance, often known by its Chinese shorthand *dibao*—reaches only a fraction of the people who are eligible for it, and its rolls haven't significantly expanded in recent years.

Beijing often doesn't have the means to control how money is spent locally, where priorities are different. While local officials complain of unfunded mandates for new programs, central officials worry that any money they send to the provinces will get lost. "The central government has great difficulty in monitoring local government spending," says Mark Williams of Capital Economics in London.

The lack of much of a social safety net is one reason Chinese consumers save so much. Urban households put away more than a quarter of their income, and that proportion has been gradually rising. That thrift is less a sign of virtue than of the great pressures on most families.

Many of China's public institutions collapsed in the transition to a market economy and have mostly not been replaced. In today's China, welfare for the poorest and pensions for the elderly are minimal. There is little government or private health insurance. So families need to pay for education, health care and to support aged parents—expenses that are broadly covered in Europe and to a lesser extent in the U.S.

Optimists point out that China's government has been building up social programs for the past couple of years, such as free primary education and expanded health and welfare benefits for the rural poor. Though they are small now, the new programs mean the government may now be better able to live up to its promises.

The government says improving living standards is a priority of the stimulus plan: It has promised to increase state pensions and welfare payments to the urban and rural poor. There is also 4.8 billion yuan in new funds going to support thousands of clinics in poor rural areas. That isn't much compared with China's other spending plans, but it's a start.

And China's leaders, facing many calls for additional stimulus measures that will more directly aid consumers, could well do more in coming weeks. But a longer-term fix also requires sorting out the division of labor between central and local governments—a messy task that could take years.

IMF recruit has White House ties

By Bob Davis

WASHINGTON—The International Monetary Fund is recruiting economist David Romer, husband of U.S. President-elect Barack Obama's choice for a top White House economics job, to handle economic issues.

"I've been talking with David and I'd be delighted if he came," said IMF chief economist Olivier Blanchard. "But nothing is settled."

Mr. Romer is an expert in monetary and fiscal policy at the University of California at Berkeley, and would be a top aide to Mr. Blanchard. He is the husband of Christina Romer, who Mr. Obama has selected to head the White House Council of Economic Advisers. Mr. Romer declined to comment on whether he would take the IMF slot.

The wooing of Mr. Romer reflects the growing ties between the IMF and the new administration. Mr. Blanchard is a longtime friend and academic collaborator with former Clinton Treasury Secretary Lawrence Summers, who is slated to head another White House economic group, the National Economic Council.

India's success rate lacks in terrorist prosecutions

By Vibhuti Agarwal And Jackie Range

NEW DELHI—Fifteen years after Indian investigators said they found links between Dawood Ibrahim and multiple terrorist bombings in Mumbai that killed 257 people, the alleged one-time underworld gang leader remains at large.

Mr. Ibrahim, an Indian citizen, evaded capture and fled to Pakistan, where he is reputed to be living as a wealthy businessman, according to authorities. His case is just one of many where India's police and courts have failed to put suspected perpetrators of terror attacks permanently behind bars.

Now, as investigators probe last month's deadly Mumbai attacks and try to track down those responsible, legal and security experts fear their digging may again fail to produce successful prosecutions. So far, police have captured a man they say is the sole survivor among 10 terrorists that carried out the Mumbai assault. But they are still looking for suspected collaborators in India who may have helped them prepare for the attacks.

"The Mumbai case is no different in this case, and I have a sense of déjà vu the criminals won't be caught," contends Chintamani Mahapatra, professor of international studies at Jawaharlal Nehru University in New Delhi.

Critics argue that past Indian terror investigations have often been shallow and slipshod, involving not much more than checking mobile-phone records and credit-card details of suspects. Such perfunctory and patchy probes produce meager or circumstantial evidence and make for weak cases for prosecutors to take to court. India is severely under-policed, with just 126 cops for every 100,000 people, compared to the United Nations' recommended standard of 222, and most police officers lack the training and expertise to investigate terrorism cases.

Moreover, even if suspects are apprehended and charged, it can take years to bring them to court because of India's achingly slow judicial process. Even when cases arrive in court, proceedings move at a snail's pace; with repeated adjournments and interruptions, trials can go on for months or even years.

"The delay takes away witnesses from remembering the details, and many times they also change address," said K.P.S. Gill, a terror expert and former police chief for India's Punjab state. "The old 12-procedure criminal code [which dates from 19th-century British colonial rule] still exists. It needs to be modified." Among other things, the code allows bail for suspects if investigations aren't completed in 90 days, which rarely happens.

India's judicial administration is also hopelessly outmoded technologically. Court documents aren't digitized; records, including judges' opinions, are written up by clerks using carbon paper and typewriters.

Police shortcomings and inefficient courts have repeatedly stymied prosecutions of terror suspects. For example, police in Gujarat and Rajasthan states have detained about 30 people in connection with terror bombings in Jaipur and Ahmedabad this year that killed a total of 113 people. But it is still unclear whether the authorities can collect strong enough evidence to make a convincing case to formally charge any of them, let alone bring them to court.

India has tried occasionally to reform its legal system, but changes have been minor and slowly implemented, say lawyers who contend that the entire judicial system needs an overhaul.

Newly installed Indian Home Minister P. Chidambaram, speaking at a press conference on Friday, acknowledged security lapses in dealing with the Mumbai terror attacks. "Intell and security failed Mumbai," he said, adding that Nov. 26, the first day of the 60-hour rampage, "should change our attitude."

Mr. Mahapatra, the international-studies professor, thinks the government should set up a committee to direct change. "The government should form a central coordination committee that will make it easier for them to address the various issues, admit mistakes and then take proper action, introduce laws or any changes to prevent such terror acts in the future," he said.

India's chief opposition party, the Bharatiya Janata Party, or BJP, blames Prime Minister Manmohan Singh's Congress party-led ruling coalition for not proposing or enacting stronger antiterror legislation since coming to power in 2002. "Most of the security agencies and their chiefs have been demanding a tough terror law, beefing up of the security apparatus, and those [requests] have been ignored at great cost to the country," said Ravi Shankar Prasad, the BJP's national spokesman. "Now it is time to take up all these things on a priority basis."

Capturing and prosecuting suspects in the latest Mumbai attacks, which killed at least 171 people, is likely to be even more problematic because Indian police and intelligence officials believe the masterminds and collaborators in the attacks are in Pakistan, which has shown little sign of agreeing to Indian requests to detain and hand them over. New Delhi has no formal extradition treaty with Islamabad.

India has demanded that Pakistan produce about 20 suspects it says are now in Pakistan for prosecution. The list includes Yusuf Muzammil, a senior leader of outlawed Pakistani militant group Lashkar-e-Taiba, which Indian police allege trained the Mumbai attackers in terrorist tactics in a camp in Pakistani-controlled Kashmir. Indian police have accused Mr. Muzammil of masterminding the attacks from Pakistan, aided by other Lashkar-e-Taiba operatives.

Also on the list are Mr. Ibrahim, whom Indian prosecutors allege helped finance a series of deadly bombings in Mumbai in 1993; Maulana Masood Azhar, the leader of Pakistani militant group Jaish-e-Mohammed, who was freed from an Indian jail after an Indian airliner was hijacked to Afghanistan in 1999 to secure his release; and Hafiz Muhammed Saeed, the head of Jamaat-ud-Dawa, the alleged parent organization of Lashkar-e-Taiba.

Mr. Saeed has denied any involvement in the latest Mumbai attacks and has said that Jamaat-ud-Dawa has severed its former links to Lashkar-e-Taiba.

Dipankar Banerjee, director of the Institute of Peace and Conflict Studies, an independent think tank in New Delhi, said the success of any investigation and prosecution of those behind the Mumbai attacks "depends on how far Pakistan will cooperate."