THE WALL STREET JOURNAL.

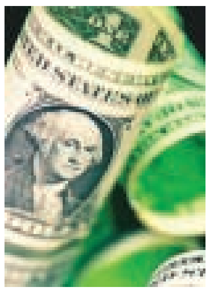
WSJ.com

Dow Jones Newswires

EUROPE

Dow Jones — A News Corporation Company

VOL. XXVI NO. 220 TUESDAY, DECEMBER 9, 2008



A money manager's fateful shift—into Lehman debt
NEWS IN DEPTH | PAGES 16-17

Frequent-flier programs are losing altitude
CORPORATE NEWS | PAGE 5

Global markets surge on U.S. stimulus package

Investors anticipate governments will act to bolster economies

By Tim Falconer

The prospect of heavy U.S. government spending to create jobs and keep auto makers out of the ditch sent stocks soaring Monday, as investors looked beyond more news of layoffs and bet that worst-case scenarios for the global economy could be avoided.

The Dow Jones Stoxx 600 index surged 6.7% to 202.61, its fifth rise of at least 6% for the index since mid-September. Among national markets, the U.K.'s FTSE 100 index rose 6.2% to 4300.06, while France's CAC-40 index jumped 8.7% to 3247.48. Germany's DAX index advanced 7.6% to 4715.88.

The gains followed strong advances earlier in Asia. Emerging-market stocks rallied as well. U.S. stocks also posted strong gains for the second trading day in a row.

The trigger was U.S. President-elect Barack Obama's pledge to back a half-trillion-dollar stimulus package that would be the country's largest infrastructure development

Please turn to page 31

A sudden bout of optimism

Performance of major stock-market indexes

MARKET	MONDAY'S CLOSE	CHANGE	Y-T-D CHANGE
Paris CAC 40	3247.48	8.7%	-42%
Frankfurt Dax	4715.88	7.6	-42
Moscow RTS	632.21	7.2	-72
Pan-European Dow Jones Stoxx 600	202.61	6.7	-44
London FTSE 100	4300.06	6.2	-33
New York DJIA	9008.65*	4.3	-32

*3:15 p.m. EST

Source: Thomson Reuters

Traders work on the main trading floor of the NYSE, Monday

Reuters

Decline in reserves leads S&P to cut Russia debt

By Gregory L. White

MOSCOW—In a sign of how quickly the global crisis has reversed Russia's economic fortunes, Standard & Poor's cut the country's debt rating on Monday for the first time in a decade, warning of the "rapid depletion" of Russia's massive reserves.

The move comes as the Kremlin has shifted in recent weeks from trying to play down the impact of the crisis on ordinary Russians to warning that the country needs to prepare for a prolonged and painful slowdown. The government has steadily added to its bailout package, which now totals more than $200 billion. Facing rising pressure on the ruble, the central bank has allowed it to slip by only a few percent over the past few weeks, spending tens of billions of dollars from its reserves to prevent a sharper drop.

S&P highlighted Russia's spending of its reserves as a key reason for its downgrade to BBB from BBB+, adding that a further downgrade is possible. The rating agency warned that if oil prices remain low over the next two years, Russia will run through all the $209 billion it has saved from its oil revenues in special rainy-day funds.

With international debt markets largely closed to most borrowers amid the global credit crisis, Monday's downgrade isn't likely to have an immediate practical effect, analysts said. But once markets reopen, it could mean higher borrowing costs for the government and Russian companies, whose ratings are capped by those of the government.

"It's a warning shot," said Chris Weafer, economist at Uralsib, a Mos-

Please turn to page 31

Trepidation is felt as EU enters Kosovo

By Ian Johnson

BERLIN—Nearly 2,000 civilian law-enforcement officials from the European Union, the U.S. and a handful of other countries are scheduled to begin working in Kosovo on Tuesday to bolster the country's shaky police, courts and customs systems.

This unprecedented mission in a country recognized as a major conduit for smuggling drugs and weapons into Europe faces complex challenges. A recent bombing in Kosovo's capital of Pristina and a murky spy affair involving German agents highlight some of the diplomatic difficulties as the EU begins its ambitious effort in the Balkans.

"It's an extremely difficult situation for the EU," says Dusan Reljic, a fellow at the German Institute for International and Security Affairs in Berlin. "They are testing their capability for state-building in an area that is riven by factions and crime."

The Rule of Law Mission, dubbed EULEX, is the result of a complex series of agreements between the EU, Russia, Serbia and Kosovo that gives it a legal mandate to operate in Kosovo. The mission received €205 million ($260 million) from the EU for an initial 16 months, but is expected to be extended for several years.

Please turn to back page

What's News—

Business & Finance

Markets rose globally on prospects of U.S. government spending to create jobs and a plan to prop up American auto makers. The U.K.'s FTSE 100 index rose 6.2%, France's CAC-40 jumped 8.7% and Germany's DAX advanced 7.6%. Pages 1, 20

■ **The UAW is seeking** an equity stake in GM and possibly a seat on the auto maker's board in exchange for contract concessions, a union official said. Page 20

■ **The EU cleared** French plans to recapitalize better-managed banks and told Germany to revise its bank-aid plan. Page 3

■ **Big bonuses for Thain** and others at Merrill are unjustified, New York's Cuomo said. Morgan Stanley's Mack and two deputies are forgoing bonuses. Page 19

■ **The labor market's outlook** globally is worsening as companies struggle with weaker consumer demand, a Manpower survey showed. Page 3

■ **European steelmakers are** pressuring the EU to reshape the world's largest carbon-trading system or face a massive loss of jobs. Page 4

■ **Fiat's CEO implied** the Italian car maker's independent days are numbered because industry woes will force smaller auto makers to consolidate. Page 4

■ **Carphone's David Ross** resigned as deputy chairman, admitting he hadn't disclosed his use of company shares to secure personal loans. Page 19

■ **German industrial output** fell 2.1% in October from the previous month, adding to the gloomy economic outlook. Page 11

■ **Qantas's CEO said** a merger with British Airways would yield substantial benefits but added that obstacles remain. Page 5

■ **Airbus booked 756 orders** for aircraft in the year to date, exceeding Boeing's 640 orders. Page 5

■ **Sweden's SSAB plans** to eliminate 1,300 jobs amid the downturn in the steel market. Page 4

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8934.18	+298.76	+3.46
Nasdaq	1571.74	+62.43	+4.14
DJ Stoxx 600	202.61	+12.77	+6.73
FTSE 100	4300.06	+250.69	+6.19
DAX	4715.88	+334.41	+7.63
CAC 40	3247.48	+259.47	+8.68
Euro	$1.2934	+0.0263	+2.08
Nymex crude	$43.71	+2.90	+7.11

Money & Investing > Page 19

World-Wide

Standard & Poor's cut Russia's debt rating for the first time in a decade, in a sign of how quickly the global crisis has reversed the country's economic fortunes. The agency warned of the "rapid depletion" of Russia's massive reserves. The move comes as the Kremlin shifted from trying to play down the impact of the crisis to warning that the country needs to prepare for a prolonged and painful slowdown. Page 1

■ **Pakistan arrested** two top leaders of the Lashkar-e-Taiba terrorist group and 10 others in a move aimed at satisfying U.S. and Indian demands that Pakistan clamp down on suspects in the Mumbai attacks. Page 2

■ **Greek cities were gripped** by a third day of violence and rioting as the country faces anger over the fatal shooting by police of a teenage boy. Students and anarchist groups torched banks and government offices, and clashed with police. Page 8

■ **Indian voters** in state elections handed disappointing results to the main opposition party, which tried to capitalize on the Mumbai attacks to attract votes. Page 10

■ **Khalid Sheikh Mohammed** and four co-defendants in Guantanamo Bay said they wanted to confess to the Sept. 11, 2001, terror conspiracy. Page 10

■ **The U.S. charged** five Blackwater guards with manslaughter and weapons violations in a 2007 Baghdad shooting. A sixth guard pleaded guilty to voluntary manslaughter. Page 9

■ **Vandals desecrated** at least 500 tombs of Muslim soldiers in northern France, an act Sarkozy called "repugnant racism."

■ **Activists broke into** a secure area of a London airport in a protest against air-traffic pollution, causing the cancellation of dozens of flights. Page 12

■ **The EU** joined calls for Mugabe to step down, adding more Zimbabwe officials to a visa blacklist to mount pressure on the president.

■ **Sarkozy presented** a European plan to the U.N. to revive global nuclear-disarmament efforts.

■ **An EU flotilla** will deploy five days early to the Horn of Africa, determined to combat piracy.

EDITORIAL & OPINION

Conventional wisdom
Obama seems set to continue the foreign-policy mistakes of the last four Bush years. Page 15

LEADING THE NEWS

Pakistan detains 2 Lashkar chiefs

Leaders face pressure to deal with Jamaat; India watches closely

Pakistan arrested two senior leaders of the Lashkar-e-Taiba terrorist group and 10 other people, in a move aimed at satisfying U.S. and Indian demands that the Pakistani government clamp down on the group suspected of being behind the Mumbai terror attacks.

Lashkar has operated openly in Pakistan despite being banned six years ago. Diplomats and analysts said the raid on the camp was a good first step but also a relatively easy one.

*By **Matthew Rosenberg** and **Zahid Hussain** in Islamabad and **Eric Bellman** in Mumbai*

The bigger test is what Pakistan does about Lashkar's parent organization, Jamaat-ud-Dawa. It also is banned but retains a high public profile, running schools, doing relief work and raising millions of dollars a year through a fund-raising network that appeals to everyone from Pakistani farmers to Persian Gulf sheiks.

New Delhi is taking a wait-and-see approach. "Once we have the details, we'll assess them," an Indian official said. Tensions between Pakistan and India have escalated since the attacks in Mumbai late last month left 171 dead. In Washington, Sean McCormack, U.S. State Department spokesman, said: "I think what we're seeing are some positive steps" by Pakistan.

Sunday night's raid targeted Zaki-ur-Rehman Lakhvi, one of Lashkar's founders, who is believed to be the group's current operational commander, directing attacks in Kashmir and other parts of India, Chechnya and Iraq, said a senior Pakistani official. Mr. Lakhvi, who operates under several aliases, is from the Okara district in Pakistan's central province of Punjab, the same district where the sole militant captured during the attack on Mumbai, Mohammed Ajmal Kasab, has said his home village is located. Mr. Kasab has told Indian police Mr. Lakhvi led the indoctrination of the 10 attackers who struck Mumbai.

New Delhi accuses Mr. Lakhvi of masterminding a 2002 attack on a military base in Old Delhi's historic Red Fort and the 2006 bombings of Mumbai's commuter rail network, which killed 187 people.

Mr. Lakhvi was arrested during the raid on a well-known Lashkar compound about five kilometers outside Muzaffarabad, the main city in Pakistan's part of Kashmir, another official said. There was a brief exchange of gunfire between soldiers and militants during the raid, which also netted Zarar Shah, another top operational commander, and an additional 10 people, the official said.

Top Pakistani civilian and military leaders met in Islamabad after the raid to review the situation. Another senior official said the crackdown against Lashkar could be expanded to other areas and eventually include Jamaat.

Founded in 1990, Lashkar was fashioned by Pakistan's powerful Inter-Services Intelligence agency into one of the most potent Islamic insurgent groups fighting Indian rule in Kashmir, a predominately Muslim Himalayan region that lies at the center of the six-decade rivalry between India and Pakistan. Some experts say the group is a proxy of the ISI, although India and the U.S. have said they don't believe Pakistan's government was involved in the Mumbai attack.

Lashkar receives large sums from the Persian Gulf, especially Saudi Arabia, according to Central Intelligence Agency reports seen by The Wall Street Journal. A major Saudi contact for the group was Shaykh Abdalah Al-Rayyis, founder of the Wafa Humanitarian Foundation, which was "involved in assassination plots against U.S. citizens as well as the distribution of 'how to' manuals on chemical and biological warfare," according to a 2001 U.S. Treasury designation of the organization as an al Qaeda terrorist front. Mr. Rayyis was killed in a shootout with Saudi authorities in December 2003.

A broader crackdown on Lashkar and Jamaat might have to happen to satisfy India, which has pointedly refused to rule out military action. Pakistan's reaction has "got to be more visible," said a Western diplomat in New Delhi. "They need proof something definite has been done."

Sunday's raid is evidence that Pakistan's powerful military is in agreement with President Asif Ali Zardari's government on the need to move against the group, at least to a degree. But experts say it is already stretched thin, fighting the Taliban and al Qaeda along the western border with Afghanistan and guarding the eastern border with India, with which Pakistan has fought three wars since independence in 1947.

A serious crackdown on Lashkar and Jamaat would mean "effectively opening up a third front," said Shuja Nawaz, an expert on Pakistan who works with the Atlantic Council, a Washington think tank.

Going after Lashkar and Jamaat could also risk alienating millions of their supporters in the central province of Punjab and other parts of Pakistan where the group has sunk deep roots, providing schooling and health care to people who often get little from Pakistan's government. Hundreds of thousands of people turn out to hear Jamaat's message of jihad at rallies, and millions are believed to give it money to finance its operations.

For Pakistan's government, going after Jamaat's fund-raising network is "the jugular," Mr. Nawaz said. "That's what has to be the real first step."

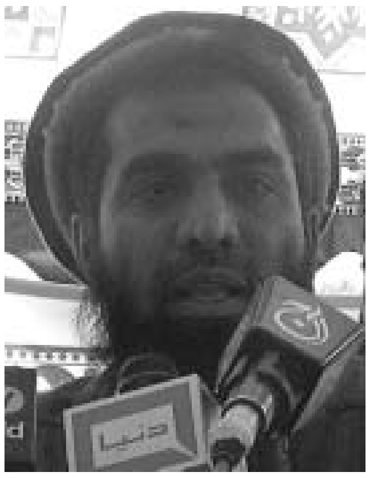
Such a move would have to be made quickly to keep the group from simply changing its name and shifting its bank accounts. A number of Pakistani Islamist groups have done that after being banned, including Lashkar, which transferred its funds to Jamaat when Lashkar was proscribed in 2002, experts say.

Jamaat's fund-raising efforts were still going strong Monday, the eve of Eid al-Adha, a major Muslim holiday that commemorates the willingness of Abraham—known by Muslims as Ibrahim—to sacrifice his son for God. Animals are sacrificed during the holiday, and Jamaat was busy collecting the hides, which it later sells, said Ghulam, a 51-year-old former Lashkar member who maintains links with Jamaat.

Ghulam, who works at Lahore's hide market and asked that only his first name be used, said in an earlier interview that Jamaat also goes house to house in many villages, towns and cities during the year to collect 2.5% of each family's annual savings as a donation to the poor.

Indian police, meanwhile, said Mr. Kasab has given investigators the names and hometowns of the nine other attackers. They are mostly from small towns in Punjab, said Rakesh Maria, Mumbai's joint commissioner of police. The police say the leader of the attackers was a man named Ismail Khan, a 25- or 26-year-old, who targeted commuters in a busy Mumbai train station. "He was the leader," said Mr. Maria. "This was not his first operation."

—Jackie Range in New Delhi, Geeta Anand in Mumbai and Susan Schmidt and Glenn R. Simpson in Washington contributed to this article.



Reuters

Zaki-ur-Rehman Lakhvi, believed to be Lashkar's operational commander, was arrested in Sunday's raid.

INDEX TO PEOPLE

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

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

INDEX TO BUSINESSES

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

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 Fax: 32 2 741 1600
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799
Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

LEADING THE NEWS

Trade diplomats reject summit to revive Doha

Representatives say talks are doomed, in rebuff to leaders

By John W. Miller

Trade diplomats rejected proposals for a summit later this month, saying it was doomed to fail, in a rebuff to calls from world leaders to revive the stalled Doha Round of trade talks.

Leaders of the Group of 20 largest economies had called in Washington in November to revive the Doha talks as a means to stave off protectionism. British Prime Minister Gordon Brown said at the time the leaders would instruct their trade negotiators to get an agreement by the end of the year.

Trade diplomats from the world's biggest trading nations met in Geneva on Monday to decide how to go forward. They rejected any quick summit, saying deep divisions remain in areas including agricultural tariffs, cotton subsidies and tariff-free zones for chemical and other industries proposed by the U.S. The same disputes collapsed the last Doha summit in July.

"If we continue to search for perfection, all our efforts may come to nothing," said the European Union's new trade commissioner, Catherine Ashton, expressing disappointment at Monday's decision.

The seven-year-old Doha Round is an attempt to get rich countries to cut farm tariffs and subsidies in exchange for emerging economies like China, Brazil and India opening up markets for cars, machines and other industrial goods, in a bid to curb poverty.

The talks have foundered in high-profile summits in Cancún, Hong Kong and Geneva. The latest attempt in July flopped after China and India insisted on the right to impose emergency tariffs if food imports threaten their farmers.

The global economic crisis has raised the stakes. Average tariffs on goods are now at a record low, around 3.7%. But with a slump now hitting economies around the globe, there are fears countries could start raising their tariffs again to protect jobs and domestic industries. A Doha deal would cap the legal maximum average tariff a country can impose at 6%. Without Doha, countries can raise tariffs to an average of 10%.

"There's room for protectionist mischief," says Paul Blustein, a fellow at the Brookings Institution. "Doha's not a 'nothing burger' anymore."

There are fears countries could start raising their tariffs again.

Major political hurdles to a deal remain. India must hold national elections by May, and the government plans to campaign on a pledge to protect the country's half-billion farmers, a promise that would seem empty if it gives up the right to increase food tariffs.

In the U.S., congressional Democrats, the Farm Bureau and the National Association of Manufacturers lobbied the Bush administration not to agree to a December summit. The U.S. farm lobby doesn't want to give up cotton subsidies.

WTO Director-General Pascal Lamy hasn't given up and will pursue negotiations by telephone, said a WTO official.

Chinese ships trigger tensions in Japan's waters

Associated Press

TOKYO—Two Chinese survey ships intruded on Japanese waters surrounding disputed islands in the East China Sea but retreated several hours after Tokyo protested to Beijing, Japanese officials said.

The Japanese coast guard said it wasn't clear what the Chinese ships did for about nine hours in the waters near the Japan-held islands, which are known as the Senkaku in Japan and the Diaoyu in China. The islands are also claimed by China and Taiwan.

Tokyo immediately lodged a protest with Beijing over the intrusion.

"Historically and internationally, the Senkaku islands are part of Japan. (The entry) was extremely regrettable," government spokesman Takeo Kawamura said at a news conference.

China responded to Tokyo's protest by saying it was checking facts, a Japanese Foreign Ministry official said on condition of anonymity, citing protocol.

The coast guard declined to say whether it had dispatched patrol boats to the disputed waters, citing security reasons. But it used radio warnings to repeatedly demand the Chinese ships leave, coast guard official Kazuya Ono said.

The territorial dispute over the islands is one of many that has strained ties between Tokyo and Beijing. The coast guard said it was the first time since 2004 that Chinese ships have entered waters near the islands.

EU lets France aid banks, tells Germany to fix plan

By Peppi Kiviniemi

BRUSSELS — The European Union cleared French plans to recapitalize some of its better-managed banks, even as new tensions rose with Germany over its wish to give fresh capital to **Commerzbank** AG.

European Union Antitrust Commissioner Neelie Kroes announced new guidelines that will allow financially stable banks to benefit from government financing, in return for paying risk-weighted fees. The new guidelines are expected to result in higher lending by the banks to individuals and companies.


Neelie Kroes

In a speech, Ms. Kroes also said she expects the German government to make some changes to its overall bank aid program so that the Commission, the EU's executive branch, can approve the financing the government wants to give to Commerzbank, the country's second-largest lender by assets after Deutsche Bank AG.

However, the German government said it didn't intend to change anything in its planned aid for Commerzbank. "We don't believe that there is still the need for changes in the case of aid for Commerzbank and we expect a quick approval by Brussels," said a Finance Ministry spokesman.

Commerzbank is expecting an €8.2 billion ($10.43 billion) capital injection and will pay interest of 8.5% and 5.5% in two coupons, according to the current plans.

The commission has in the past said it has an issue with the terms of the loan, as the overall rescue package that was cleared with the German government stipulated a 10% interest rate on any capital injections granted to troubled banks.

Germany said Commerzbank shouldn't have to pay such a high interest rate because it isn't as deeply in trouble as some other recipients. Asked whether she regarded Commerzbank as "sound," Ms. Kroes said it was "in between" a financially sound and a troubled institution.

"Contacts are continuing with the German government to clear the issue," a commission spokesman said.

Ms. Kroes said she approved France's plan to provide financing to some of the country's better-run banks. France plans to inject €10.5 billion into the chosen few to stimulate their lending, seeing an average interest of around 8%, the commission said. The plan is capped at €21 billion, the commission said. France has a separate plan that is aimed at bailing out struggling banks.

—Andreas Kissler in Berlin contributed to this article.

Hiring plans for next year are scaled back across globe

By Nicholas Winning

LONDON—The outlook for the global labor market is deteriorating markedly as companies struggle with the credit crunch and weaker consumer demand, a quarterly report by Manpower Inc. showed.

The employment group's survey of more than 71,000 employers in 33 countries found most expected to cut hiring in the first three months of next year. Employers in 21 of the countries reported the weakest hiring intentions on record.

The weakness that had been seen in the U.S. labor market has now spread to Europe and the Asia-Pacific region, with most employers taking a "wait-and-see" approach before changing staffing levels.

"Hiring is a bit of a confidence index when you do a forward-looking survey and this is showing extremely weak confidence," Jeffrey Joerres, the chief executive of Manpower, said in a telephone interview.

Employers in all but three economies surveyed—the U.S., Canada and Switzerland—expect to slow the pace of hiring from this year's final quarter, Manpower said.

A government report released Friday showed U.S. companies shed more than 1.2 million jobs in the past three months alone.

Still, hiring intentions in the U.S. are expected to just creep higher in the next quarter, not surge ahead, Mr. Joerres said. "I wouldn't want to characterize the U.S. as a bright spot, though if you look at the graph there is this little tick up," he said. "That's not a bright spot, that's a slight pause bouncing off the bottom."

Mr. Joerres also said the trend outside the U.S. is looking worse.

The survey showed that the outlook for hiring in the U.K. fell to a 15-year low, while hiring plans in France turned negative for the first time in 20 years. The outlook in Italy, Spain, and Ireland sunk deeper into negative territory. In Germany, the hiring outlook held in positive territory, but at an extremely low level.

"It's a global marketplace and when there's a downturn everybody is going to get it," Mr. Joerres said.

CORPORATE NEWS

EU emission curbs stoke up steel firms

Industry says carbon-dioxide trading market, caps on factories and power plants threaten high-paying jobs

By Alex MacDonald

LONDON—The European Union is facing mounting pressure from European-based steel companies to reshape the world's largest carbon-trading system or face a massive loss of jobs.

The conflict pits the EU's environmental goals against its desire to keep high-paying jobs on the Continent.

Europe's steel industry generates €140 billion ($178 billion) in sales annually, employs about 370,000 people directly and about one million people indirectly, with suppliers and downstream industries—such as car manufacturers and other companies that use steel in a major fashion—accounting for a total of 22 million jobs, according to the European Confederation of Iron and Steel Industries, or Eurofer. Almost 500 million people live in the EU.

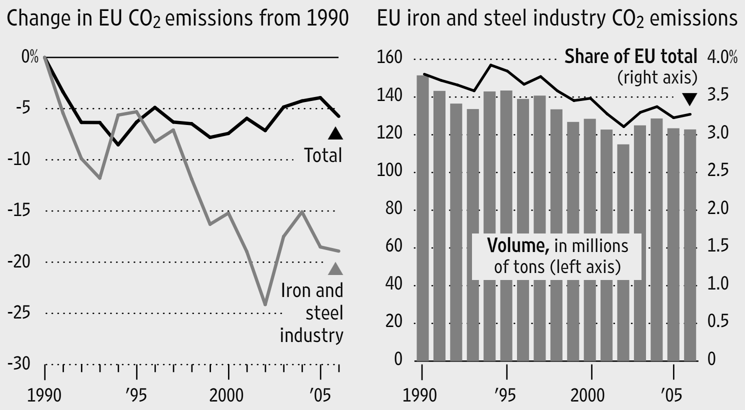
But steelmakers say those jobs are threatened by the European Commission's latest proposal on trading allowances to emit carbon dioxide, which will apply more stringent emissions caps on factories and power plants that buy and sell CO_2 allowances in order to meet their annual emissions quotas. Steelmakers are concerned that the existing proposal would put them at a competitive disadvantage to competitors that operate in countries with more relaxed environmental rules.

The EU wants to cut total CO_2 emissions within the economic zone to 20% below 1990 levels by 2020. The target would rise to 30% if the EU strikes an international agreement to reduce CO_2 emissions.

Because the EU is taking a more lenient stance toward businesses that are outside the scope of the program—such as agriculture and transport, among others—deeper cuts will be required for the bloc's industrial sector.

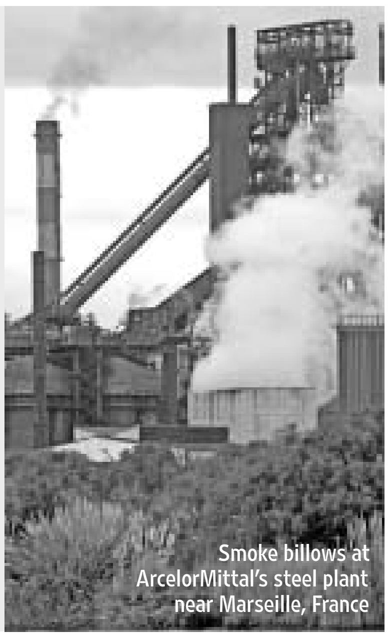
Carbon change

Carbon emissions are falling in steel industries in the European Union but companies say the cost to the industry is too high.



Note: The total EU net emissions includes all sectors for all member states, including those that operate within and outside the European Emissions Trading Scheme.

Source: European Environment Agency. Photo: Reuters



Smoke billows at ArcelorMittal's steel plant near Marseille, France

Eurofer, for example, predicts that steelmakers will have to have to cut their CO_2 output by up to 45% below 1990 levels by 2020, and up to 55% if the EU achieves an international agreement. The EU says it doesn't keep targets for specific sectors, but Eurofer says it calculated the target by putting together all of the measures in the current EU proposal.

The commission hasn't outlined its plans for the steel sector in detail yet. But steelmakers are concerned the industry will face similar rules to those expected to be applied to the electricity business. Electricity producers will be forced to buy all the CO_2 credits they need between 2013 and 2020 through auctions, rather than receiving a large portion of them free. Most allowances have been allocated free of charge since the program began in 2005.

"Full auctioning of CO_2 allowances is a real threat" to our industry, said Wolfgang Eder, chief executive of Austrian speciality steel maker **Voestalpine**. Even partial auctioning poses a problem, he added.

Eurofer estimates the EU's proposal would cost the steel industry between €50 billion and €100 billion if the commission decides to force the industry to buy all its permit requirements.

"Why are we [European steel producers] the only ones to be subjected to stringent CO_2 limits while there are other producers in the world who do not have stringent requirements for CO_2 emissions?" said Lakshmi Mittal, chief executive of **ArcelorMittal**, the world's largest steelmaker. "If we continue to follow those stringent requirements, there could be a displacement of jobs in the future because European industry wouldn't be as competitive," he added.

ArcelorMittal came close to permanently shutting down a blast furnace in Belgium this year after failing to secure enough emissions allowances to make the plant economically viable. The blast furnace's future was salvaged by a deal under which ArcelorMittal, the regional Walloon government and the Belgian government agreed to share the burden of the extra CO_2 costs.

The EU has said that all industries, regardless of their exposure to foreign competition, would receive up to 80% of their allowances free in 2013, with the amount falling to zero in 2020. But the commission has already acknowledged that certain energy-intensive industries may need different treatment to ensure fairness with companies operating outside the bloc.

The commission has so far failed to define which sectors would be designated as "energy-intensive," and failed to say explicitly how such users would be shielded, however.

Steelmakers say that uncertainty is driving investment away.

Voestalpine said it is considering cutting all production capacity at its most environmentally efficient plant in Europe and shifting that capacity to a new €5 billion mill it plans to build in either Ukraine or Turkey. The company is also considering building the plant in Bulgaria or Romania, but prefers the other locations because they have less stringent environmental rules than EU member states.

Voestalpine employs 10,000 people at its steel facitilities in Linz, Austria.

The "proposal as it stands now will inevitably stop growth and it could put the renaissance of the European steel industry ... at risk," said Gordon Moffat, general director of Eurofer. He said the current proposal would lead to a 10% to 20% increase in the cost of each ton of steel.

The commission wants to wait until an international meeting on climate change in 2009 to clarify which energy-intensive industries are most vulnerable to foreign competition and then list companies by the end of 2010 that would be eligible for special treatment under the third phase of the cap-and-trade emissions reduction system, which will last from 2013 through 2020.

But Mr. Moffat said that "to wait two years to find out ... is extremely damaging in terms of investment" plans.

Fiat seeks a partner, but pickings may be slim

By Stacy Meichtry

ROME—Squeezed by a global downturn in consumer spending that is also pummeling its bigger U.S. rivals, Italian auto maker Fiat is on the hunt for a partner. The question is whether there will be any takers.

In separate comments Monday, the chief executive of **Fiat** SpA, the auto maker's parent company, and the chairman of Fiat SpA's controlling shareholder said the global auto industry's woes are likely to force Europe's smaller car makers to consolidate.

"Independence in this business is no longer sustainable," Fiat Chief Executive Sergio Marchionne told Automotive News Europe in an interview published Monday and confirmed by a Fiat spokesman. "I cannot continue to work on cars on my own. I need a much larger machine to help me. I need a shared machine."

For years, Fiat has fiercely defended the independence of its car unit, Fiat Group Automobiles. Mr. Marchionne has steered the car company back to profitability by avoiding broad alliances and forging more targeted relationships, with peers such as **Tata Motors** Ltd. of India.

Now, an alliance might even have the blessing of Fiat's founding family, the Agnellis, who hold a 30% controlling stake in the car maker.

"In a consolidation scenario, finding the right partner and the right combination would be the priority," John Elkann, the great-great-grandson of Fiat's founder and chairman of the Agnelli family holding company, **Ifil** SpA, said in a statement emailed through a spokesman. "The level of the shareholding would be secondary to the competitive position and the value any new combination would produce."

Fiat SpA, which produces vehicles ranging from Ferraris to tractors, has fared better than some vehicle makers as the global economy has soured, largely thanks to the company's robust sales of farm equipment.

Last month, however, car sales in Italy, Fiat's biggest single market, fell 29.5% to 138,352 vehicles—their lowest level since 1993. Mr. Marchionne recently forecast Fiat SpA's net profit next year could fall 85% to €400 million, or roughly $510 million, in a "worst case" scenario of rapidly deteriorating car sales. The company plans to temporarily close its Italian car plants from mid-December to mid-January.

Analysts said Fiat has to move fast. As one of Europe's smallest players, the Italian company is under more pressure than others to find a partner that can provide economies of scale, said Deutsche Bank analyst Gaetan Toulemonde. And tighter lending conditions mean potential suitors will be choosy. "Everybody will be going to the ball, so you prefer to have the first pick and not be the leftovers," Mr. Toulemonde said.

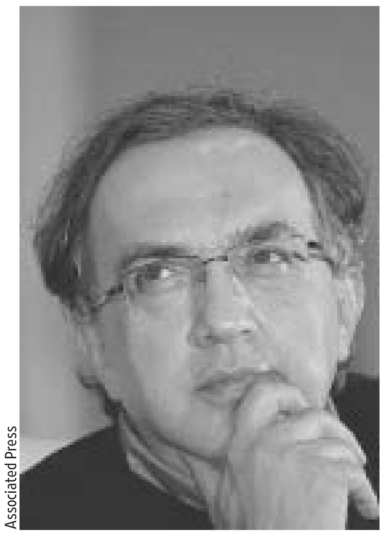
In the interview, Mr. Marchionne suggested that car makers the size of Fiat Group Automobiles, which produced 1.7 million units in the first nine months of the year, are too tiny to survive in an industry increasingly defined by economies of scale.

Other small European car makers include **PSA Peugeot Citroën** SA, which built 2.4 million vehicles this year through September. A Peugeot spokesperson declined to comment.

In Europe, Mr. Marchionne said, there is room for "one potential European player," in addition to "one German of size" and "one French-Japanese," alluding to French auto maker **Renault** SA and its alliance with Japan's **Nissan Motor** Co.

Fiat is carefully watching the push by Detroit's Big Three auto makers to secure a U.S. government bailout. Fiat Group Automobiles competes with **Ford Motor** Co. and **General Motors** Corp. in Europe's cutthroat market for small cars, so any shake-up in Detroit quickly would be felt in Italy.

—Leila Abboud in Paris contributed to this article.



Associated Press

Fiat CEO Sergio Marchionne says small auto makers will need to consolidate.

SSAB to cut 1,300 jobs amid steel-market slump

By Gustav Sandstrom

STOCKHOLM—Specialty steelmaker **SSAB** AB said Monday it will cut about 14% of its work force because of the "severe downturn in the steel market and the uncertain prospects for 2009."

The planned elimination of 1,300 jobs is part of a wider cost-cutting program that will cost the Sweden-based company 550 million Swedish kronor ($65.7 million), primarily booked in 2008, but lead to annual savings of about a billion kronor. The full impact of the savings program is expected to be felt in 2010.

SSAB warned in November that its fourth-quarter deliveries would decline from year-earlier levels. The company said demand had fallen in all geographic markets and customer segments, but transportation, building and infrastructure were particularly hard hit. SSAB ranked 51st in the world by output last year, producing 6.1 million metric tons of steel.

Finnish steelmakers **Rautaruukki** Oyj and **Outokumpu** Oyj also are cutting costs because of slowing steel demand.

"Demand for steel has fallen sharply in the autumn and we must adapt our costs to the new conditions," said SSAB Chief Executive Olof Faxander.

FOCUS ON AVIATION

Airlines appeal to loyalty

Frequent-flier plans are being adjusted to regain customers

By Scott McCartney

The value of frequent-flier miles has dropped so far that airline programs no longer drive customer loyalty as strongly as they used to, new research shows.

The percentage of online buyers who say they are loyal to particular travel companies fell to 25% this year from 31% in 2006, according to a recent Forrester Research survey. Customer loyalty for airlines, whose mileage programs once were omnipotent at swaying ticket-buying decisions, are worse than for hotels and cruise lines. And travelers buy tickets based on price and schedule more than ever instead of choosing to fly a particular airline.

THE MIDDLE SEAT

Associated Press

Virgin America instituted an innovative program in October that awarded frequent fliers points based on ticket prices, rather than mileage.

"Airlines are shooting themselves in the foot," says Henry Harteveldt, Forrester's principal analyst for airlines and travel. "Their loyalty programs are just not worth what they once were to consumers."

Research from International Business Machines Corp.'s Global Business Services unit also shows growing dissatisfaction with mileage programs, from higher frustrations and cost to redeem awards to increasing commoditization among airline programs.

Every U.S. household belongs to roughly 12 loyalty programs, from hotels to credit cards to retailers, according to IBM, and airline programs have done little to stay competitive. Only 48% of customers in IBM's survey said they were satisfied with the value they got from frequent-flier rewards, low compared with other loyalty programs, and 76% of customers surveyed said additional fees to redeem reward trips were "rip-offs."

"Loyalty (for airlines) isn't really about rewards programs anymore," said Bruce Speechley, who leads IBM's hospitality and leisure consulting practice.

Among his airline clients, he says, "more than one is looking at redoing their loyalty programs. They are looking at what the next generation of loyalty programs will be."

Virgin America Inc., the San Francisco-based startup, rolled out something different in October by giving frequent fliers points based on ticket prices, not mileage. While one customer who paid $139 for a cross-country ticket and another who paid $679 would earn the same mileage, "that didn't seem equitable," said Virgin America Chief Executive David Cush.

The program is unique on the redemption side as well. Instead of set mileage redemption prices—25,000 miles or 50,000 miles, or 40,000 kilometers or 80,000 kilometers, for domestic coach tickets at most U.S. airlines, for example—Virgin's price in points fluctuates just as the cash price does. One point usually converts to something more than two cents.

A $429 round-trip ticket for travel next week between New York and Los Angeles priced Monday at 18,976 points, for example, or 2.26 cents per point. Since you earn five points for every dollar spent, you would earn a free trip after about nine $429 tickets, but faster if you flew on higher fares.

Virgin America says it can raise the conversion rate for points to pay fares at peak travel periods like holidays, or lower it on flights that aren't selling well. Thus, reward seats are available without any capacity restrictions or blackout dates.

"What we hope is that customers see a more effective way of using their points," said Mr. Cush.

Another innovation earlier this year: **Delta Air Lines** Inc. introduced a "pay with miles" set-up for Delta frequent fliers who also have American Express Co. gold or platinum SkyMiles cards. Miles can be converted to dollars to pay for fares at a rate of one cent per mile. That isn't a particularly good conversion price, but the advantage of the program is that there are no capacity controls or restricted inventory of seats—if you see a fare, you can use your miles to buy it.

Tim Winship, publisher of FrequentFlier.com, says that as Delta has merged with Northwest Airlines Corp., it has generally made consumer-friendly choices in rules for the combined frequent-flier program. Last week, for example, Delta said it would allow its customers to qualify for elite SkyMiles levels by flight segments as well as miles, something Northwest allowed but Delta didn't previously offer.

Mr. Winship says he has some hope that the Delta moves, including eliminating the fuel surcharges that it and Northwest imposed on frequent-flier tickets earlier this year, will signal a bottom in the degradation of frequent-flier programs, and airlines will move more to enhance the value of their miles after years of chipping away at them.

"The net effect of the Delta changes is positive instead of negative, and these days that's revolutionary," said Mr. Winship.

To be sure, frequent flier programs still drive loyalty for road warriors with elite-level perks like first-class upgrades and priority boarding. And they still make lots of money for airlines, which sell miles by the billions at about one penny per mile. **UAL** Corp.'s United Airlines, for example, reportedly had $800 million in revenue from selling miles to partners like credit card companies in 2007; **AMR** Corp.'s American Airlines was estimated to be above $1 billion in sales of miles.

The programs have grown more profitable as airlines have made it more difficult to cash in miles, raised the price in miles that customers have to pay for tickets and added fees and surcharges to awards. And while airlines are under continued financial pressure, few expect many breaks for mileage mavens.

"Airlines have zero motivation to go in and refresh as long as banks are buying billions of dollars worth of miles," said Mr. Cush, formerly a senior executive at American before joining Virgin America.

On some flights, he said, a frequent-flier ticket "may be the most profitable ticket on the airplane."

But if miles lose too much luster, customers will opt for other rewards and banks will end up buying fewer frequent-flier miles. Cash-back credit cards that pay one cent to two cents back on every dollar spent and hotel reward cards that offer free accommodations or favorable conversions to airline miles can deliver richer rewards than airline-linked credit cards.

Historically, mileage mavens could get about two cents per mile in value from frequent-flier programs. But that has fallen over the years to about only about 1.2 cents per mile now, Mr. Winship estimates. If you have to spend 50,000 miles for a $500 domestic coach ticket, for example, you are only getting one penny per mile.

Mr. Harteveldt of Forrester says airlines need to reexamine if they have squeezed frequent-flier programs too tightly. He says airlines have ignored trends in other industries where loyalty programs are stronger, and made their rewards more expensive and more difficult to redeem than other loyalty programs.

"Airline passengers get whacked by a lot of sticks but there are not a lot of carrots out there for them," he said.

Mr. Speechley of IBM thinks airlines need to reinvigorate their customer-service efforts across the board, improving service at the airport and onboard aircraft. He also thinks frequent-flier programs could be more valuable to airlines as stronger drivers of loyalty if carriers revamped their confusing and frustrating redemption schedules, and gave consumers better benefits for purchasing loyalty.

"The idea of trying to reward people for loyalty is good," he said, "but it has become too complex and frustrating in the airline industry."

Qantas-BA deal would face hurdles, CEO says

By *Bill Lindsay, Ross Kelly* and *Daniel Michaels*

Qantas Airways Ltd. Chief Executive Alan Joyce said Monday that a potential tie-up with **British Airways** PLC would hold significant upside but warned the deal still faces several hurdles.

Mr. Joyce said that any merger with the U.K. carrier would need to take precedence over similar talks BA is holding with Spain's **Iberia Líneas Aéreas de España** SA, and would also require Qantas to refrain from seeking partnerships with any major Asian carrier.

Mr. Joyce stressed that the parties are still in talks and there is no guarantee that any transaction will be concluded.

Mr. Joyce echoed a view that many industry officials are expressing—that orchestrating a three-way merger would be too complex and BA will need to decide which deal to pursue.

"BA are conscious, as I think Iberia Air and we are, that only one of the transactions could take place, so that's one of the other issues that has to be taken into consideration," Mr. Joyce said.

A person familiar with the matter said Monday that BA aims to merge first with Qantas and then Iberia, adding that the final structure of BA's deal with Qantas could be ready early in the new year.

Alan Joyce

The U.K. airline is also planning several meetings with Iberia in the coming months, another person familiar with the matter said.

Iberia Chief Executive Fernando Conte said last week in London that the "logical" approach would be first to work on a European merger.

—Victoria Howley and Christopher Bjork contributed to this article.

Airbus aircraft-orders tally exceeds bookings at Boeing

By David Pearson

PARIS—European commercial-aircraft builder Airbus on Monday said it delivered 46 aircraft and booked firm orders for 84 more in November—making it the clear winner in terms of order intake, compared with U.S. rival **Boeing** Co., so far this year as airlines retrench because of diminishing traffic.

In the first 11 months of 2008, Airbus delivered 437 planes. Its order tally came to 878, but because of 122 cancellations—including 65 aircraft ordered by U.S. carrier Skybus Airlines Inc.—the net order intake was 756 planes.

Boeing booked 640 net orders over the year through Dec. 2, according to its Web site. The Chicago-based company recorded six cancellations during the period.

Shares in Airbus parent **European Aeronautic Defence & Space** Co. were up about 5% in a broadly higher Paris market.

Airbus, based in Toulouse, France, said its deliveries for November consisted of one double-decker A380 super jumbo, six wide-body A330s and 39 single-aisle A320 family aircraft. The company has said it expects to deliver about 470 planes this year.

November's order catch included a previously announced order from Abu Dhabi-based Etihad Airways for 20 A320s, six A380s and 25 wide-bodied A350-1000s that Airbus is in the process of developing. A preliminary agreement for the Etihad deal was signed at the Farnborough Air Show in July, but the final signature had been held up because of technical complications, Airbus said.

Airbus Chief Executive Thomas Enders has said he was confident that the company would book at least 850 orders in 2008.

However, Airbus has acknowledged that new order activity will see a sharp slowdown in 2009 as airlines trim their capacity expansion plans.

EU launches air-traffic program

Associated Press

BRUSSELS—The European Union launched a program to develop a new air-traffic-management system to help cope with an increasing number of flights over Europe.

Europe's air space has reached its limit with 28,000 flights a day, but that number is nevertheless expected to double by 2020, according to the Eurocontrol air-traffic-management agency.

The EU is developing the €2.1 billion ($2.56 billion) system, dubbed Sesar, using satellite navigation and data links that would transmit digital messages directly to cockpit displays.

The new system is expected to be up and running by 2020, replacing the radar and radio-based system that dates from World War II. The current system forces planes to take longer, zigzagging routes that cost airlines about €4 billion annually in wasted fuel.

The EU said the new system should make flights safer, shorter and less polluting by helping air-traffic controllers direct planes more efficiently. In addition, the EU hopes the new system will enable a tripling of capacity, cut air-traffic-management costs by 50%, curb greenhouse-gas emissions and achieve an overall punctuality rate of 95%, officials said.

The new program will enable so-called continuous-descent approaches to the runway—effectively coasting down from cruising altitudes with the throttle on idle—thus decreasing fuel consumption and minimizing carbon-dioxide emissions.

CORPORATE NEWS

Tribune seeks protection

Bankruptcy filing highlights troubles in U.S. publishing

By Dennis K. Berman, Shira Ovide and Matthew Karnitschnig

Reuters

Tribune Co., along with other newspaper publishers, has been hit hard by declining advertising sales and an unmanageable load of debt.

Tribune Co. filed for bankruptcy-court protection Monday, in a sign of worsening trouble for the newspaper industry.

On Monday, Tribune listed assets of $7.6 billion and debts of $12.9 billion. Affiliates that joined in the filing include the Los Angeles Times, Baltimore Sun and a string of TV stations, court documents say.

In recent days, as Chicago-based Tribune continued talks with lenders to restructure its debt, the newspaper-and-television concern hired investment bank **Lazard** Ltd. as its financial adviser and law firm **Sidley Austin** to advise the company on a possible trip through Chapter 11 bankruptcy, people familiar with the matter say.

Tribune representatives couldn't immediately be reached for comment. A spokeswoman for Lazard declined to comment. Representatives of Sidley Austin couldn't be reached for comment.

Tribune's latest actions underscore the deepening distress enveloping Tribune and other newspaper publishers. Their businesses are being battered by dwindling advertising sales, and many are carrying debt loads that are unmanageable in current market conditions. Industry insiders expect some papers will need to fold in coming months or seek protection from creditors to reorganize.

Tribune has been on wobbly footing since last December, when real-estate mogul Samuel Zell led a debt-backed deal to take the company private. Tribune has stayed ahead of its $12 billion in borrowings with the help of asset sales. Now, however, shrinking profit is tightening the noose.

The company's cash flow may not be enough to cover nearly $1 billion in interest payments due this year, and Tribune owes a $512 million debt payment in June.

One of Tribune's most pressing concerns: The company is likely to be in violation of debt terms that limit borrowings at the end of the year to nine times its adjusted profit. The ratio stood at 8.3 at the end of the second quarter, before Tribune reported an 83% decline in operating profit for the three months ended Sept. 28.

Sagging ad sales and unmanageable debt loads are weighing on newspaper firms.

Violations of such debt covenants have become commonplace for newspaper companies as their profits have ebbed. Lenders so far have been willing to give the companies a pass in exchange for higher interest rates and other concessions, but Tribune has little wiggle room. Terms of the company's debt already are so loose and its financial standing so unsteady that a covenant waiver may not help.

Tribune's hiring of Lazard, meanwhile, brings it a firm experienced in debt restructuring, and one that has become a go-to adviser for newspaper companies in financial distress.

Even as its financial performance worsens, Tribune has some options. A sale of its Chicago Cubs baseball team is under way, and Tribune owns valuable stakes in businesses including the cable-TV channel Food Network.

Tribune already has auctioned off pieces of the company, including the Long Island, N.Y., daily Newsday to raise cash. Now, frozen credit markets have depressed sale prices.

Selling off more newspapers may not be a viable alternative because buyers are scarce and Tribune may be better off holding on to the profits from its papers.

—Jeffrey McCracken and Peg Brickley contributed to this article.

Merged InBev cuts 6% of U.S. jobs

By David Kesmodel

Anheuser-Busch InBev said it will shed 1,400 jobs in the U.S. to wring cost savings from the recent deal that formed the world's largest brewer by sales.

The maker of Bud Light and Stella Artois, based in Leuven, Belgium, said the cuts affect about 6% of the brewer's U.S. work force. About 75% of the reductions will occur in St. Louis, the longtime home of Anheuser-Busch, which was acquired by InBev last month for $52 billion.

In addition to the layoffs, the company said it won't fill about 250 current job vacancies in the U.S. It also will cut 415 positions held by independent contractors.

The job cuts, which had been widely rumored in St. Louis in recent weeks, are designed to help the beer maker reach its previously announced goal of slashing $1.5 billion in costs through 2011 to make the combination of the two beer giants viable.

"To keep the business strong and competitive, this is a necessary but difficult move," Dave Peacock, president of the company's U.S. arm, said in a prepared statement.

An Anheuser-Busch InBev representative said the company also is planning to restructure its U.K. operations to cut costs, a process that likely will result in layoffs. The company has about 2,800 employees in the U.K.

The brewer said in a letter to U.S. employees that the groups primarily affected are in engineering, information technology and other corporate positions.

The company indicated the cuts extend beyond eliminating redundant jobs. "As expected, there are overlapping functions and synergies gained through the merger, which have driven part of these reductions," the brewer told employees. "Others are the result of ongoing efficiency improvements and additional cost reductions."

Anheuser-Busch InBev expects that the aggregate pretax expense associated with the reduction will be about $197 million, including severance payments.

The cuts don't affect union-represented workers at the company's 12 U.S. breweries, which InBev pledged to keep open when it was angling to buy Anheuser-Busch.

The reductions follow a voluntary retirement program at the U.S. brewer earlier this year that resulted in about 1,000 job cuts.

—Peppi Kiviniemi and Matthew Dalton contributed to this article.

Career Journal

A new game plan

Finding a job after a layoff this year requires atypical strategies > **Page 30**

Dow Chemical to slash payrolls, shut factories

By Ana Campoy

Dow Chemical Co. will cut thousands of jobs, close several plants and slash chemical production in response to the global economic downturn, the company said.

The largest chemical maker in the U.S. by revenue, Dow is the latest in the industry to impose sweeping cuts in the face of plunging demand for its products, which are the building blocks for consumer products ranging from cars to vitamins to sneakers.

The company said business conditions deteriorated precipitously in October so it is speeding up plans to reorganize. It will cut 5,000 jobs—about 11% of its work force—and reducing the number of contractors it hires by about 6,000, or 30%.

Dow also will shut 20 plants, idle 180 temporarily–together representing roughly a third of its plants world-wide–and try to sell several businesses.

"This will strengthen our financial position as we respond to this rapidly changing and deteriorating economy," Dow Chief Executive Andrew Liveris said during a conference call with analysts Monday.

Dow estimates the cost-cutting effort will save $700 million a year by 2010. The company's shares were up 7.6% at $20.45 in afternoon trading on the New York Stock Exchange.

Business for home builders and auto makers, major clients for chemical producers, has been slumping for months. But now the global economic slowdown is hurting business conditions in other industries, Mr. Liveris said. "The entire industrial supply chain, all the way to whatever the consumer buys outside of food and health, is in a recessionary mode," he said.

Last week, **DuPont** Co. said it was cutting its work force by about 4%, and last month Germany's **BASF** SE unveiled plans to close 80 plants temporarily.

Dow's announcement came a few days after the company signed a $17.4 billion joint venture with **Kuwait Petroleum** Corp. to produce commodity chemicals, which generally fetch low margins and require large amounts of natural gas and oil as feed stocks.

Dow, of Midland, Mich., also is in the process of completing its $15.3 billion acquisition of specialty-chemical manufacturer **Rohm & Haas** Co. Mr. Liveris said Monday he is "committed to closing the deal" despite the worsening economy.

Both transactions are part of the company's plan to move away from the less-profitable commodity chemicals into higher-margin specialty chemicals.

As part of that strategy, Dow said it is placing all of its businesses into three separate divisions. One of the units will manage Dow's commodity-chemical joint ventures, including the new one with Kuwait Petroleum; another will run Dow's high-technology products; and the third will handle midtier chemicals.

Developing nations use cellphones to browse Web

By Tom Wright

JAKARTA, Indonesia—Using cellphones to surf the Internet is booming in emerging markets, showing how countries with poor fixed-line telecommunications have become important drivers of growth for mobile-technology companies.

Opera Software ASA, a Norwegian maker of Internet browsers for mobile devices, says its strongest customer growth is in places like Indonesia, Egypt and Russia. AdMob Inc., a San Francisco company that sends five billion ads to Internet-enabled mobile handsets each month, says Asia overtook North America in October as its largest regional market. Indonesia, Southeast Asia's largest economy, is the company's second-biggest market after the U.S., accounting for a quarter of its global ad traffic.

"For a lot of people in emerging markets, the mobile phone will be the primary way of accessing the Internet," says Tony Cripps, a London-based analyst at Ovum, a technology-consulting company owned by Datamonitor PLC.

For many, browsing on a handheld device is a cheaper alternative to buying a PC or paying for home Internet service. Already, Asia is leading the way in mobile data, analysts say. **China Mobile** Ltd., Asia's leading wireless carrier by subscribers, made 25% of total revenue from mobile data in 2007, according to a Morgan Stanley report earlier this year. In comparison, for **AT&T** Inc., the U.S.'s largest operator, the share was 18%.

In developed markets, the focus is on so-called smart phones, high-end handsets like **Apple** Inc.'s iPhone. But in poorer nations, many consumers want to use phones that cost around $100 to do tasks such as accessing email and social-networking sites.

The growing demand is an opportunity for developers of popular mobile Web browsers like Opera, **Purple Labs** SA of France, which recently acquired Openwave Systems Inc.'s browser business, and Japan's **Access** Co. Until recently, Web browsers on a cellphone generally have been slow and difficult to navigate. But the latest technology, which compresses files via servers before sending them to the hand-held device, allows quicker Internet access.

The global market for desktop browsers remains much larger than for mobile versions. **Microsoft** Corp.'s Internet Explorer has a 71% share of the total browser market, followed by Mozilla Corp.'s Firefox with 20% and Apple's Safari at 7%, according to Net Applications, a California-based Web statistics firm.

But the mobile-browser market is surging. High-performance browsers on cellphones globally are expected to jump to 700 million by 2013 from 76 million last year.

—Yayu Yuniar contributed to this article.

GLOBAL BUSINESS BRIEFS

Rhodia SA

Annual earnings forecast is cut to 10% below 2007

Rhodia SA lowered its full-year earnings forecast because of the deteriorating economy. France's biggest chemicals specialist by sales said it expects full-year recurring earnings before interest, tax, depreciation and amortization will be about 10% below the €799 million ($1.02 billion) posted last year. The warning suggests that Rhodia's business deteriorated sharply in the fourth quarter; Rhodia last month forecast Ebitda would be within 5% of last year. The company said many of its Polyamide, Silcea and Novecare customers are not replacing their inventories. Rhodia's stock fell as much as 12% intraday to its lowest point since the company listed in 1998. Rhodia's shares closed at €4.51 ($5.74), down nine European cents, in Paris.

Siemens AG

German industrial conglomerate **Siemens** AG will ask shareholders to approve the creation of as many as 173.6 million new shares to boost reserve capital amid tight lending conditions, according to an invitation to the company's annual general meeting. This would represent a 19% increase in the company's share capital. At the Jan. 27 meeting, Siemens will also seek permission to issue as much as €15 billion ($19 billion) in debt, backed by up to 200 million shares, and possibly boosting its total share capital by 22%. "We are asking our shareholders to approve these measures just in case we need them," said a Siemens spokesman. "This is routine." He added that the company's cash position is comfortable.

Électricité de France SA

Constellation Energy Group Inc.'s board gave the company permission to discuss **Électricité de France** SA's $4.5 billion purchase proposal but didn't change its recommendation that shareholders support a merger with **Berkshire Hathaway** Inc.'s MidAmerican Energy Holdings Co. The Dec. 2 EDF bid, which seeks half of Constellation's nuclear business, followed a $4.7 billion offer for Constellation from Warren Buffett's Berkshire Hathaway. Separately, EDF extended its cash offer for shares of **British Energy Group** PLC through Jan. 5 and said it secured shares assuring it of owning at least 92.7% of the U.K. company. EDF announced its £12.5 billion ($18.4 billion), offer for British Energy in September. The deal would hand over British Energy's eight nuclear plants to EDF.

Yara International ASA

Fertilizer company **Yara International** ASA on Monday said its GrowHow UK Ltd. joint venture has halted ammonia production at its plant in Billingham, northeast England. The plant can produce as many as 550,000 metric tons of ammonia a year. The decision to stop output comes amid falling prices in international ammonia markets, Norway-based Yara said. Urea prices have plummeted to $233 a ton from a peak of $820 a ton in July, according to Yara's Web site. Prices for ammonia have fallen to $243 a ton from just under $900 a ton in September, because of oversupply and lower-than-expected demand. The Billingham plant will restart when market conditions improve, the company said. Yara owns GrowHow with **Terra Nitrogen** Inc. of the U.S.

Air France-KLM

Air France-KLM said its passenger traffic dropped 0.8% last month because of a four-day pilot strike. The traffic decline was in line with a 0.7% reduction in capacity for November. Excluding the impact of the strike, traffic and capacity were up 1.8% from a year earlier. The Franco-Dutch airline said its load factor—a measure of how full an airline's planes are—was relatively stable at 78.3% compared with 78.4% a year earlier. The carrier's cargo activity, however, plunged 13%, reflecting a slowdown in international trade. Air France-KLM cut its cargo capacity by 7.5%. Separately, **Air Berlin** PLC said it carried 1.94 million passengers last month, down 5.5% from a year earlier. The German discount airline attributed the decline to a 6.3% cut in capacity. Its load factor rose slightly, to 72.6% from 72%.

Volkswagen AG

Despite shrinking demand in many major markets, Audi AG saw its global car sales rise 0.4% last month to about 75,950 vehicles. Between January and November, **Volkswagen** AG's premium brand recorded a 3% rise in sales from a year earlier to about 920,700 cars. Thanks mainly to revamped versions of key models such as the A4, and its relatively small presence in the troubled U.S. market, Audi has been less affected by the industry downturn than its peers. But executive-board member Peter Schwarzenbauer said in a statement that "unfavorable conditions in all sales regions represent a big challenge." Last week, **BMW** AG said sales of its core brand fell 26% in November, while **Daimler** AG's Mercedes-Benz reported sales sank 28%.

Royal Dutch Shell PLC

Oil giant **Royal Dutch Shell** PLC and Dutch utility **Essent** NV said Monday they have agreed to study the feasibility of a 1,000-megawatt power plant in the Netherlands from which carbon-dioxide emissions would be captured and stored underground. The plant would convert coal or solid biomass to synthetic gas, from which the CO_2 would be extracted. Many companies are planning projects to demonstrate the feasibility of capturing the CO_2 emissions from power plants in order to meet European Union targets for emission reductions. However, the process is expensive and any financial incentive from the carbon Emissions Trading System has diminished as the price of CO_2 allowances has fallen by half since the summer amid the global financial crisis.

Whitbread PLC

U.K.-based **Whitbread** PLC, the operator of Premier Inn hotels and the Costa Coffee chain, said Monday it was cutting back its expansion plans after an increasingly challenging environment resulted in softening sales growth in November. Whitbread said that while business had been robust in the 39 weeks ended Nov. 27, the first nine months of its fiscal year, it had seen a slowdown last month. Total sales for the period grew 13%, with sales from existing outlets up 6.7%. This marks a slowdown from the fiscal first half, when total sales were up 15%, and same-outlet sales were 7.2% higher. Chief Executive Alan Parker said the company will limit capital expenditure next year to £200 million (about $300 million), down from £300 million in 2008-09.

Eurowings Luftverkehrs AG

Regional airline **Eurowings Luftverkehrs** AG said Monday it will sell its low-cost Germanwings subsidiary to **Deutsche Lufthansa** AG. Eurowings, based in Dortmund, Germany, said the transaction will take effect Jan. 1. Lufthansa holds a 49% stake in Eurowings. Financial terms of the sale weren't disclosed. With the deal, Eurowings is likely to focus on its profile as a regional carrier. The deal also is likely to allow Germanwings to develop its low-cost model inside Lufthansa. Joachim Klein will step down as Germanwings chief executive when the transaction is complete. He will remain on the Eurowings management board. Germanwings operates 19 Airbus A319s. The company carried nearly eight million passengers and generated sales of €630 million ($801 million) last year.

Wagon PLC

British car-parts maker **Wagon** PLC said it plans to file for a form of bankruptcy protection Monday because a global slump in demand for cars has crippled its business. Wagon, which employs 6,300 people around the world making parts for car makers such as **Honda Motor** Co., **Ford Motor** Co., **General Motors** Corp. and **Nissan Motor** Co., hopes to keep some of its overseas operations running, but its collapse in Britain sends a warning about the state of the international auto industry. Wagon, controlled by American billionaire Wilbur Ross, said it plans to seek administration for the company and several British subsidiaries, which employ around 500 people, after talks with key shareholders on an emergency refinancing package broke down.

McDonald's Corp.

McDonald's Corp. posted a 7.7% rise in global sales at outlets open at least a year in November, including a 4.5% gain in the U.S. that the fast-food chain attributed to its breakfast business and the popularity of its chicken lineup. McDonald's said its European same-store sales rose 7.8%, led by France, the U.K. and Russia. The company's Asia-Pacific, Middle East and Africa region saw 13% growth amid extended hours. Sales growth was particularly strong in Japan and Australia. The restaurant sector in the U.S. has been hurt by recession worries and high food and fuel prices. McDonald's same-store sales fell for the first time in March, but the Oak Brook, Ill., company has posted solid increases since then.

PCCW Ltd.

PCCW Ltd. said it may have to cut its dividend payment if the buyout offer from its biggest shareholders fails to get minority approval. PCCW Chairman Richard Li and major stakeholder **China Network Communications Group** Corp. have offered 4.20 Hong Kong dollars (54.2 U.S. cents) a share to take Hong Kong's dominant fixed-line telephone operator private in an arrangement that could cost as much as HK$15.49 billion. PCCW said it may not pay regular dividends at previous levels because it failed to sell a stake in **HKT Group Holdings** Ltd. and it has assumed "a considerable debt burden." In the first half, the company declared a dividend of 7 Hong Kong cents, up from 6.5 Hong Kong cents a year earlier.

—Compiled from staff and wire service reports.

Obama focuses on stimulus over bailout

Bush White House seeks more coordination with president-elect on release of funds for financial-sector rescue

By Jonathan Weisman
And Deborah Solomon

Associated Press

U.S. President-elect Barack Obama plans a half-trillion-dollar stimulus program that includes spending on infrastructure.

WASHINGTON—Barack Obama's transition team is resisting Bush administration overtures to coordinate more on the financial-sector rescue, convinced that neither the lame-duck President George W. Bush nor the president-elect has the clout to win a smooth congressional release of more bailout funds.

With the first $350 billion of the bailout money nearly allocated, transition aides are pressing Treasury officials to convene a bipartisan meeting on Capitol Hill this week. Obama aides say the Treasury needs to sound out congressional leaders and rank-and-file lawmakers on what information they need to release the second $350 billion tranche from the government's Troubled Asset Relief Program, or TARP.

Senior transition officials said they would attend the meeting, but they made clear they would neither lead it nor lobby for approval of the funds. Their focus is on passing a separate, half-trillion-dollar stimulus program that Mr. Obama said Sunday would be the largest infrastructure program since the Eisenhower administration's construction of the interstate highway system.

"If the administration believes the second half of the TARP needs to be triggered, we've made it clear to them that we would do everything possible to ensure Congress gives it full consideration," said Obama transition spokeswoman Stephanie Cutter. "But until they make that decision, all parties involved are in a holding pattern."

How both sides manage the transition could be vital for the economy and financial markets, which sank in the days after Mr. Obama's election on fears of a prolonged handover. Mindful of the disastrous presidential transition between the administrations of Herbert Hoover and Franklin D. Roosevelt—during which an already bad economy worsened—both the Obama and Bush camps have strained to be cooperative.

But tension is growing: Treasury officials believe Obama aides are being short-sighted in their refusal to offer more policy and lobbying assistance, while the transition team sees an administration looking to be rescued from its own miscues.

A request for more TARP money now would come amid growing lawmaker criticism of Treasury's implementation of its rescue program—including Treasury Secretary Henry Paulson's decisions to forgo buying bad loans from distressed banks in favor of making equity injections in those institutions, and to not place stronger conditions on banks that receive government funds.

The existing bailout legislation does fast-track release of the next $350 billion of TARP money; Congress would have to pass legislation to block the funding after a request is made. The president could then veto the blocking bill and force opponents to muster a two-thirds majority to override that veto.

But officials with the Treasury and the transition agree that the spectacle of even a failed effort to block the money could send financial markets into an uproar. One transition official said he was told Mr. Bush could expect only a handful of Republican votes—perhaps five—in his favor.

The different approaches became apparent the Friday after Thanksgiving when, according to people familiar with the matter, members of the Federal Reserve, Treasury and four Obama transition aides overseeing economic issues talked by phone about ways to help homeowners in danger of foreclosure.

Treasury staff wanted to brief the Obama team on the various proposals the Fed and Treasury were discussing and to gauge their level of interest in doing something to help homeowners, these people said. If Treasury and the Fed were going to embark on a plan to help stabilize the housing market, they wanted the next administration to agree with their approach.

Mr. Obama had been stressing for weeks his desire to increase assistance to homeowners as the program moves forward, a point he reiterated Sunday, first on NBC television's "Meet the Press," then to reporters as he introduced his choice for secretary of the Veterans Affairs Department, retired Army Gen. Eric Shinseki.

"I'm disappointed that we haven't seen quicker movement on this issue by the administration," Mr. Obama said on "Meet the Press," adding later, "If it's not done during the transition, it will be done by me."

For more than an hour on the conference call, the people familiar with the situation said, Treasury and Fed staff outlined the three main ideas under discussion: a modification of the proposal being pushed by Federal Deposit Insurance Corp. Chairman Sheila Bair; a plan to help bring down interest rates; and a proposal championed by the Fed to buy distressed mortgages.

When they had finished outlining the proposals, Treasury staff asked the Obama aides for their impressions. The aides demurred, refusing to endorse any of the ideas. When asked what they would like to see or how they envisioned a foreclosure-mitigation program working, they were noncommittal, according to people familiar with the matter.

With such disputes bursting into public, both camps Sunday said they are moving forward cooperatively.

"We continue to brief the transition as we would be expected to," said Michele Davis, a Treasury spokeswoman.

Mr. Paulson has indicated he wants to consult with the Obama team on any big moves, especially a draw down of the next $350 billion. Mr. Paulson doesn't want to commit funds to a program if the new administration might later undo the effort. Getting a buy-in from the Obama team could also help Mr. Paulson navigate the process of getting the second half of the rescue fund, since an Obama-endorsed plan would be more saleable to Democrats in Congress.

Lawmakers expect Treasury to include a plan to help homeowners avoid foreclosure as part of any request for additional rescue funds. But Treasury would like the Obama team to endorse whatever idea it pitches to Congress, since it would fall to an Obama administration to implement such a program. Treasury is also open to considering an Obama-crafted foreclosure mitigation plan.

Violence sparked by police shooting continues in Greece

By Philip Pangalos

Associated Press

Protesters throw stones in the northern Greek city of Thessaloniki. Authorities expect clashes to continue, with a general strike planned for Wednesday.

ATHENS—Greek cities were gripped by a third day of violence Monday as the government faces anger over the fatal shooting by police of a 15-year-old boy in Athens on Saturday.

Protesters torched banks and government offices, smashed shop windows, vandalized cars and hurled rocks at riot police. The protests were set off by the teenager's killing and have become an outlet for the frustration of young Greeks disillusioned over their future.

Greece has so far escaped the recession gripping other nations, and its economy is expected to grow by 2.0% next year. But Greece has enjoyed growth of close to 4.0% in recent years, and now many Greeks are struggling to make ends meet. Unemployment is expected to rise again, especially among the country's young people, who already face among the highest jobless rates in the European Union. About one in four 15- to 24-year-olds in Greece are unemployed, according to government figures.

The riots are a test for the center-right New Democracy government of Costas Karamanlis, which has a slim majority in parliament and is lagging in public opinion polls after a series of scandals since being re-elected last year.

Authorities expect the clashes to continue Wednesday, with planned demonstrations to mark a general strike by major unions protesting proposed pension legislation and economic policies.

Early Monday, thousands of school students around the country walked out of class in protests, with many notified by fellow students through text messages or email.

In Monday's biggest demonstration, thousands of people joined in two separate marches by left-wing activists from the center of Athens to Parliament. The marches started out peacefully, but self-described anarchists infiltrated the groups and began hurling rocks and Molotov cocktails at riot police. The police responded with stun grenades and tear gas. Numerous street battles ensued, and several banks and businesses were attacked by hooded youths, some wielding hammers and crowbars.

Some of the main central Athens streets were strewn with debris and broken glass, while torched rubbish bins and several government and office buildings that had been set alight billowed plumes of black smoke into the night sky as alarms rang.

A Christmas tree in central Syntagma Square that was set to be the centerpiece of Athens' planned holiday celebrations was set alight.

Demonstrations also flared in the port city of Piraeus, the northern city of Thessaloniki and the western port city of Patras, as well as the islands of Crete and Corfu.

In a televised appeal to restore calm, the prime minister condemned the killing and said those who were responsible for the killing will be punished. His education minister said high schools would be closed in mourning on Tuesday, the day of the 15-year-old's funeral.

Taliban expand presence

Forces can be found in 72% of country, says French group

BY YOCHI J. DREAZEN

WASHINGTON—The Taliban have expanded their footprint in Afghanistan and now have a permanent presence in nearly three-quarters of the country, according to a report.

The Paris-based International Council on Security and Development, a think tank that maintains full-time offices in Afghanistan, said the Taliban have spread across much of the country and are beginning to encircle the capital, Kabul.

The group said the group has advanced from southern Afghanistan, where it often holds de facto governing power, and carries out attacks in western and northwestern Afghanistan as well as in and near Kabul. Taliban forces can be found in 72% of Afghanistan, from 54% a year earlier.

"While the international community's prospects in Afghanistan have never been bleaker, the Taliban has been experiencing a renaissance that has gained momentum since 2005," the report said. "The West is in genuine danger of losing Afghanistan."

Afghanistan has seen a sharp spike in violence this year, with U.S. fatalities and civilian casualties hitting records. Some American commanders fear the Taliban will start an offensive this winter. On Sunday, Taliban leader Mullah Omar said in a statement that the number of armed clashes in Afghanistan in the next year "will spiral up" as will the number of Western casualties, the Associated Press reported.

President-elect Barack Obama has said he will deploy tens of thousands of new troops to Afghanistan, shifting resources from Iraq. There are currently about 34,000 American troops in Afghanistan, and the Pentagon has announced plans to send at least 20,000 reinforcements in 2009. Obama aides have said the new U.S. administration also will work to strengthen Afghanistan's central government, judiciary and national police force.

The think tank mapped recent attacks in Afghanistan and said provinces with at least one strike a month had a "permanent Taliban presence."

Norine MacDonald, the think tank's president and lead researcher, said the Taliban, following the strategy of earlier Afghan insurgents, are slowly encircling Kabul by establishing bases close to the city and regularly attacking three of the four major roads leading out of the capital.

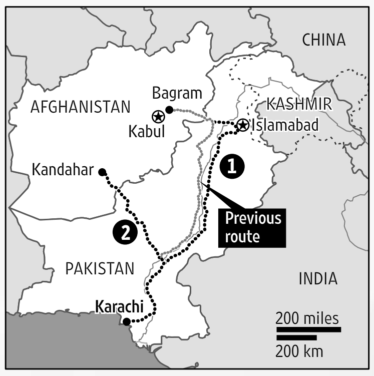
Ms. MacDonald said the number of attacks in the city, including assassinations and kidnappings of Westerners and Afghans, has increased sharply. The group recommends U.S. and NATO commanders minimize their use of military power, recruit troops from Muslim nations into the current American- and European-dominated multinational force and expand economic assistance.

Access to Afghanistan

1 **Northern route:** Karachi to Bagram
Total 1,948 kilometers
Transit time: eight days
Used to transport 90% of supplies

2 **Southern route:** Karachi to Kandahar
Total 1,120 kilometers
Transit time: five days

Previous route: Bagram to Karachi



Source: U.S. military via U.S. Embassy in Islamabad
Photo: Reuters

◀ **A British soldier** keeps watch at the scene of an attack in Kabul on Monday. A suicide car bomber killed three civilians and wounded 12 more as he targeted a convoy of foreign troops.

U.S. charges Blackwater guards

BY EVAN PEREZ AND AUGUST COLE

WASHINGTON—U.S. Justice Department prosecutors charged five **Blackwater Worldwide** guards Monday with manslaughter and weapons violations in the shooting deaths of 14 unarmed civilians in Baghdad last year.

The five guards involved in the Sept. 16, 2007, incident were protecting a State Department convoy. Prosecutors allege that at least 34 Iraqis died or were wounded in the incident, which strained relations between the U.S. and Iraqi governments. The guards said they fired in response to shooting from insurgents.

Seventeen people were killed, and Justice prosecutors say evidence ties the Blackwater guards to 14 of the deaths.

The five men surrendered in federal court in Salt Lake City earlier Monday. They are former Marines Donald Ball, 26 years old, Dustin Heard, 27, Evan Liberty, 26, and former Army soldiers Nicholas Slatten, 24, and Paul Slough, 29.

A sixth guard, Jeremy Ridgeway, 35, pleaded guilty to voluntary manslaughter for his role in the shooting.

To prosecute the men, the U.S. plans to use for the first time against non-Pentagon contractors a law called the Military Extraterritorial Jurisdiction Act, which originally was written to cover Defense Department contractors. Prosecutors say a 2004 amendment to the law applies to the guards, who were operating under the jurisdiction of the State Department, because they were providing services "in support of the mission of the Department of Defense overseas."

Erica Razook, acting director of business and human rights at Amnesty International USA in New York, said the case brings the debate over U.S. battlefield contractor accountability to a head. Even though Blackwater isn't the focus of the trial, she said, the case is "really big for corporate accountability in general."

The Moyock, N.C., company isn't under indictment. In a statement, Blackwater said that "we understand that these individuals acted within the rules set forth for them by the government and that no criminal violations occurred," but the company said that if they didn't, then they should be held accountable.

Experts propose cyber-security chief

BY SIOBHAN GORMAN

WASHINGTON—A commission of technology experts will propose consolidating cyber-security work under a top White House official and using diplomatic, intelligence and military tools to confront threats in cyberspace.

The new White House post is likely to be the most controversial of the commission's recommendations, which were to be released Monday. In its report, the commission compared the job to that of the director of national intelligence. The cyber chief would report to the president and have his own staff of 10 to 20 people who would work with a beefed-up National Security Council cyber staff and federal agencies to implement the president's cyber policies.

U.S. agencies from the Pentagon to the Department of Homeland Security as well as Pentagon contractors have experienced major cyber breakins. Intelligence officials estimate U.S. losses from cyber breaches to be in the multiple billions of dollars.

Under the Bush administration, the Department of Homeland Security has been the public face of cyber-security efforts, but the commission concluded it isn't equipped to handle a threat with military, criminal and intelligence components.

CAPITAL JOURNAL ▪ GERALD F. SEIB

Mind the gap: Obama eyes deficit even as he prepares to spend big

BEING SANTA CLAUS is fun. Paying the credit-card bills later is much less fun.

And so it will be for U.S. President-elect Barack Obama. He will get to play Santa Claus at the outset of his term, telling people they can spend hundreds of billions of dollars in the name of stimulus. Later, of course, he'll have to play Scrooge, telling the country that the bill has come due.

The challenge for the Obama team is making sure Americans in general, and Congress in particular, remember that both roles lie ahead for the new president. The task, in the words of one senior Obama aide, is to make sure that people don't think the model for stimulus spending in coming months is "backing in the Brink's truck and opening up the door."

More broadly, Mr. Obama's team needs to figure out whether there are steps it can take at the outset to build its credibility on fighting deficits in the long run, even as it accepts them in the short run. Such measures are possible and would help calm financial markets as red ink spreads.

If you listened closely to Mr. Obama over the weekend, you could hear him warning people that big spending to stimulate the economy—and "big" now means a stimulus package something in the order of $500 billion by most estimates—shouldn't mean mindless spending.

First, the stimulus message: The need for a big economic jolt means "we can't worry short term about the deficit," Mr. Obama said on NBC's "Meet the Press." "We've got to make sure that the economic stimulus plan is large enough to get the economy moving."

Then, the cold-water message: "We are not going to simply write a bunch of checks and let them be spent without some very clear criteria as to how this money is going to benefit the overall economy and put people back to work," the president-elect told reporters. The new administration's plans will be based on what is "going to make the biggest difference in the economy and what will have some long-term benefits."

IN OTHER WORDS, if the country is going to spend hundreds of billions of dollars on economic stimulus, it should have something to show for it when the crisis ends. Hence Mr. Obama's emphasis over the weekend on spending on "infrastructure"—build roads, modernize schools, expand Internet access, improve buildings' energy efficiency, put better technology in hospitals.

That's an attempt to frame how money will be spent. But how do you show seriousness about the budget deficit amid that spending?

Right now, the twin towers of stock-market declines and job losses have produced a remarkable bipartisan consensus that this simply isn't a time to worry about the deficit. As a result, Mr. Obama has the closest thing anyone in his job ever gets to a blank check. He thus has been given an enormous opportunity to shape the nation's priorities at the very outset of a presidential term, one probably matched only by the opening Franklin Roosevelt had in taking office in the depths of the Depression.

In fact, this opportunity is very much shaped by the experience of the pre-Roosevelt Depression years, when worrying about the budget deficit in a time of economic collapse had catastrophic results.

So the Obama team believes that for the next 18 months or so, it would be a mistake to let deficit concerns steer government fiscal policy. In that period, the deficit will rise to levels that once would have seemed alarming.

The $455 billion deficit for the fiscal year that ended Oct. 1 already is the largest on record in dollar terms. As a percentage of gross domestic product, though, it amounts to 3.2%, less than at the peak of the 1980s downturn.

Mr. Obama has the closest thing anyone in his job gets to a blank check.

BUT THE DEFICIT will be a lot worse next year, likely reaching between $750 billion and $1 trillion, depending on how costs of the financial-sector bailout are accounted for. The only real question is whether the deficit, as a percentage of GDP, cracks the postwar record of 6% set in 1983. If the red ink hits $900 billion or so, it will.

The Obama team's best guess is that, though stimulus spending will be spread over the first two years of the new president's term, the deficit will hit the high-water mark in the first year, with economic improvements in 2010 generating government revenue that starts to gradually bring it back down. If the Obama team gets lucky, and the government can start selling at a profit some of the assets it's buying up to rescue the financial system, the decline could be faster after that.

But counting on luck alone won't be sufficient. Wide deficits risk pushing up interest rates, interfering with the economic recovery down the road.

One possibility: The Obama team and its Democratic allies in Congress could resolve to work into their initial economic package some long-term deficit-reduction measures that automatically kick in later, ensuring spending cuts or revenue increases as the economy recovers. That would help give the new team credibility on the deficit, even if everyone else in Washington agrees to ignore it for now.

ECONOMY & POLITICS

Reuters

A Congress party display shows Prime Minister Manmohan Singh, left, party chief Sonia Gandhi and lawmaker Rahul Gandhi.

Indian voters spurn BJP

Opposition fails to make terror fears dominate state polls

By Niraj Sheth

NEW DELHI—Indian voters in five state elections handed disappointing results to the main opposition party, which had tried to capitalize on the Mumbai attacks to attract votes, in a sign that the government's widely perceived stumbles in handling the strikes may not cost the ruling party much political support.

The state elections were the last major round of voting before general elections to choose a new government are held next year. The Mumbai attacks, which left 171 dead, galvanized many Indians to criticize the political establishment for not doing better on public safety.

But the opposition Bharatiya Janata Party lost in three of five elections for regional legislatures, despite the government's admitting to lapses in the handling of the attacks and the BJP's efforts to tie the disaster to the government's perceived softness on terror issues.

While the threat of terrorism isn't a top concern for the rural voters who make up the bulk of India's electorate, the BJP's loss in the capital city-state of Delhi, whose mostly urban voters were expected to be heavily swayed by national-security concerns, suggested the opposition's politicizing of the Mumbai attacks may have hurt the party.

The BJP dispatched a top party figure to Mumbai during the three-day siege that began Nov. 26, while the party leader in New Delhi skipped an emergency all-party meeting held by Prime Minister Manmohan Singh immediately after the attacks, saying it was time for action not words.

"There is a moment when you don't play hard politics," said Mahesh Rangarajan, a political analyst and professor of history at Delhi University. "But they couldn't wait. They overplayed this terror card."

The election results could force the BJP to change its emphasis on security and focus more on issues such as the country's slowing growth, said Seema Desai, an Asia analyst in London for New York-based Eurasia Group.

All but one of the state elections were held after terrorists attacked Mumbai. The attacks drove high numbers of voters to the polls, many of whom had to wait for hours on line on election day.

With most counting completed, results reported Monday showed Congress won majorities in the legislatures in Mizoram state in northeastern India and in Delhi, where chief minister Sheila Dikshit won for the third time despite strong efforts from the BJP to oust her.

Congress also won a solid plurality in Rajasthan, a western state where it is expected to form a governing coalition. The BJP took the central states of Madhya Pradesh and Chhattisgarh, places where it was heavily favored to win.

On an Indian television program, Arun Jaitley, a ranking BJP parliamentarian and one of its most public faces, said terrorism remains among the top national issues and a factor that plays strongly in the BJP's favor. "If the government is not strong on terrorism, the people will not accept it," Mr. Jaitley said in an interview with CNN-IBN. "It may not have worked too well in these elections, because each election is a basket of issues." A Congress spokeswoman declined to comment.

Observers say the elections show that the slowing Indian economy remains a powerful issue, but gives little guidance for which of the two major parties will come out ahead in national elections, which must be held by May. "Today leaves both the BJP and Congress in the ring with neither able to deal the knockout blow," Mr. Rangarajan said.

The state election results may also give more credence to the viability of a "Third Front," an alliance of smaller regional parties that some say could determine the outcome of the national vote if neither Congress nor the BJP wins a majority of parliamentary seats.

U.S. seeks to blacklist Pakistanis

*By **Jay Solomon** in Washington and **Matthew Rosenberg** in Islamabad*

The Bush administration is seeking the financial blacklisting by the United Nations of a number of prominent Pakistani individuals for their alleged support of the militant organization Lashkar-e-Taiba, according to diplomats familiar with the matter.

Lashkar is accused by the Indian and U.S. governments of orchestrating last month's terrorist assault on Mumbai, which killed 171 people.

The diplomats wouldn't identify the names of the Pakistani individuals being targeted by the U.S., but they are expected to include at least some former members of Pakistan's spy agency, the Inter-Services Intelligence agency, or ISI.

One former ISI chief, retired Gen. Hamid Gul, said in an interview Monday that he was notified by Pakistani government officials that he was among those the Bush administration was seeking to target through the U.N. "I think I hurt them [the U.S.] because I talk about their atrocities and because I morally support the Afghan jihad," Mr. Gul said. "The Americans are the aggressors, so I support our brothers in the Taliban."

Mr. Gul called allegations that he supports terrorism "seditious, fictitious. There's not truth in it."

According to the diplomats, the Bush administration is seeking to sanction the Pakistani individuals through a special committee of the U.N. Security Council, which targets individuals and organizations believed to be assisting al Qaeda, the Taliban and related entities.

Special Committee 1257, or the al Qaeda and Taliban Sanctions Committee, was established by the U.N. Security Council in 1999 and blacklisted Lashkar-e-Taiba in 2005. All 15 members of the Security Council are required to sign off on the sanctions list before it can be implemented. "We think an action could be imminent—within the next couple of days," said a person involved in the matter.

Approval would require all U.N. member states to freeze the individuals' assets and deny them travel visas.

Five at Guantanamo seek to plead guilty to 9/11 plot

By Jess Bravin

GUANTANAMO BAY, Cuba—Khalid Sheikh Mohammed and four codefendants said they wanted to confess to the Sept. 11, 2001, terror conspiracy and asked a military judge to take their guilty pleas at once.

"We don't want to waste time," Mr. Mohammed told the judge, Col. Stephen Henley. "We want to enter a plea" to capital charges stemming from the hijack attacks that killed nearly 3,000 people.

The move stunned the high-security courtroom here, which was scheduled to hear a host of defense motions challenging the military charges against the defendants. Instead, long-simmering conflicts burst open between defendants who have made no secret of their wish for martyrdom—and American defense attorneys obligated to fight the government's effort to execute their clients.

"I wanted to enter a plea from the first arraignment day," said Ali Abdul Aziz Ali, Mr. Mohammed's nephew and alleged assistant. The five, who were held for years in secret prisons overseas by the Central Intelligence Agency before their 2006 transfer here, were subjected to harsh interrogation techniques including waterboarding, a form of simulated drowning, in Mr. Mohammed's case.

All five men face a possible death sentence.

Col. Henley ruled that Mr. Mohammed, Mr. Ali and Walid bin Attash, accused of running an al Qaeda training camp, could drop the motions and enter pleas. They are acting as their own lawyers because of their stated distrust of Americans.

But the judge deferred a decision on the other two defendants, Ramzi Binalshibh and Mustafa al Hawsawi, until psychological evaluations were considered by the military commission, as the court here is called. Defense lawyers said the two were mentally incompetent to take a step as serious as entering a plea.

The most explosive of the defense motions—alleging that a commission administrator, Brig. Gen. Thomas Hartmann, exerted unlawful influence over the prosecution—was slated to move forward Monday afternoon, with the general taking the stand. Military judges in three other cases here, including that of Salim Hamdan, the former Osama bin Laden driver who was sent home to Yemen last month, found enough evidence of improper actions to bar Gen. Hartmann from those proceedings.

Mr. Mohammed said the defendants had met to discuss their case, and after a Nov. 4 meeting signed a letter to the judge seeking to withdraw the defense motions, and seeking a hearing "in order to announce our confessions." The Defense Department wouldn't release a copy of the letter.

The defendants were annoyed when the judge said he hadn't read their letter until Sunday. "Is the commission using a carrier pigeon?" Mr. Mohammed scoffed. Col. Henley said he had lacked a secure facility in which to read the letter before arriving at this offshore base.

The move, which the defendants apparently think would hasten an execution they consider martyrdom, raised other issues. Col. Henley said he would have to schedule a hearing after this week to ensure that their pleas are knowing and voluntary. Moreover, he asked prosecutors to file briefs on an apparent ambiguity in the 2006 Military Commissions Act, which suggests that a death sentence can be imposed only if a unanimous military jury agrees. At this stage, no jury has been seated.

Monday's proceedings were the first here to which the government brought relatives of 9/11 victims.

"The United States is doing its best to prove to the world that this is a fair proceeding," said Hamilton Peterson of Bethesda, Md., whose parents were passengers on United Flight 93. "It was stunning to see today how not only do the defendants comprehend their extensive rights and how they take them for granted, they are explicitly asking the court to hurry up because they are bored with the due process they are receiving."

Observers from civil-liberties groups, who have been attending proceedings here for years, said the defendants' eagerness to plead guilty doesn't compensate for a military-commission system that denies defendants some rights normally accorded in civilian courts and regular courts-martial.

Jennifer Daksal, an attorney with Human Rights Watch, said the defendants may well have pleaded guilty had they been prosecuted in civilian court.

"What should be a major victory for holding the 9/11 conspirators accountable has instead been tainted by torture and unfair trial proceedings," she said.

Associated Press

A courtroom drawing shows Khalid Sheikh Mohammed, center, and Walid bin Attash, left, at a pretrial session at Guantanamo Bay, Cuba, on Monday.