# THE WALL STREET JOURNAL.

DOW JONES Newswires · WSJ.com · EUROPE · DOW JONES A News Corporation Company

VOL. XXVI NO. 201 · WEDNESDAY, NOVEMBER 12, 2008


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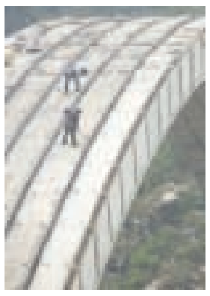


## *China bets highway system will drive rural growth*

NEWS IN DEPTH | PAGES 16-17

## *U.S. retail losses weaken employment safety net*

CORPORATE NEWS | PAGE 4

# Fall of pound fails to give U.K. exports needed lift

### *Government plans measures to boost sagging economy*

By Alistair MacDonald

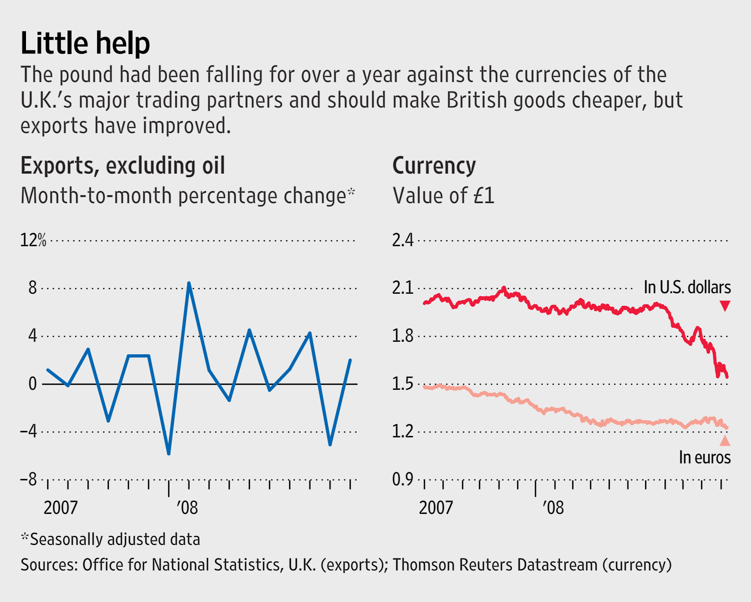
LONDON—New data show the sinking pound has so far failed to fuel British export growth, depriving Prime Minister Gordon Brown of critical economic stimulus that has aided the U.K. in the past.

Usually, a falling currency helps exporters who can then juice a country's economy, helping through a downturn. The last time the pound fell at this speed, in 1992, a cheap pound helped the U.K. claw its way out of recession as the country's goods became more competitive abroad.

This time, the U.K. economy isn't yet seeing a benefit and may not see a significant gain. Among the reasons: since 1992, the U.K. economy has moved more into exporting goods and services that are less price-sensitive, such as pharmaceuticals or creative industries like music and book publishing.

Slowdowns in the economies of Britain's main trading partners, the European Union and U.S., mean they are less likely to increase consumption of British-made goods. And exporters that might sell more can't get financing to expand pro-

*Please turn to page 31*




# Revised bailout of AIG is grand slam for banks

By Serena Ng And Liam Pleven

Some of the biggest winners in the U.S. government's revamped $150 billion bailout of **American International Group** Inc. are banks that bought protection from the insurer on securities backed by troubled mortgage assets.

These banks now stand to recoup the bulk of their investments under a plan by AIG and the Federal Reserve Bank of New York to form a company to buy about $70 billion in collateralized debt obligations insured by AIG.

The CDOs are debt securities that are backed by subprime mortgage bonds, commercial mortgage loans and other assets.

Banks in the U.S., Europe and Canada bought credit-default swaps on these securities from AIG, which in turn promised to compensate them if the securities defaulted.

Defaults haven't proved to be a major issue, but the market values of these CDOs fell sharply over the past year or so. That enabled the banks to pry roughly $30 billion in collateral from AIG as a result of those declines and downgrades in AIG's own credit ratings. The banks that sought and received collateral from AIG include **Goldman Sachs Group** Inc., **Merrill Lynch** & Co., **UBS** AG, **Deutsche Bank** and many others.

As part of the rescue plan, the banks will get to keep the collateral they received from AIG, while also selling the CDOs to the new facility at market prices averaging 50 cents on the dollar. In all, the banks that participate will be compensated for

*Please turn to page 31*

# Russia signals softer defense of the ruble

By Gregory L. White And Lidia Kelly

MOSCOW—Russian authorities signaled a softening in their once-staunch defense of the ruble's exchange rate, highlighting the growing pressure the global financial crisis is putting on the Kremlin.

The central bank Tuesday widened its target band for the ruble's rate against a dollar/euro basket by about 1% in each direction. Investors quickly pushed the ruble to the lower limit, and traders said the central bank spent as much as $7 billion to keep the ruble from falling further. A day earlier, Central Bank Chairman Sergei Ignatiev had indicated that the bank was softening its line on the ruble.

Russian stocks also fell Tuesday as currency concerns added to the gloom from global weakness and sagging prices for oil, Russia's main export. The dollar-denominated RTS index fell 10.7%.

"Today's move has only served to raise market expectations of a further devaluation," Renaissance Capital economist Alexei Moiseyev said

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# What's News—

## *Business & Finance*

**New data show British** exports rose 2% in September from August, so far failing to provide a hoped-for lift backed by the fall of the pound. Prime Minister Brown said the government would take steps to boost the flagging U.K. economy. Page 1

■ **Russia widened** its target for the ruble's exchange rate by about 1% in each direction. Investors quickly pushed the ruble to the lower limit. Page 1

■ **GM's effort to get** a federal bailout faces skeptical politicians, policy makers and industry analysts who don't think it is capable of a turnaround. Page 6

■ **European shares skidded** lower, with BG Group and Total leading the decliners. Worries about the economy weighed on U.S. stocks. Pages 19, 20

■ **Vodafone's chief called** a halt to the wireless carrier's emerging-markets expansion and vowed to cut costs. Page 3

■ **German economic** sentiment picked up in November more than expected, albeit from near-record lows. Page 3

■ **China is seeing** more signs of a slowdown, with new trade data and weakening home prices pointing to a sharp decline in exports. Page 16

■ **StatoilHydro paid** $3.4 billion for a stake in a U.S. shale-gas field and for help exploring for the gas elsewhere. Page 3

■ **The U.S. is moving** to speed the modification of hundreds of thousands of loans held by housing-finance giants Fannie Mae and Freddie Mac. Page 10

■ **Romania's rising inflation** and recent ratings downgrades suggest fast growth may not be enough to protect the country from the financial crisis. Page 19

■ **Mitsubishi Rayon agreed** to buy U.K. plastics maker Lucite as the strong yen sends Japanese firms after assets abroad. Page 7

■ **Crude-oil futures fell** almost 5% to less than $60 a barrel in New York. Page 23

### Markets 4 p.m. ET

| MARKET | CLOSE | NET CHG | PCT CHG |
|---|---|---|---|
| DJIA | 8693.96 | -176.58 | -1.99 |
| Nasdaq | 1580.90 | -35.84 | -2.22 |
| DJ Stoxx 600 | 212.17 | -8.79 | -3.98 |
| FTSE 100 | 4246.69 | -157.23 | -3.57 |
| DAX | 4761.58 | -263.95 | -5.25 |
| CAC 40 | 3336.41 | -169.34 | -4.83 |
| Euro | $1.2532 | -0.0275 | -2.15 |
| Nymex crude | $59.33 | -3.08 | -4.94 |

*Money & Investing* > Page 19

## *World-Wide*

**The World Bank plans** to step up assistance to developing countries and companies based there by more than $100 billion over the next few years, as the effects of the financial crisis continue to spread. It also trimmed its global growth forecast for 2008 to 2.6% from a June estimate of 2.7%. Page 2

■ **The battle for the top** U.S. diplomatic post spilled into view, as some Hispanic leaders made a push to have Obama name New Mexico Gov. Bill Richardson as his secretary of state. Page 10

■ **A bridge linking** Sunni and Shiite neighborhoods in Baghdad that was shut three years ago reopened, offering a sign of improving security in the Iraqi capital despite scattered attacks.

■ **Pakistani forces hunted** insurgents who hijacked 13 trucks carrying supplies to foreign forces in Afghanistan. A suicide bombing outside a stadium in the northwest injured seven.

■ **French police arrested** 10 people for the alleged sabotage of high-speed train tracks that disrupted rail transport. Page 2

■ **Kazakhstan agreed** with the country's banks on terms for at least $3.47 billion in capital injections to counter the impact of the global credit crisis.

■ **Cuban leader Raul Castro** will visit Russia next year, the Kremlin said, in a new sign Moscow is reviving a Cold War-era trade and military alliance.

■ **Taiwan authorities arrested** former President Chen as part of a corruption probe. Page 12

■ **Courts in Myanmar** sentenced at least two dozen pro-democracy activists to prison terms of up to 65 years.

■ **U.N. Secretary-General Ban** called for an immediate cease-fire to help refugees cut off by fighting in eastern Congo.

■ **Rwanda said** its sovereignty was violated when an aide visiting Germany was arrested in connection with an attack that set off Rwanda's 1994 genocide.

■ **A man was injured** in an explosion outside the Russian city that will host the 2014 Winter Olympics, the sixth suspicious blast around Sochi this year.

### EDITORIAL & OPINION

**Lost hope**

Germany's pre-emptive *nein* to Barack Obama's request for help in Afghanistan. Page 13

## LEADING THE NEWS

# World Bank plans loans

### *Over $100 billion available to assist developing countries*

By Tom Barkley

WASHINGTON—The World Bank announced plans to step up assistance to developing countries and companies based there by more than $100 billion over the next few years, as the effects of the financial crisis continue to spread.

In addition to new commitments of up to $100 billion by the International Bank for Reconstruction and Development to help developing countries, the bank also is looking to generate financing of around $35 billion over the next three years for private-sector development through the International Finance Corp., the private-sector lending arm of the World Bank.

The World Bank announced the moves Tuesday as it warned the financial crisis is taking a bigger toll on world growth than expected, with advanced economies likely to contract next year and the developing world coming under increasing pressure.

The World Bank trimmed its global forecast for 2008 to 2.6% growth from a previous estimate of 2.7% in June, while the 2009 estimate was cut to 1.0% from 3.0%. Developing countries are still expected to expand at a 6.5% growth rate this year, but the 2009 estimate was cut to 4.5% from 6.4% in June.

"Virtually no country has escaped," World Bank President Robert Zoellick said.

"In the face of these conditions, we need a global, coordinated, flexible and fast response to this crisis," he said.

*Robert Zoellick*

Mr. Zoellick played down expectations for the emergency meeting of leaders of the Group of 20 largest economies in Washington this weekend, saying it won't come up with "all the answers" but could result in some good starting points.

He urged the leaders to continue working to ensure developing nations are given greater voice in the global financial system, and said the poorest countries can't be ignored.

"If we're going to build a more inclusive and sustainable global system, then developing countries must have a say in that process," he said.

"It would therefore be an error of historical proportions if developed countries put in place policies, structures and norms that undermined or excluded the interests of developing countries."

# Short-sale ban panned in Sydney

By Ellen Sheng And Cynthia Koons

A prolonged short-selling ban is exacerbating redemptions at Australian hedge funds and chipping away at the country's reputation as a developed market.

First introduced in late September, the restrictions were extended last month, with the overall ban now expected to last until Nov. 18 and a rule against shorting financial stocks effective until Jan. 27. The latest extension has some industry observers worried that the ban could be extended again, further pressuring funds.

In September, efforts to quash short selling gained momentum around the world after the U.S. Securities and Exchange Commission and the U.K.'s Financial Services Authority clamped down on the practice. Australia, Taiwan and the Netherlands are among markets that sought to limit the practice.

Investors pulled out $550 million from Australian hedge funds in September, up from $300 million in August. Redemptions in October are expected to be even higher.

Although the short-selling ban doesn't rule out shorting altogether—funds can maintain short positions so long as they don't add to them—managers have had to stop accepting new money because they cannot build up hedged positions, said David Liptak, of Hatfield Liptak Advisors, a Sydney-based firm that advises funds of hedge funds.

# French police arrest 10 in rail sabotage incidents

By David Gauthier-Villars

PARIS—Police arrested 10 people for the alleged sabotage of high-speed train tracks that has disrupted French rail transport in recent days—a disruption that government officials said marked a worrying rise in violent left-wing political movements in France.

In a televised press conference, Interior Minister Michèle Alliot-Marie said the 10, whom police described as anarchists, had allegedly jammed iron rods into power cables in order to hold up trains. The 10 people—who have been put under formal investigation by a judge specializing in terrorism cases—were attacking "a symbol of the state," Ms. Alliot-Marie said.

As part of the investigation into the alleged rail sabotage, police will look at whether the 10 suspects, including seven women and three men, have connections with any other European extremist groups that have damaged state property, according to people familiar with the matter.

State-owned railway company Société Nationale des Chemins de Fer, known as the SNCF, and French police have been on high alert for nearly two weeks after what appeared to be a series of coordinated attacks on railroad tracks. In five instances between late October and last weekend, high-speed trains hurtled into hook-shaped iron rods that had been placed on power cables above the tracks. In all five cases, the shock left power lines broken and thousands of passengers stranded as the SNCF struggled to repair the damage.

In a sixth case, a train crashed into concrete blocks that had been positioned across the tracks. The six incidents caused only material damages.

Police said investigators traced the attacks to the group of 10 suspects, who had been monitored by police since last spring, through a DNA sample collected near one of the broken power lines. Phone records also helped identify the suspects, who were arrested in Paris and three other locations, police said.

Under French rules, suspects can be kept in custody for as long as four days before preliminary charges are brought against them. In the wake of the events, Ms. Alliot-Marie said she has ordered closer surveillance of people connected to hard-line left-wing movements in France.

The Revolutionary Communist League, one of France's leading Trotskyite and antiglobalization movements, condemned the recent sabotage in a statement. The league said it would support a planned railway workers' strike on Thursday to defend the quality of public services.

In late 2003 and in 2004, a group that called itself alternatively "AZF" and "Big Wolf" threatened to

**SNCF, and French police have been on high alert for nearly two weeks.**

blow up rail tracks around the country unless the government paid a ransom of several million dollars. At one point, in a message to the government, the group pointed to a location near a track, where police found a pack of explosives. Hundreds of police were marshaled to identify members of the group, but no one was ever arrested.

More recently, a postman claimed responsibility for blowing up a dozen speed-tracking radar devices along highways. The man, who said he was fascinated by violent far-left movements, was identified after a bomb he was preparing exploded accidentally at his home near Paris.

## CORRECTIONS & AMPLIFICATIONS

**Wendelin Wiedeking** became chief executive of **Porsche** in 1993, not 2003 as was incorrectly stated in a News in Depth article Monday.

**The last name** of Tina Zinter-Chahin, **Mattel** Inc.'s senior vice president of research and development, was misspelled as Zinter-Chanin in a Marketplace article on Tuesday.

## 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: Business: 32 2 732 1102
News: 32 2 741 1600 Editorial Page: 32 2 735 7562
**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


## 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**

## LEADING THE NEWS

# Statoil buys stake in U.S. gas field

*A $3.4 billion deal includes land, help exploring new areas*

By Ben Casselman And Guy Chazan

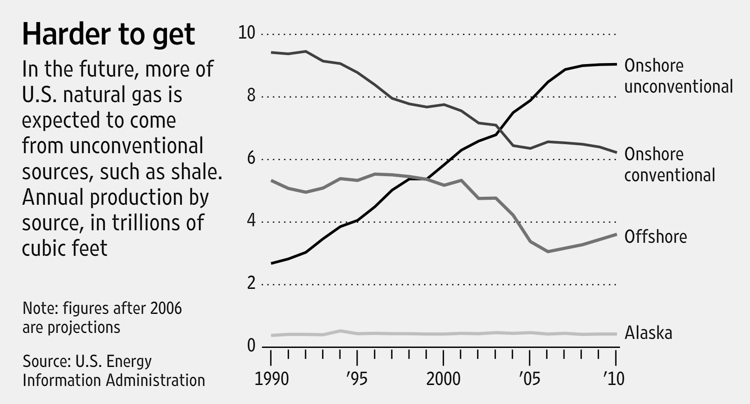
Norwegian oil company **Statoil-Hydro** ASA will pay $3.4 billion for U.S. natural-gas assets in a move that highlights its global expansion and the growing international interest in North American natural-gas markets.

Under the agreement, Statoil will pay **Chesapeake Energy** Corp. $1.25 billion in cash for a 32.5% interest in a massive but still undeveloped natural-gas field that stretches from West Virginia to New York state. Statoil will spend an additional $2.13 billion over four years to help cover Chesapeake's share of drilling costs.

Statoil's share of the field is equivalent to 600,000 acres, which are believed to hold 15 trillion to 18 trillion cubic feet of natural gas, an amount the U.S. consumes in about nine months.

The two companies said they could spend nearly $60 billion over 20 years to drill 13,500 to 17,000 wells.

The deal drew mixed reviews from Statoil analysts and cheers from those following Chesapeake, which has been battered by falling energy prices and the credit crunch.




In afternoon trading Tuesday on the New York Stock Exchange, Statoil shares were off 5% at $18.40. Chesapeake, of Oklahoma City, traded 3% lower at $22.99.

Some question whether Statoil is overpaying. While the price of $2,000 an acre in cash is roughly the midpoint of other deals in the Marcellus field, that figure rises to $5,600 when Statoil's share of Chesapeake's drilling costs is included. Moreover, many analysts thought prices would fall because of the market turmoil that has left Chesapeake and other companies scrambling for cash.

The agreement calls for the companies to explore together internationally for so-called unconventional gas—or gas trapped in tightly packed sands, coal seams or dense rock called shale that can't be tapped by traditional drilling methods. Such production, which generally requires the drilling of many relatively small wells, has become a mainstay of U.S. natural-gas production in recent years, but it is still in its infancy internationally.

Tuesday's deal is the latest of a series of moves by international—and especially European—oil companies to participate in a U.S. drilling boom. In July, **BP** PLC agreed to buy assets in Oklahoma from Chesapeake for $1.75 billion, and in September entered into a $1.9 billion joint venture in Arkansas. **Royal Dutch Shell** PLC has also been active, amassing a large position in Louisiana's Haynesville Shale in partnership with **EnCana** Corp.

The companies have been drawn to the U.S. by its political stability and growing appetite for natural gas. Although prices have fallen recently, most analysts expect prices to rise in the long term as the country turns to natural gas as a fuel that is cheaper than oil and cleaner than coal.

Statoil's move is part of the company's strategy of expanding internationally beyond its Norwegian base. Created in 1972 as a state-owned company, Statoil initially focused on the North Sea. But as output there declined, it ventured into the Caspian Sea, offshore Angola and Brazil. The company already has a U.S. presence, producing gas in the Gulf of Mexico and exporting liquefied natural gas to the U.S.

Tuesday's deal will allow Statoil to increase that presence while also learning to develop unconventional resources from Chesapeake, which drills more such wells than any other company. In a conference call Tuesday, StatoilHydro Executive Vice President Peter Mellbye said the deal with Chesapeake could act as a springboard to develop other unconventional gas plays in places like China, Ukraine and Poland. The interest in Marcellus Shale, he said, "establishes a new growth platform" for the company.

Citigroup analysts welcomed the move in a note to investors, saying it "provides access to a long-term resource base." But other analysts were skeptical, noting that unconventional wells are expensive and technically very different from the offshore oil wells that are Statoil's expertise. Mr. Mellbye acknowledged Statoil lacks experience in shale gas, but said Chesapeake would be the operator of the U.S. project.

# Sentiment rises in Germany on recovery plans

By Nina Koeppen

MANNHEIM, Germany—Sentiment among German financial analysts and institutional investors picked up in November, albeit from near-record lows, after governments around the world announced financial-rescue packages and central banks slashed interest rates, the Center for European Economic Research said.

The think tank's economic expectations index rose to minus 53.5 points from minus 63 points in October, after hitting a record low of minus 63.9 points in July. The outcome was above economists' forecasts of minus 58.5 points, but below the index's historical average of 27.1 points.

Economic experts "seem hopeful that the collective actions of governments and central banks will mitigate the economic slowdown," said Wolfgang Franz, president of the think tank, which is known as ZEW.

But that won't prevent Germany—the euro zone's largest economy—from entering a technical recession, or at least two consecutive quarters of shrinking real gross domestic product, economists said following the survey results.

The euro ticked up, while German government bond futures slipped. Soon after the data were released, the euro traded around $1.2760, compared with $1.2750 before the report.

*—Roman Kessler in Frankfurt contributed to this article.*

# Vodafone chief to slow expansion

By Kathy Sandler

LONDON — **Vodafone Group** PLC posted a 35% decline in first-half profit and cut its full-year revenue outlook, as the cellphone carrier's new chief executive outlined a cost-cutting strategy in response to current economic conditions.

Vittorio Colao, who took the CEO post in July, drew some big distinctions with Vodafone's past strategy, including calling a halt to emerging market expansion, which was a hallmark of his predecessor Arun Sarin.

"Clearly things have changed. We have a bit more of an execution and cost approach because it's what we need now," Mr. Colao said at a media briefing Tuesday.

He vowed to concentrate on improving Vodafone's operations and cutting £1 billion ($1.56 billion) in costs by 2011.

Mr. Colao believes the company, the world's biggest provider of cellphone services by revenue, is already in most of the emerging markets that are destined to provide the best growth opportunities. He thinks Vodafone needs to reflect the changing economic environment, which is slowing in parts as well as becoming more competitive.

**Colao vowed to improve operations and cut £1 billion in costs by 2011.**


Reuters

Vodafone CEO **Vittorio Colao**, shown here in July, called a halt to the company's expansion in emerging markets and vowed to cut £1 billion of costs by 2011.

In the first results posted since Mr. Colao took the helm, Vodafone reported a 17% increase in first-half sales to £19.9 billion from the year-earlier period. But net profit fell 35% to £2.17 billion from last year.

The profit slump was predominantly due to a £1.7 billion impairment charge due to a dismal performance in Turkey, one of the emerging-market acquisitions that have formed the linchpin of Vodafone's growth strategy for the past few years.

Mr. Colao said he is confident that the company is "fixing" Turkey, punctuating the turnaround goal with the appointment of a new Turkish chief executive Tuesday.

Vodafone lowered its full-year revenue targets to between £38.8 billion and £39.7 billion, after already guiding the market in July to the bottom end of the £39.8 to £40.7 billion range announced in May.

But Vodafone increased its forecast for free cash flow to a range of £5.2 billion to £5.7 billion, as it rides a positive currency tailwind and cuts costs in its new efficiency drive.

The company said the savings will come predominantly from fixed costs in Western Europe, although Mr. Colao declined to discuss any specific headcount reduction.

Mr. Colao added that he was happy with Vodafone's 45% stake in Verizon Wireless, a joint venture with **Verizon Communications** Inc., but indicated that the company reviews the stake regularly and is open-minded about how to maximize its value to shareholders. That is the same position Vodafone has taken in the past.

Following the report, Vodafone shares rose 6.2% to close at 115 pence on the London Stock Exchange Tuesday.

# CORPORATE NEWS

# Jobs safety net weakens at U.S. retailers

*Sector's losses surpass other industries and help push unemployment rate higher in a different kind of downturn*

The U.S. retail sector is losing its place as the employer of last resort for the newly unemployed.

The bankruptcy-court filing Monday by **Circuit City Stores** Inc., the country's second-largest electronics chain, underscores how this economic downturn may differ from others in recent memory:

Earlier, Circuit City had announced it would cut 6,800 jobs as it

*By Jeffrey McCracken, Vanessa O'Connell and Ray A. Smith*

conducts going-out-of-business sales at one-fifth of its outlets. It now says the job losses are likely to rise to 8,000.



**Circuit City** filed for chapter 11 bankruptcy protection on Monday and said that the number of job losses was likely to rise to 8,000.

Associated Press

Roughly one of every 10 Americans is employed in the retail sector. But since November 2007, about a fourth of all jobs that have been lost—about 320,000 in all—have been in retail.

That has helped push the overall U.S. unemployment rate to 6.5% through October, a figure many economists expect to grow to 8% or higher. The unemployment figures don't include about 209,000 retail workers whose full-time hours have been reduced to part-time, according to the Department of Labor.

Retail employment has traditionally been relatively resilient in times of recession, with its job cuts often lagging behind those in other segments. The pace of layoffs and store closures was slower in the 2001 downturn than it is currently, because consumers in the earlier slowdown had continued to spend.

This time around, the sector's job losses have outstripped those of other troubled industries such as automotive manufacturing, financial services and hospitality, according to the latest government jobs data.

Circuit City is the latest of at least 14 major U.S. retail chains, including Linens 'n Things and Mervyn's LLC, to file for bankruptcy protection in the past 12 months. Many, such as Linens, are discovering that they can't find financing and are liquidating, slashing tens of thousands of jobs. Fashion retailer Steve & Barry's entered Chapter 11 bankruptcy proceedings this summer with a plan to trim about 100 of its 276 stores; now, according to people familiar with the matter, the company is likely to liquidate the entire chain.

Retail experts believe many of the sector's biggest cuts are yet to come.

In a teleconference last week with financial institutions, the large U.S. liquidation firm Hilco Appraisal Services projected 6,100 American stores—ranging from mom-and-pops to outlets of big chains—will close in 2008, up 25% from 2007. It estimated that figure could reach a record 14,000 stores next year. Each store typically employs 20 to 100 full- and part-time workers, say retail experts. That doesn't count the executives who manage the stores, buy merchandise and develop strategy at a corporate headquarters.

Ken Simon, managing director of financial-advisory firm Loughlin Meghji + Co., says this downturn could be particularly hard for U.S. retailers because banks are reluctant to lend. "The credit freeze means a bankrupt retailer will have trouble finding financing to keep even a portion of their stores continuing," Mr. Simon said.

His firm found that at least 80,000 of the lost retail jobs were cut by retailers that had filed for bankruptcy. The rest were cut by healthier firms that are nonetheless shrinking.

New York-based Lord & Taylor, for example, is trimming jobs ahead of what is expected to be a difficult holiday season. In the past few weeks, the department-store chain has eliminated 100 positions out of its 10,000-person work force—representing 75 layoffs and 25 former executives who won't be replaced, says Jeffrey Sherman, chief executive of Hudson's Bay Co., which operates Lord & Taylor and other retailers in the U.S. and Canada.

The layoffs expose the thin economic safety net available for many Americans who have long depended on part-time or second retail jobs to make ends meet. Front-line retail jobs are among the primary sources of employment for those without a college education. For better-educated, full-time employees, retail jobs also filled a void left by the decline of U.S. manufacturers. Retail jobs could become more competitive still as unemployed workers with college degrees enter the market.

"In retail, you have large numbers of people who are at or slightly above poverty, so losing employment in that sector can increase poverty levels," said Ken Jacobs, chairman of the Center for Labor Research and Education at the University of California, Berkeley. "As manufacturing declined, these were the jobs where people could go."

Lauren Kerr, a 48-year-old single mother in Oakland, Calif., last month lost her job as senior creative manager in the marketing department at Mervyn's, a California department store that announced its liquidation last month. She has since found contract employment in a job that doesn't pay benefits.

"I'm a single parent. I don't have much of a savings cushion," Ms. Kerr said in an interview. She said she shops less for pricey organic and natural foods, and cooks at home more. She said her 10-year-old daughter Joana has also been more thrifty. "She will say, 'Well, we can't spend any money right now,' or, 'Mommy, I don't need my allowance,' " Ms. Kerr said.

The present retail-bankruptcy filings differ from those that hit the U.S. department-store industry in the early 1990s. Back then, a previous buyout boom had placed large amounts of leverage on the stores' balance sheets. While retailers generally still had strong operations, many used bankruptcy proceedings as a way to get rid of expensive leases.

But retailers' current problems extend beyond their balance sheets. Not only is consumer spending plummeting, but manufacturers are clamping down on which retailers they will do business with and the terms under which they will ship products. Going into the holiday-shopping season, many retailers have too much inventory.

Such is the case at Circuit City, with 721 U.S. stores. The company began layoffs last week, which means the cuts aren't yet reflected in the latest government jobs data.

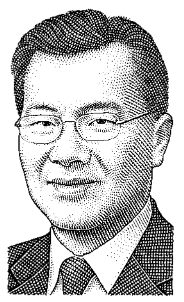
An attorney for Circuit City said the company hasn't announced any job cuts besides those included in 155 store closings already planned.

*—Miguel Bustillo, Peter Lattman and Rachel Dodes contributed to this article.*

# Alibaba cuts its fees to spur growth

By Loretta Chao

BEIJING—**Alibaba.com** Ltd. is betting that sharp cuts in its fees will let the online trading platform maintain its rapid growth despite a worsening storm for China's low-cost manufacturers.



*David Wei*

Alibaba.com, whose Web site provides listings for small-to-midsize manufacturers that want to sell overseas, has positioned itself since its launch in 1999 at the nexus of China's export juggernaut.

That's been an enviable location in recent years, as sales of Chinese goods have ballooned. On Tuesday, the company reported a 49% increase in third-quarter net profit to 308.6 million yuan ($45.2 million) from the year-earlier period. Revenue rose 37% to 780.2 million yuan.

But the global economic slowdown has caused widening ripples in China's export sector, where job losses are mounting as some companies are pushed out of business. China's customs administration Tuesday said exports in October grew 19.2% from a year earlier. Exports increased nearly 25% for all of 2007.

Alibaba.com, the Hong Kong-listed unit of **Alibaba Group**, in which **Yahoo** Inc. holds a 39% stake, gets most of its revenue from membership fees it charges companies to list on its site. Earlier this year, the company saw signs of trouble when the growth in "Gold Supplier" members, those who subscribe to its main product with a fee of 50,000 yuan annually, slowed unexpectedly.

Now, Alibaba.com is adopting a new pricing model to keep drawing new members. Last week, it launched a starter package for Gold Suppliers, which offers fewer services for a 60% discount. David Wei, Alibaba.com's chief executive, says the program is aimed at increasing the Web site's paying customers even at the risk of squeezing its profit margins.

"We believe if we can increase our customers, we will increase our revenue later and the process will take care of itself," Mr. Wei said in an interview. Initial signs are positive: in the first week under the new pricing, total sales were higher than what the company usually gets in a month.

Alibaba.com also remains committed to expanding overseas, Mr. Wei said. He wants to attract more clients in markets including India and Japan, because "more suppliers outside China will look for [buyers in] new markets like China." About 4% of its 400,000 suppliers are from outside China today. To that end, the company announced Tuesday a new joint venture with Japan's **Softbank** Corp.

To ease the worries of hesitant or picky buyers, Alibaba.com recently announced stricter quality-screening policies, including the addition of **VeriSign** Inc. as a partner in checking the authenticity of suppliers. It also has imposed bans on members who repeatedly violate intellectual property rights.

Mr. Wei says Alibaba.com's target customers—businesses with 50 to 500 employees—are able to adapt to market conditions more easily than larger enterprises. Still, some exporters have seen orders fall by as much as half, and some companies are closing shop. Meanwhile, members looking to cut costs are already downgrading to the new, cheaper package, which could cannibalize Alibaba.com's pricier service offerings.

Analysts seem to like the new pricing model. In a recent report, Citigroup said it expects Alibaba.com to see earnings decline in 2009, but that starting in 2010 the company should "benefit from a more sustainable model, delivering faster growth and higher margins."

*—Sue Feng and Gao Sen contributed to this article.*

# Owner of Mideast developer plans to cut work force 2.5%

By Stefania Bianchi

DUBAI—**Damac Group**, owner of big Mideast private developer Damac Properties, said it will shed 200 jobs, as much as 2.5% of its work force, the latest sign of a slowdown in this city-state's once hot property market.

The layoffs, announced in a statement Tuesday, come after months of gathering clouds for Dubai's property sector, which accounts for about 30% of the emirate's economy. In recent weeks, real-estate agents have reported softening prices and a lack of buyers—especially property speculators that helped drive steep price increases in recent years.

Damac, which employs more than 8,000 people world-wide, said the cuts will be focused in those areas "directly affected by the contracting market, including sales and marketing, recruitment and back-office support functions." Damac Properties Chief Executive Peter Riddoch said the decision was inevitable in light of the severe slowdown in the global property market.

Dubai was the first Gulf sheikdom to allow foreigners the right to buy homes, triggering torrid demand. The boom continued even through the first signs of big real-estate trouble in the U.S. and Europe last year and earlier this year. But this summer, a number of factors conspired to take some of the shine off Dubai's market.

Several property analysts have forecast a peak in prices this year or next year, with some estimating double-digit price falls as new supply floods the market. Local lending also tightened significantly. The crunch worsened when international credit markets seized up in the fall. And a number of government probes into alleged financial wrongdoing at some top Dubai developers and finance companies have hurt the sector's image.

Property shares have fallen sharply amid the unease. In a sign of government concern over the sector, Mohamed Alabbar, a government official and chairman of developer **Emaar Properties** PJSC, said this week that Dubai had formed a special committee to explore initiatives to boost confidence in the sector.

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CORPORATE NEWS

# Skeptics present another obstacle for GM

## *Politicians, analysts doubt firm's ability to effect turnaround*

The effort by **General Motors** Corp. to secure a federal bailout faces an overlooked hurdle: skeptical politicians, policy makers and industry analysts who don't think the world's largest auto maker is capable of turning itself around.

"Detroit has had a lot of time to understand what it takes to compete. They wouldn't stand up to the labor-union bosses, and now

*By **Matthew Dolan, John D. Stoll** and **Alex Kellogg***

they're facing the consequences," said Rep. Jeb Hensarling, a three-term Texas congressman and chairman of a group of fiscally conservative Republicans. "We can't be in the business of picking winner and losers. What's next, the airlines? What about Starbucks or all of the other struggling small businesses out there?"

Another Republican, Rep. Scott Garrett of New Jersey, said that "the real problem with this is that [a bailout] is not going to change the company, but simply to perpetuate the same business practices that created the problem in the first place."

"You will be asking the average middle-class taxpayer that doesn't have as rich of a benefit package to subsidize buyouts," Rep. Garrett added. "There are a lot of jobs on the line, but a bailout does not permanently solve the situation. Who's to say we won't be facing the same crisis in 2009?"

Though some kind of financial assistance has broad support among Democrats, others said they would reserve final judgment until they see the conditions attached to more aid for the auto makers. James Cooper, a fiscally conservative Democrat representing Tennessee, raised questions about the future of the auto makers' management teams. He said Congress must take a "tough love" approach and criticized "management and boards of companies that have shown arrogance since the 1950s that they never needed to change in a fundamental way."

GM maintains the company just needs financing to get to 2010, when UAW cost cuts kick in. GM Chief Executive Rick Wagoner says he won't resign despite questions about his management and continues to rule out bankruptcy as an untenable option. GM is burdened by high labor costs, but skepticism about its management stems from the many blunders it has made in recent years. "The current management team at GM must be replaced, even if GM selects the lowest funding-level option off the menu we prescribe," wrote automotive consultant Kenneth A. Elias, with Maryann Keller & Associates LLC, in a recent letter to President-elect Barack Obama.

Rick Wagoner

Other voices are chiming in that a managed bankruptcy would be the best approach.

"It has been hamstrung for years because it has too much debt and it has contracts that are uneconomic," Bill Ackman, manager of the Pershing Square Capital Management LP hedge fund in New York, said on the Charlie Rose television show that aired Tuesday night. "What should happen is they should do a prepackage bankruptcy. The equity holders have been largely wiped out already."

GM, **Ford Motor** Co. and **Chrysler** LLC, owned by **Cerberus Capital Management** LP, may be moving closer to gaining federal aid, but substantial obstacles remain. U.S. House Speaker Nancy Pelosi, Democrat of California, said Tuesday her party will craft legislation that would give the industry "limited" assistance under the recently enacted Troubled Asset Relief Program.

Illinois Democratic Rep. Rahm Emanuel, chief of staff to President-elect Barack Obama, said in a television interview Sunday that the U.S. auto industry is "essential" to the economy.

Still, the White House has signaled its opposition, saying aid to the industry wasn't discussed during the debate on the banking bailout. Congress may take up automaker assistance when it returns next week. David Cole, chairman of the Center for Automotive Research, says he is ideologically opposed to rescue packages like the one the auto industry is desperate for right now but that he strongly supports it in this case, and immediately, seeing no alternative.

"It's the difference between life and death," says Mr. Cole, whose center receives funding from the auto industry. "Philosophically, it's not something that I like, but when you look at it from a practical standpoint...the cost of keeping them in the game is substantially less than the cost impact in the short term on the economy."

"Everything is so intertwined, and the supply base is fairly weak, so what that does, if you take a big guy out, that really cascades through the industry quickly," he said.

Others said that while the auto industry has been hurt by its own past mistakes, the recent financial crisis has exacerbated its problems. Mike Jackson, chief executive of **AutoNation** Inc., blamed Wall Street for the bankruptcy threat at auto makers. He argued in an interview on CNBC Tuesday that the auto companies had done much to repair themselves—improved quality, cut labor costs, rationalized production, improved fuel economy—and would have been in good shape if not for the credit crisis. "These companies have had structural challenges, they made dramatic fundamental changes, and now they're in danger of being swept away because of irresponsible behavior on Wall Street," Mr. Jackson said. A bankrupt auto maker, he added, won't be able to sell cars.

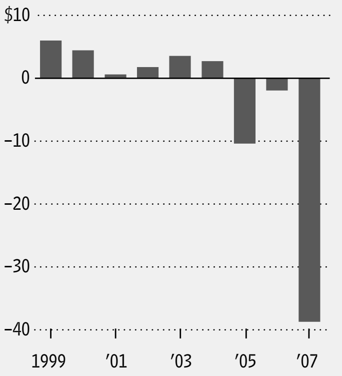
Auto makers aren't restricting their bailout efforts to the U.S. Australia's government is to inject an extra $2.3 billion into the ailing car industry to offset tariff cuts and a global economic slowdown, Prime Minister Kevin Rudd said on Monday. A €40 billion ($51 billion) government bailout package is under serious discussion in Europe. Analysts generally peg job cutting in the U.S. auto industry as costing at least $1.5 billion in incentives per 10,000 manufacturing jobs that are cut. That doesn't include other costs related to facility closures and white-collar buyouts.

Mr. Wagoner said Friday that the U.S. auto makers can't find funding to complete the essential restructuring efforts demanded of them. They are also finding it hard to predict just how much of the North American domestic auto industry needs to go away.

In addition to watching the market soften, GM, Ford and Chrysler must cope with the additional strain of having an increasingly slimmer piece of the shrinking U.S auto market. Through October, the three companies had lost four percentage points of market share, compared with the same period in 2007, giving domestic brands a 46% share, according to Autodata Corp.

**Wagoner's woes**

General Motors' big losses are presenting another worry for Chief Executive Rick Wagoner. Annual net income or loss, in billions




Source: the company

Much of Detroit's restructuring efforts in recent years has been focused on reducing the ranks of blue-collar workers in order to deal with lower sales. But now, as cash dries up, the auto makers are eager to cut salaried costs.

GM's problems clearly demonstrate this need. On Friday, the auto maker said it will cut its 2009 capital-spending budget to $4.8 billion from $7.2 billion, meaning it will have far less need for thousands of engineers currently on the payroll. GM estimates 30% of its salaried budget in North America needs to be eliminated.

"We're cutting to the bone," GM Chief Operating Officer Fritz Henderson said.

GM isn't alone. Chrysler and Ford, along with thousands of U.S. auto suppliers and dealers, will need to downsize rapidly. And in Detroit, where job cuts have become a way of life, people are preparing for the worst.

# GM pursues talks to boost stake in Chinese auto venture

BY NORIHIKO SHIROUZU

BEIJING—**General Motors** Corp., which is lobbying for a bailout from the U.S. government, is in talks to increase its stake in a Chinese joint venture that makes small, inexpensive vans and trucks, people familiar with the situation said.

The U.S. auto maker has entered into negotiations with the government of Guangxi province in southwestern China to expand its stake in **SAIC GM Wuling Automobile** Co., said Hu Maoyuan, chairman of Chinese car maker **Shanghai Automotive Industry** Corp., the majority partner in the joint venture.

The move, according to people close to GM, is aimed at consolidating GM's ownership of Wuling and integrating it more into the GM group as it tries to use Wuling as a launching pad to get low-cost cars into other fast-growing emerging markets.


Agence France-Presse

**The Wuling joint venture** manufactures Sunshine vans, with one-liter engines, that sell for about $3,700.

Mr. Hu said Shanghai Automotive, which owns 50.1% of the Wuling venture, wasn't involved in the talks. GM now owns 34% of Wuling. State-owned **Liuzhou Wuling Motors** Co. owns the remainder, and GM apparently would be buying some of that stake.

An official at the Guangxi State-Owned Assets Supervision and Administration Commission, the regional government agency that owns Liuzhou Wuling, confirmed that it is in talks with GM, but wouldn't elaborate. Officials at Liuzhou Wuling couldn't immediately be reached for comment.

A GM spokesman declined to say whether GM is engaged in talks with Liuzhou Wuling or the Guangxi government. "We communicate with our partners regularly and those discussions are private and confidential," the Shanghai-based spokesman said. "We have nothing to announce at this point."

Detroit auto executives, looking for government support, told U.S. congressional leaders last week that if one or more of their companies fails, millions of Americans could lose their jobs. GM last week warned that it faces a significant risk of financial collapse by the middle of next year.

The Wuling joint venture manufactures Sunshine vans, with one-liter engines, that sell for about $3,700. The Chevy Spark, a minicar also made by Wuling, sells for about the same price. GM has looked to Wuling as an important part of its effort to boost sales in emerging markets to offset declining sales in the U.S.

One GM official, who spoke on condition of anonymity, acknowledged that "there's a lot of interest" on the part of GM in acquiring additional shares in Wuling "to consolidate its position in China, which is a must for anybody in the industry to survive as a global mainstream player," he said.

GM has been using Wuling vehicles—big sellers to farmers and others in China's smaller inland cities—as a way to expand its market share in China. The auto maker says it sold 1.05 million vehicles in China last year. About one half of those were Wuling micro vans and trucks with relatively thin margins.

A credible presence in any of China's auto market segments is critical to GM, which has seen its star dim in China's passenger car market. Long China's No. 2 passenger-car seller after Germany's **Volkswagen** AG, GM is being outsold this year by **Toyota Motor** Corp. and will likely fall to the No. 3 position for the year. J.D. Power & Associates expects GM's China sales of passenger vehicles to contract nearly 6% this year, its first decline since 1999. When gauging an auto maker's performance in the Chinese auto market, micro trucks and vans made by Wuling and a few other auto makers are normally classified as commercial vehicles, a separate category.

Another key factor that has driven GM to try to boost its financial interest in Wuling is the fact that engines in Wuling vehicles are now being gradually replaced with those provided by GM, in part to meet tougher emission requirements in China, the GM officials who spoke on condition of anonymity said. Greater use of those small engines would help GM push down manufacturing costs and contribute in making micro vehicles like Wuling's more profitable.

*—Ellen Zhu contributed to this article.*

## CORPORATE NEWS

# Mitsubishi Rayon in deal

## *Helped by strong yen, chemical firm agrees to buy plastics maker*

By Kenneth Maxwell And Juro Osawa

TOKYO—**Mitsubishi Rayon** Co. agreed to buy U.K. plastics maker **Lucite International Group** Ltd., as Japanese companies buoyed by the strength of the yen chase assets abroad even as their local economy tracks the global slump.

The $1.6 billion price tag includes the assumption of Lucite debt, estimated by company watchers to be about $1 billion.

The Tokyo-based chemicals, plastics and textiles supplier, which makes products ranging from golf club shafts to artificial suede, said Lucite's top shareholder, British private-equity fund **Charterhouse Capital Partners** LLP, agreed to sell its entire 82% stake to Mitsubishi Rayon.

Facing a declining market at home as the population shrinks, Japanese companies have been increasingly interested in expanding their businesses overseas. So far this year, they have spent $61 billion on acquisitions abroad, the biggest sum since records started in 1980, according to data provider Thomson Reuters. Among the deals have been some headline-grabbing investments, namely Mitsubishi UFJ Financial Group Inc.'s $9 billion purchase of 21% of Morgan Stanley, and Takeda Pharmaceutical Co.'s $8.8 billion acquisition of U.S. biopharmaceutical company Millennium Pharmaceuticals Inc..

At a news conference Tuesday, Mitsubishi Rayon President Masanao Kambara described the deal as "the opportunity of a decade," saying the yen's strength was "a factor" that made the timing of the move astute.

Investors, however, concerned about the amount of debt being taken on, pushed down Mitsubishi Rayon shares by 10% to 220 yen ($2.25), while the Nikkei 225 Stock Average fell 3%.

Mitsubishi Rayon's all-cash deal, expected to close in January, is being funded by borrowings from Mitsubishi UFJ Financial Group, which is a shareholder in the chemicals and plastics company.

In its quest to become the world's leading supplier of acrylic plastics— used in the manufacture of products such as mobile phones and auto parts— Mitsubishi Rayon is paying a price higher than its own stock market capitalization of about $1.32 billion.

Mr. Kambara said Mitsubishi Rayon's debt-to-equity ratio will jump from about 0.5 at the close of its fiscal year ended March 2008 to about 1.7 at the end of the current fiscal year.

Closely held Lucite International was created by the 1993 merger of the acrylics businesses of chemicals makers DuPont and ICI. Based in Southampton, England, it employs 2,000 people world-wide. Lucite International is one of the world's leading makers of acrylic-based plastic products, such as Perspex.

*—Ayai Tomisawa contributed to this article.*

# Global woes put a crimp in Alba's expansion plans

*By Reem Shamseddine, Stefania Bianchi and Oliver Klaus*

DUBAI—**Aluminum Bahrain**, or Alba, which operates one of the Middle East's biggest smelters, may delay a big capacity expansion, the latest sign of worry over the economics of some industrial and infrastructure projects in the region.

Mahmood Daylami, the company's deputy chief executive, told reporters in Dubai Tuesday that fear of weakening demand for aluminum amid a global economic slowdown may delay the company's expansion. The company has plans to more than double annual output by 2012.

"We have no intention to reduce production, but we might not increase it," Mr. Daylami said.

The review at Alba comes as executives and government officials across the oil-rich Persian Gulf are reevaluating some of their big projects. On Monday, Ma'aden, a Saudi minerals company, said it was reviewing a bauxite mining and aluminum project it was developing with a division of **Rio Tinto**, citing the "current international financial climate."

Gulf rulers are braced for lower revenue because of falling oil prices. At the same time, outside financing amid today's credit crunch is suddenly much tougher to pull off.

Financing for billions of dollars in planned water and utilities projects could also be threatened by difficult financing markets, industry executives say. Many governments have sought to spread the financing burden for large projects to international partners. Some power and water projects can be as much as 60% to 70% debt financed.

"Banks at the moment are like rabbits in the headlights," Ranald Spiers, Mideast executive director at **International Power Group** Ltd., the region's largest power developer, told Zawya Dow Jones earlier this week. "If you're looking for financing in the first quarter of 2009 then you've got a sporting chance for it, but if you're looking before the end of this year, there's no chance," he said.

# Indian airlines confront a harsher reality

*Source of opportunity for the middle class runs into turbulence*

BY NIRAJ SHETH

NEW DELHI—For years, India's dreams rose with its upstart airlines. As the carriers hired young Indians to be pilots and flight attendants, and drove fares to rock-bottom prices, they became symbols of the opportunities springing up for the growing middle class and of the country's aspirations to be a modern power.

Now, India is waking up to a new reality. The combination of high fuel costs and taxes and a slowing economy has hit the airline industry hard. The financial crisis has cut carriers off from a lifeline of credit. They are defaulting on payments for fuel and falling behind in dues owed to airports.

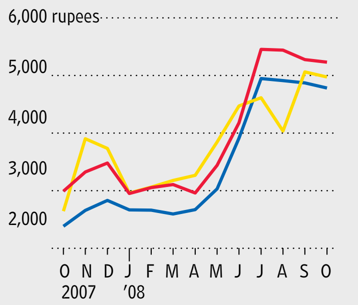
The industry, which has emerged in the past five years after the government opened the market to private carriers, is set to lose a record $2 billion this year, analysts estimate, second only in losses to the U.S. industry.

Just a year ago, India had such a shortage of pilots it was importing them from abroad. Now, the same airlines are cutting pilots' salaries and trying to lay them off.

Last month, **Kingfisher Airlines** Ltd., the country's second-largest airline by passenger traffic after **Jet Airways** Ltd., cut pay for trainee pilots by 90%. For the quarter ended Sept. 30, Kingfisher reported a loss of $101.7 million, 90% wider than its year-earlier loss.

**Flying up**

Average airfares of low-cost airlines' selected routes




Source: MakeMyTrip


Jet Airways employees protest against cutbacks outside the airline's office in Mumbai, India, last month.

Meanwhile, Jet Airways laid off 27 foreign pilots last week in an effort to cut costs. The airline had tried to lay off 1,900 pilots and flight staff last month but pulled back after meeting heavy political resistance.

Vidur Datta was born in India but moved to Australia at a young age, where he earned his flying license at the age of 22. A year ago, he decided to return to India for the brighter career prospects.

"The aviation industry here was booming two years ago," he says. With fewer practice hours required before flying, "I thought it'd be pretty easy and I'd get a job straight away."

Today, he is awaiting the results of an Indian flying exam, and passing it will allow him to become a commercial pilot in India. But the environment has shifted so much that Mr. Datta, 24 years old, now thinks staying in Australia might have been a wiser choice.

"It would've taken a lot less effort to do flying over there and get a job in Australia. I could be flying for a commercial airline already," he said.

Aspiring flight attendants also are having second thoughts.

"On the domestic front, there's definitely a slowdown in the number of people who are taking flight-crew [training]," said Samir Valia, marketing vice president at Frankfinn Institute of Air Hostess Training, which trains more than 10,000 flight attendants a year in India. With openings at India's airlines down, students are now more seriously considering jobs in the hospitality industry instead, Mr. Valia says.

The fallout from the airline slump has hit passengers, too. In recent years, low-cost airlines brought fares down to the price of train tickets as they undercut each other to encourage India's emerging middle class to fly. The fare war allowed millions to take their first flight.

But after suffering heavy losses quarter after quarter, the airlines last year started raising prices, doubling them on some routes. At the same time, India's inflation rate has soared, driving up the cost of living. In September, nearly 20% fewer Indians flew than a year earlier.

When Shalini Gunashekar's family of four took a trip last month from New Delhi to Bangalore, they expected to travel by air, as usual. But with fares at around $845—close to double what they were last year—they opted to do the 1,600-kilometer trip the old-fashioned way: by rail. They ended up saving about $630.

"I never considered rail travel before," said Ms. Gunashekar, 22. Air travel "was quite exciting then, with low-fare tickets. Now, I think, why throw all that money away?"

Industry officials say air travel will rebound. This month, state-owned oil companies cut prices for jet fuel more than 20%, while the government has also removed some of the taxes that made fuel costs 65% higher in India than in many other countries.

The price cut should help the airlines, which are spending nearly 50% of their operating budget on fuel, although there is no guarantee the savings will be passed on to consumers.

The industry also could be set for another round of consolidation. In the past year, the number of independently-owned carriers has shrunk to seven from 10.

"You can't expect [economic] growth at 8% to 9% and expect people to travel by train," said Aditya Ghosh, president of IndiGo, a low-cost Indian carrier owned by **InterGlobe Enterprises** Ltd. "It will have to be air travel."

# American Express gains access to federal bailout fund

BY ROBIN SIDEL AND JON HILSENRATH

**American Express** Co. won fast approval to become a bank-holding company, helping the credit-card giant gain access to a chunk of the $700 billion in U.S. federal funds being pumped into financial companies.

The move shows how quickly financial-services corporations that have long relied on the capital markets are racing to shore up their funding sources as the credit crisis drags on and economic turmoil spreads around the world.

The specter of a steep recession has fueled investor worries about AmEx's financial position, even though its two bank units already have access to the Federal Reserve's discount window. Last month, the New York company said it could keep itself going for at least a year if it were shut out of the credit markets.

"Given the continued volatility in the financial markets, we want to be best positioned to take advantage of the various programs the federal government has introduced or may introduce to support U.S. financial institutions," Kenneth Chenault, AmEx chairman and chief executive, said in a statement Monday night.

*Kenneth Chenault*

"Everybody wants to be a bank because everybody wants access to government funding," said Craig Maurer, an analyst at Calyon Securities, a unit of Credit Agricole Group.

One person familiar with AmEx's strategy described the company's move as "common sense." "How could you possibly pass up the flexibility to be able to access these programs in a highly uncertain and volatile world?" this person said.

It isn't clear if AmEx has applied for taxpayer-funded aid through the government's Troubled Asset Relief Program. One of its bank units is regulated by the federal Office of Thrift Supervision. Some bankers have complained that the OTS hasn't been processing TARP applications quickly enough.

An OTS spokesman said the agency has "devoted significant resources to processing" the 120 to 130 requests it has received. "Any institutions with concerns should discuss those concerns with us."

In the order approving the regulatory change, the Fed described the two bank units as "well capitalized." But the company is expected to quickly turn to the Treasury Department for an investment to bolster its position.

Mr. Chenault said the decision "does not fundamentally change" the company's "core focus on the payments industry," an indication that AmEx isn't interested in acquiring a large commercial bank. If it doesn't buy a bank, AmEx could buy deposits of failed institutions or launch an Internet-only savings program. That strategy usually attracts money from customers who chase the highest rates and don't keep their money in one place for long.

Normally it would take months to win regulatory approval for such a switch. The Fed waived its normal procedures to expedite AmEx's application, citing "unusual and exigent circumstances affecting the financial markets." Similar language was used when it allowed **Goldman Sachs Group** Inc. and **Morgan Stanley** to convert from investment banks to bank-holding companies in September.

Banks, thrifts and bank-holding companies have a Nov. 14 deadline to apply for a capital infusion from the government. Fed officials are reviewing bank-holding-company applications from a small number of other firms, including GMAC LLC, the auto and home lenderowned by **General Motors** Corp. and **Cerberus Capital Management LP.**

"Without this status, we do not have access to these important tools," such as government capital, said Toni Simonetti, a GMAC spokeswoman.

*—Damian Paletta contributed to this article.*

# Cisco releases router as network traffic expands

BY BOBBY WHITE

**Cisco Systems** Inc., reacting to a spike in video and data traffic on the Internet, is introducing a new generation of hardware to help communications carriers cope with the flood.

The networking-equipment giant says its new hardware took four years and $200 million to develop and offers a sixfold leap in capacity over existing products. The new router, called the ASR 9000, is capable of moving 6.4 terabytes per second of traffic, the equivalent of 250,000 digital songs or 200 feature-length movies a second, Cisco says.

Routers help direct data to intended destinations over computer networks. Cisco's models will compete with products from such networking companies as **Juniper Networks** Inc. and Redback Networks, a subsidiary of **Telefon AB L.M. Ericsson.**

Cisco, of San Jose, Calif., says the capacity increase is badly needed. Data traffic has risen rapidly as carriers serve up videos and other large data files to personal computers and cellphones—a problem expected to grow more severe as high-definition video becomes more commonplace.

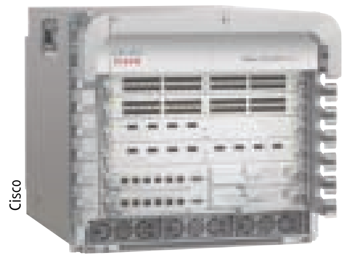
Growth has occurred at such a rate that plans for network capacity often fall short, causing a scramble among both fixed and mobile Internet providers. Cisco projects a sixfold jump in Internet traffic between 2007 and 2012, with online video as the biggest driver of global data communications.

"With the ASR we are attempting to future-proof the network," says Pankaj Patel, a Cisco senior vice president.

Four years ago, the company introduced the CSR-1, a router capable of handling heavy traffic on long-haul networks—big data pipes between cities and countries. Cisco was derided by industry insiders at the time for offering such a massive capacity increase. But the CSR-1 became one of the company's strongest-performing products.

Cisco's new router has a different job. Instead of handling traffic between cities, the ASR is an "edge" router that carriers use to transfer data traffic among local networks in cities.

Georges Antoun, chief executive of rival Redback Networks, says Cisco may find it difficult to sell the new router in the current economic environment. He says Cisco already has a suite of edge routers and asking its customers to replace them with the new model just for more capacity may be a hard sell.




Cisco's new router, the **ASR 9000**.

# CORPORATE NEWS

## Tyco's outlook dims as projects encounter delays

By Christopher Hinton

**Tyco International** Ltd. on Tuesday offered a fiscal first-quarter outlook that reflects delayed customer projects because of the credit-markets crisis and an unfavorable currency-exchange rate caused by the stronger dollar.

For the December quarter, the Bermuda-based maker of safety, industrial and construction products said it expects earnings from continuing operations to be in the range of 46 cents to 49 cents a share, excluding one-time items.

The range falls significantly below the Wall Street consensus of 63 cents a share, according to FactSet Research. Last year, the company reported earnings of 73 cents a share.

"While this estimate may be too harsh, we think it's prudent to be conservative in this environment," Chief Executive Edward Breen said after the earnings report.

Tyco shares were off 13%, or $3.36, at $21.98 in late trading on the New York Stock Exchange. The stock has been pummeled this year, losing more than 45% of its value since January.

A weaker exchange rate and higher corporate expenses are expected to bite off 12 cents a share in the first quarter, while delayed water projects in Australia will make for a tough year-to-year comparison, Tyco said.

For the whole year, currency rates could pull down earnings by 38 cents a share, while a decline in Tyco's electric- and metal-products unit could reduce 2009 earnings by 35 cents a share.

Tyco forecast 2009 earnings in the range of $2.20 to $2.50 a share, while analysts were looking for earnings of $2.87 a share, on average. Organic revenue is expected to be flat to down 4%.

For the recent, fiscal fourth quarter, Tyco said its net income more than doubled to $434 million, or 91 cents a share, from $181 million or 36 cents a share a year earlier.

## U.S. homebuilder reports declines in traffic, sales

The troubled U.S. home-building industry keeps getting worse. **Toll Brothers** Inc. Tuesday reported that traffic and sales hit record lows last month, as the financial meltdown spooked already tepid buyers and caused a wave of cancellations on new-home orders.

"Unfortunately, the preliminary signs of stability we had discussed in early September...were upended by the past month's financial crisis," said Chairman and Chief Executive Robert Toll.

Home-building revenue dropped to $691 million in the quarter ended Oct. 31, from $1.17 billion. Net signed contracts dropped 27%. Cancellations amounted to about 30% of current-quarter contracts.

The grim outlook is likely to bolster the industry's lobbying campaign on Capitol Hill, where builders are asking Congress for a series of robust—and potentially costly—measures to stimulate home buying.

# GLOBAL BUSINESS BRIEFS

### Aer Lingus PLC

#### Forecast for narrower loss follows lower fuel prices

**Aer Lingus** PLC gave slightly more optimistic guidance for the year amid lower fuel prices. The Irish airline forecast a 2008 operating loss of close to €20 million ($25.5 million), compared with its previously forecast range of between €20 million and €30 million. It also expects an operating loss in 2009. Aer Lingus is seeking €74 million in cost cuts by freezing management pay and outsourcing about 1,500 of its approximately 4,000 jobs. The airline's revenue increased 8.5% during the first nine months of 2008, compared with the same period in 2007. Flown passenger numbers rose 9.7% to 7.7 million. Average passenger revenue fell 1.1%. Aer Lingus said a new Irish tax of €10 per departing air passenger is likely to have a €30 million impact on the airline's bottom line.

### VT Group PLC

**VT Group** PLC Tuesday posted flat net profit for its fiscal first half and recorded a 13% rise in underlying pretax profit. Its chief executive said he had seen no impact on the business from the global economic slowdown. "We think we can grow the business over the next year or two," said Paul Lester, chief executive of the defense and support-services company. The company said the services businesses' order book stood at £4.6 billion ($7.18 billion), an increase of more than 70% from the same period in 2007. Underlying pretax profit for the six-month period to Sept. 30 rose to £48 million. Net profit rose to £28.4 billion, from £28.2 billion the year before. The company said revenue excluding joint ventures rose 9% to £538.4 million from £496.2 million in the same period a year ago.

### InterContinental Hotels

**InterContinental Hotels** Group PLC Tuesday posted a 2.8% drop in third-quarter net profit and warned that there was a sharp downturn in revenue at its hotels in October. Net profit fell to $91 million from $127 million a year earlier, when asset sales flattered the bottom line. Operating profit from continuing operations was up 14% to $150 million, said the operator of Holiday Inn and Crowne Plaza hotels, while sales rose 7.3% to $486 million from $453 million. InterContinental, the world's largest hotel operator by number of rooms, said that revenue per available room—a key performance indicator for the industry—rose 1.6% in the third quarter. This is a slowdown from a 4% rise in the first half and the company said that there had been a deterioration in October.

### RWE AG

**RWE** AG, Germany's largest power producer by output, said third-quarter net profit almost quintupled, driven mainly by its German power-generation business and the absence of a tax charge that hurt year-earlier results. Despite the good results, the Essen-based company said it still expects full-year net profit to be slightly lower than last year. But it reassured investors it plans to lift the dividend-payout ratio for the current year to between 70% and 80% of recurrent net profit from a previous ration of 50% to 60%. Net profit in the third quarter rose to €1.06 billion ($1.35 billion) from €202 million a year earlier. Sales jumped 16% to €9.47 billion, thanks to higher electricity prices and rising power- and gas-sales volumes.

### Bertelsmann AG

German media giant **Bertelsmann** AG Tuesday reported a sharp rise in net profit for the first nine months of the year, compared with a year-earlier figure that was hit by several charges. But the company cut its 2008 operating-profit target. Net profit for the period surged to €285 million ($363 million) from €10 million a year earlier, even though revenue fell 0.7% to €11.38 billion. In 2007, the bottom line was reduced by the settlement of copyright claims that arose from Bertelsmann's backing of file-sharing service Napster, a write-down on RTL Group's U.K. operations and a cartel fine for the broadcaster's German division. Closely held Bertelsmann owns 90% of RTL Group. Because of the subdued economic outlook, the company said it now expects full-year earnings before interest, taxes and special items to be 5% to 10% lower than in 2007.

### Tiscali SpA

Broadband operator **Tiscali** SpA said Tuesday the chief executive of its Italian unit has stepped down. Mario Mariani, who had been CEO of Tiscali Italia since June 2006, resigned to pursue other activities, the Sardinia-based company said. Tiscali CEO Mario Rosso will take over Mr. Mariani's position at Tiscali Italia together with the Italian unit's finance chief, Luca Scano. Tiscali has been trying to sell its operations in the United Kingdom and Italy and recently said it is in talks with **British Sky Broadcasting Group** PLC about the U.K. assets. Tiscali shares rose after the announcement of Mr. Mariani's resignation but eventually closed down 6.8% at €0.78 in an overall negative Milan market.

### Volvo AB

Swedish truck-and-bus maker **Volvo** AB says it will lay off 1,000 staff at its power-train unit in Sweden and North America. A Volvo spokesman said the layoffs would affect 900 permanent workers in Sweden and 100 in North America. He said Tuesday a large number of consultants and others on temporary contracts will also receive layoff notices. Truck demand in Western Europe and the U.S. is shrinking after several years of strong growth. Among other things, Volvo Powertrain makes engines and gear boxes for trucks. The Volvo group has announced layoffs of 1,400 workers at truck plants in Belgium and Sweden and 1,350 workers at its construction unit. It has more than 100,000 employees world-wide, including its subsidiaries Renault Trucks, Mack Trucks and Nissan Diesel.

### Liz Claiborne Inc.

**Liz Claiborne** Inc. swung to a third-quarter net loss, reflecting restructuring charges and a decline in sales. Sales fell 16% to $1.01 billion as consumers have pulled back on discretionary spending. In addition, a strategic review at the company has resulted in the sale of eight brands, including Ellen Tracy and Prana. The company reported a net loss of $68.7 million, or 73 cents a share, compared with net income of $33.1 million, or 33 cents a share, a year earlier. Excluding restructuring-related charges in the third quarter and year-earlier period and other special items, the company said earnings from continuing operations fell to 39 cents from 60 cents. For the full year, Liz Claiborne narrowed its earnings target of $1.02 to $1.07 a share from a revised October forecast of $1 to $1.10 a share.

### Nokia Siemens Networks

Telecom-equipment maker Nokia Siemens Networks revealed more details of its job-cutting plans in Finland and Germany as it enters the final stage of a restructuring plan aimed at achieving €2 billion ($2.54 billion) in annual cost savings by the end of 2009. NSN, the joint venture between **Nokia** Corp. and **Siemens** AG, said it plans to cut some 750 jobs in Finland, a move that brings total reductions through restructuring to nearly 1,300. It said at the end of its synergy-related headcount restructuring, it expects to have some 7,000 workers in Finland. NSN has already reached agreement with employee representatives regarding the reduction of some 2,300 workers in Germany. NSN said it has achieved reductions of some 6,000 workers so far.

### Alitalia SpA

**Alitalia** SpA on Tuesday canceled dozens of flights for the second day in a row as some of the Italian flag carrier's cabin crew staged a 24-hour wildcat strike. Hundreds of Alitalia pilots and flight attendants are protesting a relaunch plan by investor consortium Cia. **Aerea Italiana**. CAI last month offered to purchase Alitalia's core assets for €275 million ($350 million), and plans to merge them with smaller Italian carrier **Air One** SpA. Four of Italy's main labor unions have signed up with CAI, but many cabin-crew members still oppose the plan, demanding to reopen contract talks. The Italian government on Monday ordered the striking Alitalia employees to return to work, warning that those refusing faced criminal charges for disrupting a public service.

### GlaxoSmithKline PLC

**GlaxoSmithKline** PLC said Tuesday it plans to close a manufacturing plant in Dartford, England, by 2013 as part of a cost-saving program announced in October 2007. The closure will result in the loss of about 620 jobs. The plant makes older products such as epilepsy drug Lamictal, which has faced new competition from low-cost generics, and herpes treatment Valtrex, due to lose patent protection in 2009. Last year, Glaxo said it would cut an undisclosed number of jobs as part of a plan to save £700 million ($1.09 billion) a year by 2010. In addition to a reduction of 1,200 research and development staff announced earlier this year, last week GlaxoSmithKline said it is cutting 1,000 sales jobs in the U.S. and consolidating main-office operations at its North Carolina facilities.

### Virgin Media Inc.

U.K. television and telephony company **Virgin Media** Inc. Tuesday said it plans to reduce its work force by 2,200 people, or about 15%, by 2012 as part of a restructuring program. "The implications of the proposals for specific departments or locations are still to be finalized," Virgin Media said in a statement, adding that it will be talking with employee representatives about the proposed cuts. The company said it expects the majority of the changes will be implemented between the fourth quarter of 2009 and the end of 2010, depending on internal consultation. Earlier this month, Virgin Media said it had agreed on new terms with its senior debt holders to delay for three years repayments on its £4.3 billion ($6.7 billion) debt. Virgin Media is listed on the Nasdaq, but operates solely in the U.K.

### Finmeccanica SpA

Italian aerospace and defense company **Finmeccanica** SpA said its €1.22 billion ($1.55 billion) capital increase was 98.3% subscribed at the close of the subscription period on Friday. The remaining 1.7% represent a total of 2.67 million new Finmeccanica shares, valued at about €21.3 million, the company said. "The result of the capital increase allows us to maintain our financial solidity and strong balance sheet and to continue with our industrial and commercial strategy," Finmeccanica Chief Executive Pier Francesco Guarguaglini said. The capital increase is part of Finmeccanica's fund raising for the €3.4 billion acquisition of U.S. defense company DRS Technologies, which closed in October. Other sources of financing include a partial listing of Finmeccanica's energy unit Ansaldo Energia, expected to take place next year.

### SMIC

Shares of **Semiconductor Manufacturing International** Corp. jumped 29% after the company announced plans to sell a 16.6% stake to Datang Telecom Technology & Industry Holdings Co. Though analysts said the $171.8 million deal will give SMIC exposure to China's nascent third-generation mobile market, they said the tie-up won't likely reverse its unprofitable trend in the coming quarters, due to weak demand and intense competition in its memory-chips segment. SMIC rose to 20 Hong Kong cents, or about three U.S. cents. SMIC, China's largest chip foundry by capacity, plans to issue 3.7 billion new shares to Datang Telecom at 36 cents each. Datang Telecom is a unit of **Datang Telecom Technology & Industry Group.**

### Circuit City Stores Inc.

**Samsung Electronics** Co. and **LG Electronics** Inc. said their bills receivable from **Circuit City Stores** Inc., which has filed for bankruptcy protection in the U.S., are all insured and thus won't likely lead to any losses. LG together with its U.S. unit **Zenith Electronics** Corp. has $41.1 million in receivables. Samsung spokesman James Chung said that although Samsung will continue to ship goods to Circuit City, it will engage in additional talks to judge if the retailer can continue its business. Samsung is Circuit City's second largest unsecured creditor following **Hewlett-Packard** Co. Circuit City owes Samsung nearly $116 million. Japan's **Sony** Corp. said it is aware that the company's name is on the list of creditors filed with the court but declined to comment further.

*—Compiled from staff and wire service reports.*

## ECONOMY & POLITICS

# U.S. speeds plan to help homeowners

*Fannie Mae, Freddie Mac will be used to modify loans' interest rates and forgive some portions of debt*

BY DAMIAN PALETTA

WASHINGTON—**Fannie Mae**, **Freddie Mac** and U.S. officials announced plans Tuesday to speed up the modification of hundreds of thousands of loans held by the housing-finance giants, marking the latest effort to try to prevent more foreclosures.

The announcement marks the government's most assertive use of Fannie and Freddie to help homeowners since it took over the companies in September.

"We are experiencing a necessary correction, and the sooner we work through it, the sooner housing can again contribute to our economic growth," said Neel Kashkari, the Treasury official who is heading the government's financial-rescue program.

The streamlined effort will target certain loans that are 90 days or more past due. The program will aim to bring the ratio of mortgage payments for these homeowners to 38% of their income by modifying interest rates and, in some cases, forgiving portions of principal debt.

Borrowers would have to provide a statement or affidavit showing that they have encountered some sort of hardship that has affected their ability to pay their mortgage. It would apply only to loans made on or before Jan. 1, 2008, and borrowers will be disqualified if they file for bankruptcy. The homes must be owner-occupied, and escrows for real-estate taxes and insurance must already be set up.

U.S. government officials plan to encourage big banks that hold loans in their portfolios to take similar streamlined modification measures.

The announcement came at a news conference at the Federal Housing Finance Agency, which temporarily has Fannie and Freddie in conservatorship because of their shaky financial condition.

Representatives for the companies, the Treasury Department and the Federal Housing Finance Agency weren't available for comment.

Servicers are expected to be paid $800 for a successful modification, and loan investors are expected to reimburse servicers for certain fees associated with the modification. There will be a 90-day trial period, and if borrowers successfully make payments for those 90 days, the modification will be formally approved.

The program is expected to be an extension of the Hope Now alliance announced last year that aimed to help people avert foreclosure by reworking the terms of their mortgages. Several large banks, including **Bank of America** Corp., **Citigroup** Inc. and **J.P. Morgan Chase** & Co., have announced their own foreclosure-prevention plans.

Some bankers have complained that Fannie and Freddie weren't being flexible enough in discussions over loan modifications.

The administration is still discussing a range of other, more extensive options to help homeowners.


Associated Press

The U.S. is making an effort to **keep more people in their homes**. Loans that are 90 days or more past due will be targeted.

# Obama could ask Gates to stay on

BY YOCHI J. DREAZEN

WASHINGTON—President-elect Barack Obama is leaning toward asking Defense Secretary Robert Gates to remain in his position for at least a year, according to two Obama advisers. A senior Pentagon official said Mr. Gates would likely accept the offer if it is made.

No final decision has been made, and Obama aides said other people are under serious consideration for the defense post, one of the most highly coveted in any new cabinet. Several prominent Democrats, including former Clinton Navy Secretary Richard Danzig and former Clinton Deputy Secretary of Defense John Hamre, are also being considered.

The decision on retaining Mr. Gates will be the clearest indication to date of the incoming administration's thinking about Iraq and Afghanistan.

Like the president-elect, Mr. Gates supports deploying more troops to Afghanistan. But the defense secretary strongly opposes a firm timetable for withdrawing American forces from Iraq, and his appointment could mean Mr. Obama was effectively shelving his campaign promise to remove most troops from Iraq by mid-2010.

Several aides to Mr. Gates said the defense chief often talks publicly about leaving the Pentagon in January and returning to his remote lakeside home in Washington state. They also noted Mr. Gates carries around an electronic keychain whose display shows the number of days until the end of the Bush administration.

Still, speculation that Mr. Gates would remain in the job increased over the weekend when Senate Majority Leader Harry Reid (D., Nev.) endorsed the idea in a CNN interview. "Why wouldn't we want to keep him?" Sen. Reid said. "He's never been a registered Republican."

Mr. Gates has always said his preference "is to retire once again," said Pentagon spokesman Geoff Morrell. "But he has also never shut the door on the possibility that he would be willing to serve for some period beyond the expiration of this term."

Mr. Gates took over the Pentagon in late 2006 after President George W. Bush ousted then-Defense Secretary Donald Rumsfeld over his management of the Iraq war. U.S. commanders in Iraq had been unable to prevent the country from slipping into civil war, and American and Iraqi casualties were soaring. Relations between Mr. Rumsfeld and many powerful lawmakers had grown toxic.

The new defense chief worked to repair the Pentagon's frayed ties with Capitol Hill. In his nomination hearing before the Senate Armed Services Committee, Mr. Gates was asked if the U.S. was winning in Iraq. "No, sir," he replied. The blunt reply won praise from many Democrats. Sen. Carl Levin of Michigan, then the committee's ranking Democrat and now its chairman, called it a "refreshing breath of reality."

Associated Press

U.S. Defense Secretary **Robert Gates**, like President-elect Barack Obama, backs sending more troops to Afghanistan. Mr. Obama may ask Mr. Gates to stay on.

# Richardson, Kerry top list for U.S. secretary of state

BY CAM SIMPSON

WASHINGTON—The battle for America's top diplomatic post spilled into view Tuesday, as some Hispanic leaders made a public push to have President-elect Barack Obama name Bill Richardson, the governor of New Mexico, as his secretary of state.

Sen. John Kerry, an early backer of Mr. Obama's who failed in his own bid for the presidency four years ago, sought to deflect reports that he is lobbying for the job.

"I haven't talked to anybody. I've had no conversations. It's all speculation, and I have nothing further to say," Sen. Kerry told the Associated Press Tuesday after a ceremony in Boston. A spokeswoman for the senator confirmed the statement.

*Bill Richardson*

The developments follow days of intense speculation in the nation's capital about who will assume the helm of U.S. diplomacy at a signal moment. The next secretary of state will inherit two wars, a global financial crisis, anti-American sentiment abroad and what U.S. intelligence officials say is likely to be dwindling American influence in the years ahead.

In addition to Gov. Richardson and Sen. Kerry, there has been speculation about Richard Holbrooke, a former senior American diplomat; Sen. Richard Lugar, the Republican foreign-policy guru from Indiana; and Sen. Hillary Clinton.

Mr. Obama has repeatedly pledged a change in direction and tone for American diplomacy, after eight years in which Democratic and centrist critics complained that the Bush administration relied too much on confrontation and too little on engagement.

The National Hispanic Leadership Agenda, an umbrella organization of 26 Hispanic groups, called on Mr. Obama to select Gov. Richardson, who endorsed Mr. Obama in March after dropping out of the Democratic race for president in January. Mr. Richardson is one of the nation's leading Hispanic politicians. He also is a seasoned diplomat, having served as U.S. ambassador to the United Nations under President Bill Clinton.

"By all accounts, Latinos were a key part of President-elect Obama's historic victory," said John Trasvina, the National Hispanic Leadership Agenda chairman, who also is general counsel of the Mexican American Legal Defense and Educational Fund. Now, "Latinos have the talent and expertise to play a major role in governing at the cabinet level and throughout the federal agencies."

Mr. Trasvina said the group wanted to act quickly because of growing speculation about a behind-the-scenes battle for the post. "What motivated us was the timing," he said. "You don't go into this thing waiting." A spokesman for Gov. Richardson didn't return a call for comment Tuesday.