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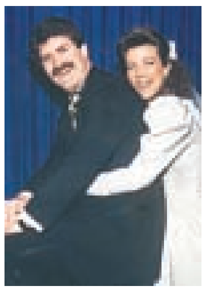

Early onset Alzheimer's ravages sufferers, families
NEWS IN DEPTH | PAGES 14-15

BofA bets on a recovery, but its shares are suffering
HEARD ON THE STREET | PAGE 20

What's News—

Business & Finance

Car makers are clamoring for government aid amid slumping profits and sales. The European Union is drafting a plan to help auto makers mired in their worst crisis since World War II. The German government is considering a request for support from GM's Opel. Page 1

■ **GM sold** its remaining stake in Suzuki Motor for about $230 million, an indication of how desperately it needs cash. Page 4

■ **HSBC struggles** to aid borrowers as it attempts to halt a surge in defaults and foreclosures, foreshadowing problems for other lenders. Page 1

■ **Citigroup's CEO** vowed at a town hall meeting to keep shrinking the bank, but his words did little to arrest a slide in Citigroup's shares Page 3

■ **UBS will overhaul** its executive-pay programs, linking them more closely to the Swiss bank's performance. Page 19

■ **Bank of America is raising** its stake in China Construction Bank, a sign it isn't hunkering down as it absorbs Countrywide Financial and Merrill Lynch. Page 19

■ **Financials led** U.S. stocks lower, as Citigroup and Goldman set plans to cut jobs and bonuses. European shares fell, led by the banking sector. Page 21

■ **Hypo confirmed** a $3.87 billion third-quarter loss and warned it wouldn't likely meet funding needs by year end. Page 5

■ **China's diesel imports fell** 46.4% in October from last year. Falling fuel demand is hurting CNPC, but stimulus spending is sparking consumption. Page 23

■ **Japan has fallen** into recession for the first time since 2001, as companies cut spending amid weak exports. Page 10

■ **Steelmakers are suspending** raw-material supply contracts as they grapple with a sudden drop in demand. Page 5

■ **Coca-Cola Amatil** rejected a US$5 billion takeover offer from brewer Lion Nathan. Page 7

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8273.58	-223.73	-2.63
Nasdaq	1482.05	-34.80	-2.29
DJ Stoxx 600	200.36	-5.20	-2.53
FTSE 100	4132.16	-100.81	-2.38
DAX	4557.27	-152.97	-3.25
CAC 40	3182.03	-109.44	-3.32
Euro	$1.2651	-0.0021	-0.17
Nymex crude	$54.95	-2.09	-3.66

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World-Wide

Pirates hijacked a Saudi-owned supertanker hundreds of kilometers off the Kenyan coast, the U.S. Navy said. The attack raises the stakes in an effort by governments to protect the world's energy-supply lines. Officials said the attack was unprecedented for its distance from shore and the size of its target. Page 1

■ **U.S. Treasury Secretary** Paulson said he is unlikely to use what remains of the $700 billion rescue fund to launch new programs, preferring to keep some money in reserve.

■ **French and Spanish police** seized ETA's alleged military chief in a predawn raid, dealing a severe blow to the armed Basque separatist group. Page 2

■ **A Russian court said** it won't ban reporters from the trial of three men accused in the killing of journalist Anna Politkovskaya, paving the way for an open trial.

■ **A top Iranian official** lauded the U.S.-Iraqi security deal, in a sign of a softening of Tehran's official stance toward the pact.

■ **Taliban militants rejected** an offer of peace talks with Afghanistan's Karzai, saying there would be no negotiations until foreign troops leave the country.

■ **Pakistan sent** heavily armed troops to escort trucks along a major supply route for U.S. and NATO forces in Afghanistan, as part of new security measures.

■ **Israel's Olmert promised** to release 250 Palestinian prisoners in a goodwill gesture to Abbas at a summit overshadowed by continued violence in Gaza.

■ **A small think tank** in Washington with middle-of-the-road policy views is emerging as a top farm team for the coming Obama administration. Page 9

■ **Greenhouse gases produced** by the 40 leading industrialized nations rose 2.3% in 2006 from 2000, showing the urgent need for a climate pact, the U.N. said.

■ **Police in Athens fired** tear gas to disperse protesters throwing firebombs during an annual march to mark the anniversary of a student uprising.

■ **At least four people died** in a 7.5-magnitude earthquake that struck off the coast of Indonesia's Sulawesi island.

EDITORIAL & OPINION

Iceland's meltdown
How Europe left its island neighbor standing all alone in the cold. Page 12

Europe's car makers push for help as sales slump

Germany considers backing Opel's loans; EU crafts package

*By **Steve McGrath** in London, **Matthew Dalton** in Brussels and **Andrea Thomas** in Berlin*

European politicians face difficult decisions about aid to the auto industry in the next few weeks, as the Continent's car makers clamor for government help amid slumping profits and sales.

The European Union is drafting a plan to help auto makers mired in their worst crisis since World War II. The plan could involve loans or subsidies; details are still under discussion. A spokesman for the European Investment Bank, the EU's long-term lending arm, said Monday that the plan is likely to run to tens of billions of euros.

In Germany, Chancellor Angela Merkel met Monday with executives of **General Motors** Corp. and its German unit, Opel. After the

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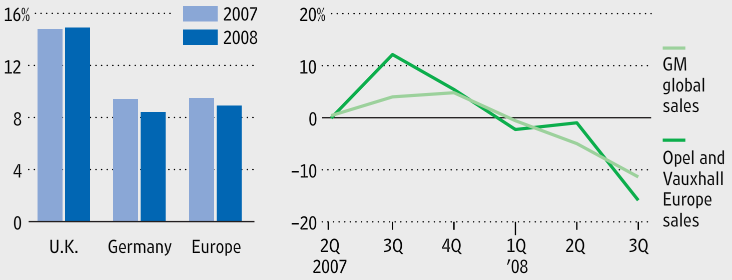
Associated Press

GM slumps in Europe

The strong position of General Motors units Opel and Vauxhall in Europe could hit local economies if they continue to falter. Monday, GM executives met with German Chancellor Angela Merkel, above.



Source: General Motors

Pirate seizure of supertanker raises oil risks

By Chip Cummins

DUBAI—The U.S. Navy said pirates commandeered a Saudi-owned supertanker hundreds of kilometers off the Kenyan coast, an attack that sharply increases the stakes in an effort by governments and militaries to protect the world's energy-supply lines.

U.S. Naval officials said the hijacking was unprecedented for its distance from shore and the size of its target. The attack appears also to be the first significant disruption of crude shipments in the region by pirates.

Highly organized sea-borne gangs, working from a network of mother ships and smaller, high-speed motor boats, have significantly stepped up attacks against merchant shipping along the coast of Somalia and in the Gulf of Aden in recent months. In Washington, Adm. Mike Mullen, the chairman of the joint chiefs of staff, said he was "stunned" that pirates had been able to seize a supertanker so far from the coast. "Certainly we've seen an extraordinary rise in the overall numbers" of attacks, he said. "I am extremely concerned by the overall number."

As world oil prices soared in recent years, Western policy makers and military strategists have grappled with how best to ensure the flow of oil from places where it's pumped to places where it's used.

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HSBC paves a pathway in deepening loan crisis

By Carrick Mollenkamp and Sara Schaefer Muñoz

In early 2007, **HSBC Holdings** PLC was one of the first big banks to signal a subprime-mortgage meltdown. Now, the bank's struggles show the next stage of the crisis: aiding borrowers to halt the surge in defaults and foreclosures.

The bank has changed the terms of 238,000 home loans with an outstanding principal balance of $28.8 billion since January 2007.

But as consumers continue to fall behind on their loan payments and the economy worsens, HSBC keeps changing the types of assistance it offers them and how it modifies their loans. It is extending help for longer periods, a concession that indicates it thinks the housing crisis has a long way to run.

"It's not a particularly easy route to chart," says Niall Booker, chief executive of HSBC Finance Corp., the U.S. consumer-lending arm of HSBC. "Our program has stood up pretty well."

The British bank's experience foreshadows problems for lenders such as **Citigroup** Inc., **Bank of America** Corp., and **J.P Morgan**

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THE WALL STREET JOURNAL.

LEADING THE NEWS

Capture deals ETA a blow

With Txeroki in jail, Basque terror group has lost main leaders

By Thomas Catan

MADRID—French and Spanish police seized ETA's alleged military chief in a predawn raid Monday, dealing a severe blow to a terrorist group that has killed more than 820 people over four decades.

The arrest, which officials said was made possible thanks to deeper cooperation over the past few years between French and Spanish anti-terrorist authorities, is a major coup for Spanish Prime Minister José Luis Rodríguez Zapatero whom critics have accused of being soft on ETA.

Miguel De Garikoitz Aspiazu—alias Txeroki, the Basque spelling of "Cherokee"—was Spain's most wanted man before he was captured in the south of France with a woman also wanted by Spanish authorities.

A renowned hardliner, Txeroki, 35 years old, was seen as the person responsible for ending ETA's peace talks with the Spanish government in December 2006, when ETA detonated a huge bomb at Madrid's airport that killed two people. He is also alleged to have trained new recruits to the group and to have killed two Spanish policemen in France last year.

The arrest means ETA has now lost its top leadership, following the arrests in France recently of the group's alleged top leader, Javier López Peña, and its head of logistics, Spanish officials said. French police now have captured 33 suspected ETA members this year in collaboration with Spanish authorities.

Spain's prime minister hailed the arrest as a major operation in the fight against ETA, predicting that the group will suffer greatly from the loss of its alleged military chief.

"The man who directed [ETA's] operations, the person who directed the latest attacks, has fallen," Mr. Zapatero said. "Today, ETA is weaker, and democracy is stronger."

ETA's aim has been the creation of an independent Basque homeland in the north of Spain and southern France. For years its members were tolerated in France, treated as political refugees because of the group's origins fighting the dictatorship of General Franco in the late 1960s.

That stance changed in the 1990s as French police began to act on information provided by Spanish counterparts and extradite ETA suspects to Spain for trial. Efforts against the group gathered pace after the terrorist attacks of Sept. 11, 2001, and particularly during the period when Nicolas Sarkozy, now France's president, was interior minister.

The flurry of joint operations has denied ETA its traditional sanctuary in the south of France, where militants were long able to live, train and plan attacks over the border in relative safety. Yesterday, Mr. Sarkozy hailed the arrest as evidence of the renewed cooperation between the two neighbors.

However, experts on ETA warn the group has proved able to regenerate following mass arrests in the past.

It has been able to recruit young Basques to carry out low-level attacks, such as the killing of a former Socialist Party local politician days before the March general election.

ETA also is suffering from a dwindling support base in the Basque Country, an autonomous region in northern Spain, particularly since the end of the 15-month cease-fire. Older ETA militants in Spanish and French prisons, as well as those in "exile" in Mexico, have begun to voice their discontent about the group's return to violence under Txeroki.

"The [political] base is completely dispirited," said Juan Frommknecht, an expert on ETA. "The older members don't believe in the armed struggle any more; they want to get into politics."

British group rejects call for wider organ donation

Associated Press

LONDON—A British expert group has rejected calls to change the country's organ-donation policy so that everyone would be considered a potential donor unless they expressly opt out.

The move has angered some health officials who point out that Britain has one of the lowest organ-donation rates in Europe. Currently in Britain—as in many other countries—organs aren't taken unless people have registered as donors or their families have consented.

Elisabeth Buggins, chair of the Organ Donation Taskforce, said the group was concerned that an opt-out system could prevent implementation of an improved public-awareness campaign. She also told the BBC there was worry among doctors that the families of patients might feel pressured to donate.

"People who have received an organ said that the concept of a gift—of that organ being freely given by the family, by the donor—is very important to them," she said.

One of the countries the task force's report looked at was Spain, which began presumed consent in 1979. However, it said, for a decade afterward the donation rate was almost flat. The rate increased only after resources were devoted to improving hospitals and an awareness campaign began.

In Britain in 2007, there were 13.2 organ donations per one million people, compared with 34.3 per million in Spain, according to the task force's report.

Paul Murphy, an intensive-care physician in the northern city of Leeds and a member of the task force, said there was concern the general public would reject the concept of presumed consent. "They find it dehumanizing, and they find it in conflict with choice, responsiveness and patient autonomy," he said.

Health authorities say Britain needs both presumed consent and more resources for a public-awareness campaign.

Evidence shows that maybe 10% to 15% more donors will come forward through presumed consent, Vivienne Nathanson, head of science and ethics at the British Medical Association, told the BBC.

About 8,000 people are waiting for organ transplants in the U.K., according to the task force. In the past year, about 3,000 received transplants but 1,000 on the waiting list died.

British Prime Minister Gordon Brown vowed the issue will be revisited despite the task force's recommendation. He said the goal is to double the number of people signed up as potential donors.

CORRECTIONS & AMPLIFICATIONS

Belarus President Alexander Lukashenko is in talks with Moscow about placing in Belarus advanced Iskander missiles that could hit targets deep inside Europe. An Economy & Politics article on Monday said the missiles could hit targets in Russia.

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.

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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

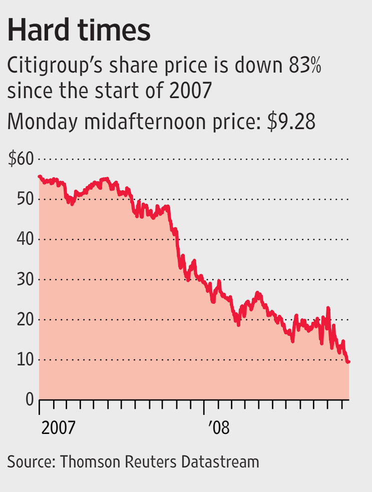
Citi CEO rallies troops

Some employees say his remarks do little to improve morale

BY DAVID ENRICH

A man stands in the window of the Citibank branch next to the Citigroup headquarters in New York, Monday

Associated Press

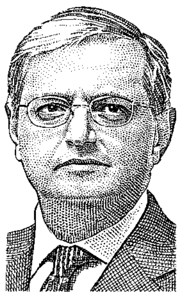


Citigroup Inc. Chief Executive Vikram Pandit vowed Monday to keep shrinking the struggling financial giant, but his words did little to arrest a slide in Citigroup's shares.

Mr. Pandit, speaking to employees at a "town hall" meeting at Citigroup's Manhattan headquarters, said his goal is to reduce the company's total work force to about 300,000 employees, compared with its third-quarter level of 352,000. About half of those planned reductions stem from previously announced divestitures and other cost-cutting measures; the remainder will come via layoffs.

Mr. Pandit and his team decided late last week to hold the meeting as Citigroup's stock price skidded into the single digits for the first time in 12 years. Meanwhile, some members of Citigroup's board, concerned about the company's apparent strategic drift, have been agitating for greater oversight of the executive suite, according to people familiar with the matter.

The bulk of Monday's presentation focused on what Mr. Pandit described as Citigroup's fundamentally sound financial position, despite four straight quarterly losses totaling more than $20 billion. He defended the company's business model and trumpeted progress at weeding out risky assets. And he said that, thanks in part to a recent $25 billion infusion from the U.S. government, "we look ... good in terms of capital," according to an employee at the meeting.



Vikram Pandit

But some employees—some crowding into an auditorium to watch in person, others viewing over Citigroup's internal Web site, and still others dialing in to listen from locations around the world—were unimpressed.

Since becoming CEO last December, Mr. Pandit, a former finance professor, has frustrated some executives and directors with his academic style and lack of communication. Employees said Monday's presentation fit that mold, dwelling on financial issues without doing much to pep up Citigroup's dispirited troops.

Mr. Pandit's main message to attendees was, "Let's just keep doing what we're doing," according to people at the meeting, which was closed to investors, analysts and reporters.

"Given how much on edge people are, you would think he would say something to alleviate nerves, or at least just give to us bluntly," one employee said. "Instead, it was a technical presentation that seemed more appropriate for large investors and large clients to calm their nerves. Employees are part of the cost side of the equation."

Citigroup didn't immediately respond to a request for comment.

Citigroup's chief financial officer, Gary Crittenden, also participated in the meeting and, along with Mr. Pandit, fielded a handful of questions from employees in the audience and around the world.

"I didn't know what Gary was talking about," another employee said. "It just got bogged down. It was flying over my head."

Citigroup's stock price, meanwhile, tumbled. Shares at one point traded at $8.90, down 6.5%, in morning New York Stock Exchange trading.

Despite Citigroup's problems, Messrs. Pandit and Crittenden sounded an optimistic tone at the town hall, which featured a 26-frame slide show. One slide explained how Citigroup is less exposed to U.S. consumer mortgages than banks like J.P. Morgan Chase & Co., Bank of America Corp. and Wells Fargo & Co., even though Citigroup's write-downs on mortgage-related assets over the past year have far eclipsed those of its rivals.

When it came to layoffs, Mr. Pandit didn't disclose what parts of Citigroup would be hardest-hit by the roughly 25,000 in expected cuts. The planned layoffs represent about 7% of the company's current work force. In the past year, Citigroup has shed about 23,000 jobs.

In response to inquiries about plans for executive bonuses, Mr. Pandit said, "We are looking at compensation," according to someone who was privy to the meeting. The issue is in the spotlight following Goldman Sachs Group Inc.'s disclosure Sunday that it won't award bonuses to its top executives.

U.S. industrial output rebounds from big drop

BY JEFF BATER AND BRENDA CRONIN

WASHINGTON—Production by U.S. industries climbed in October following an enormous drop caused by hurricanes and labor unrest, but serious weakness persists.

Industrial production increased 1.3% from September, the Federal Reserve said Monday. September's production decline was revised down to 3.7%; originally, the month's output was seen falling 2.8%.

The 3.7% drop was the largest since 5% in February 1946. The Fed attributed the revision partly to a larger estimate of the damage from Hurricanes Gustav and Ike on the chemical industry.

"I would tend to ignore the latest bounce," said Abiel Reinhart, an economist at J.P. Morgan Chase. "The rate of decline in the industrial sector is intensifying....Everything looks like it's pointing to intensifying weakness in the manufacturing sector as well as the overall economy."

Capacity utilization increased to 76.4% in October. September capacity use was 75.5%, revised down from a previously estimated 76.4%. The 1972-2007 average is 81%.

"Industrial production in September and October was substantially affected by the hurricanes and a strike in the commercial aircraft industry," the Fed said, referring to machinists striking at Boeing Co.

Excluding the special factors, total industrial production was estimated to have fallen around two-thirds percent in both September and October, the Fed said.

Hurricane-related disruptions lowered the change in total industrial production in September about 2½ percentage points, the Fed said. The return to operation in October

The September production decline was revised down to 3.7% from 2.8%.

of most of the affected facilities boosted the change in output about two percentage points.

The Fed said the aircraft strike reduced industrial production a half percentage point in September and an additional 0.1 percentage point in October.

Over the 12 months ended in October, industrial production was 4.1% lower.

Manufacturing production increased 0.6% in October, after falling 3.7% in September. Manufacturing capacity utilization increased to 73.8% from 73.5%.

Manufacturing of motor vehicles and parts fell 3.5% last month from September. It rose 1.3% in September compared with August.

China's central bank to ensure liquidity as deflation risks grow

REUTERS NEWS SERVICE

BEIJING—The risks of a downturn in the Chinese economy are growing, requiring steps to ensure adequate liquidity in the banking system, the central bank said.

In its third-quarter monetary-policy report, the People's Bank of China said that inflationary pressures had eased alongside falling commodity prices and that the bank will focus on preventing deflation in the short term.

The central bank said it will use open-market operations to help increase liquidity and will ensure that adequate credit is available in the financial system to complement the government's fiscal-stimulus policies.

"Uncertainties in the domestic economy are increasing, and the risk of an economic downturn is getting bigger," it said. "China's macroeconomic controls are facing a more complicated and fast-changing situation."

Annual economic growth slowed to 9% in the third quarter from 11.9% for all of last year, and indicators for October showed factory output and investment slowing further.

The central bank singled out the property sector as one facing troubles, cautioning that problems there could spread to other parts of the economy. However, it didn't provide specific economic forecasts.

CORPORATE NEWS

French sharply pull back their spending

Reduction in outlays poses a big threat of recession to an economy that is heavily dependent on consumption

By Leila Abboud

LE HAVRE, France—Spending cutbacks by people like auto worker Mikael Deschamps could help push France into a recession like that of other parts of Western Europe.

Mr. Deschamps is working half his usual shifts painting doors at a **Renault** SA factory near Le Havre; his monthly paycheck has dropped by about a third since September. So he shops for his family's groceries at discount stores here in Normandy, in northern France, and has stopped going to restaurants and movies. He canceled his daughter's second birthday party. After rent, insurance and utility bills, "there is almost nothing left," he says.

Mr. Deschamps' decisions are upsetting more than his family. France's economy leans heavily on consumer spending, which rose about 2.5% a year during the past decade, fueling growth even as imports outpaced exports. In contrast, German growth was export-based, while Spain's was fueled by a housing boom.

The reliance on consumption leaves France particularly vulnerable now, as manufacturers reduce working hours and lay off temporary workers. Consumer confidence is at its lowest point in more than a decade. People are putting off big-ticket purchases and spending less on services.

Getty Images

Renault is cutting output 20% until year end and has put 1,500 workers on reduced hours and pay at its **Sandouville** plant near le Havre, France, pictured last year.

Figures released last week showed France's economy grew just 0.1% in the July-September period. That was healthier than other big European economies. Germany and Italy—as well as the euro zone—reported their second straight quarter of contraction, a common definition of recession.

But BNP Paribas economist Eric Vergnaud thinks that France will be in recession soon, and that its economy will shrink 0.5% next year. "Consumers were the principal motor of France's economy in recent years," he says. "But now that is falling away."

France's problems show how even countries whose banks have so far been spared by the financial crisis are being dragged down by its wider impact. Banks have tightened lending, making it harder for businesses to get financing. Consumers, worried about their jobs, have slowed spending. That translates into lower sales for big companies in France. The auto makers' position is even worse, because of weak sales abroad. Western European auto sales were down 15.5% in October from a year earlier, and are expected to drop 7% this year and 8% next.

PSA Peugeot Citroën, France's other big auto maker, has cut production by 30% through the end of this year and plans to temporarily close many of its 14 French plants. Renault, Europe's second-biggest auto maker by revenue after **Volkswagen** AG, is cutting output by 20% until year end, and has already put 1,500 workers on reduced hours and pay at its Sandouville plant near le Havre. Further production and wage cuts are expected. "Sandouville is the tip of the iceberg," says Walid Hasni, an economist at the CGT labor union.

That's having ripple effects on suppliers. ArcelorMittal, the world's biggest steelmaker, has cut production by 30% and has temporarily closed plants around Europe. **Plastic Omnium** SA, which makes dashboards for the Sandouville plant, has trimmed assembly-line workers' shifts and cut their pay by 40%.

Faurecia SA, which makes the doors for Renault's Laguna model, also has reduced workers' shifts, cut workers' pay by 30%, and plans to trim as many as 200 jobs in the area. "Because we're an industrial area, the global slowdown is hitting us quite early and hard," says le Havre Mayor Antoine Rufenacht. The city has other industrial strengths, the mayor points out, such as its container port: "I'm convinced the city will prosper in the long run."

Right now, though, businesses are feeling the impact. The local chamber of commerce estimates that restaurant receipts are off about 15% in September and October from a year earlier. Karim and Benedicte Merzauoui, owners of the restaurant Les Agapes, have decided to hold off on hiring a waitress to help Mrs. Merzauoui serve customers. "We'd like to have some help," said Mr. Merzauoui. "But it seems a bit risky to hire now."

Cigarette and cigar sales at Tabac de la Bourse are down 10% to 20% this fall, says owner Roger Gaillard. More people are saving money by rolling their own cigarettes from loose tobacco, he says.

At Auchan, a "hypermarket" that sells everything from TVs to yogurt, sales in a special discount aisle peak in the last week of the month. "People are trying to make it to their next paycheck," says manager Stéphane Vandenweghe.

Sacrifices lie ahead for the UAW

By Matthew Dolan
And John D. Stoll

The United Auto Workers is holding the line against wage and benefit cuts, but it may not be able to escape further concessions if it hopes to get the U.S. to bail out Detroit.

Even labor's closest allies are coming out publicly to say the UAW must pitch in to sway a wary public and convince skeptical members of Congress that federal assistance for **General Motors** Corp., **Ford Motor** Co. and **Chrysler** LLC is a good investment for taxpayers.

Robert Reich, who was labor secretary under President Bill Clinton and is an adviser to President-elect Barack Obama, said the union should expect to accept broad wage and benefit cuts to assure Congress that an outlay of public dollars is essential.

"Every stakeholder needs to sacrifice," Mr. Reich said in an interview during the weekend. "That means creditors should take a haircut. Shareholders should sacrifice; executives should put something onto the table and also employees."

UAW President Ron Gettelfinger's challenge in 2007 contract talks was to get workers to accept large-scale concessions he knew had to be made. He is increasingly likely to be put in that spot again, to make his membership comfortable with givebacks once unfathomable to the 150,000 U.S. auto workers he represents.

For decades, the UAW waged bitter battles with management over wages, benefits, executive pay and jobs as its membership plummeted. Only a year ago, the union called short strikes during contract talks, and Mr. Gettelfinger suggested top auto executives earning millions were "hogs slopping at the trough of corporate greed" while trying to force workers to bear the brunt of cost cuts.

Now, with GM at risk of collapse, the UAW is standing shoulder-to-shoulder with the companies in a public campaign to plead for a federal bailout. Mr. Gettelfinger plans to testify in front of Congress starting Tuesday as the CEOs of the U.S. auto makers make their case.

"This industry is in a crisis situation not of its own making," Mr. Gettelfinger said, blaming the mortgage crisis, credit crunch and financial-sector meltdown for the auto sector's condition.

But that argument is increasingly falling on deaf ears in Washington. Sen. Richard Shelby, an Alabama Republican, said in a television interview Sunday that investing in U.S. auto makers is "money wasted" if they don't fundamentally change the way they do business. "It's throwing money down the drain and it won't work in the long run," Sen. Shelby said. "It's postponing the inevitable."

Sen. Carl Levin countered that the government actually made money on the Chrysler bailout in the 1970s. The government would lose $200 billion in taxes if the Big Three's downfall led to the loss of three million jobs, said Sen. Levin, a Michigan Democrat.

Associated Press

UAW President Ron Gettelfinger, left, **plans to testify** before Congress starting Tuesday as part of a campaign for a bailout of auto makers.

At stake for union workers could be more than 70 years of collective-bargaining gains, according to labor and bankruptcy experts. In the public's mind, "the UAW has an embarrassment of riches," said Gary Chaison, a professor of labor relations at Clark University in Worcester, Mass. "It has to show some flexibility to show that it is serious about a multibillion-dollar bailout."

The union has so far brushed aside the idea of making major concessions to secure governmental aid. Mr. Gettelfinger cited significant concessions made by the UAW in its 2007 contract with the auto makers. They include the establishment of a separate health-care trust for retired auto workers and the introduction of a two-tiered wage system that allows the Big Three to hire new workers at significantly lower wages and without fixed pensions.

But, as GM and rivals struggle to survive, Mr. Gettelfinger is said to be open to creative solutions that could be needed to pull Detroit through, according to a person familiar with the matter.

One person close to the UAW said the union may have some flexibility in delaying the cash payments the auto makers committed to pay in 2010. GM alone owes the union $7 billion for its health-care trust fund, but it probably won't have the money.

Bankruptcy is "the worst possible route that any of these companies could go down," Mr. Gettelfinger said in an interview Saturday. The union believes the auto makers wouldn't be able to recover from a bankruptcy filing and would have to "liquidate everything," he said.

In a bankruptcy, the UAW could only expect to see a "mild advantage" over other unsecured creditors in relation to preserving contracts made before the filing, according to Mark Bane, a bankruptcy attorney with Ropes & Gray in New York.

Cash-strapped GM sells its 3% stake in Suzuki

By Kenneth Maxwell

TOKYO—Highlighting its urgent need for operating cash, **General Motors** Corp. said Monday it sold its remaining 3% stake in Japan's **Suzuki Motor** Corp. on theTokyo stock market for about $230 million.

GM said the move was "based on a mutual agreement." The Japanese compact-car maker said it was mindful of GM's need to secure funds as the company reels from a slump in auto sales in its major markets, as well as high operating costs.

The U.S. auto maker said it sold its Suzuki shares at 1,363 yen ($14.03) a share, matching Monday's closing price on the Tokyo Stock Exchange. That is nearly 5% below the stock's 25-day moving average and less than half its high for the year.

GM and Suzuki work together on developing hybrid and fuel-cell technologies. They also jointly own a Canadian manufacturing operation and cooperate in other spheres.

"We highly value our strategic relationship with Suzuki," GM Chief Executive Rick Wagoner said in a statement." This action will have no impact on our existing bilateral business relationships."

Earlier this month, GM reported a $2.5 billion loss for the third quarter and said it is seeking $5 billion in cost cuts, as well as new financing from banks, private investors and through a government rescue. GM warned earlier this month it could run out of operating cash by the end of the year.

GM warned that its bruising third quarter—it burned through $6.9 billion in cash—had left it with only a thin cushion between its current cash reserves and the minimum funding requirements for day-to-day operations.

Pirates prey on Blu-ray

Bootleg movie format tries to capitalize on consumer confusion

By Geoffrey A. Fowler

Geoffrey A. Fowler/The Wall Street Journal

Pirated discs seized by Chinese authorities used a movie format that is a notch below Blu-ray's technical standards but is hard for many viewers to spot.

HONG KONG—Movie pirates are going after Blu-ray, using a technological twist that makes their illicit copies both cheap to make and tough for consumers to spot.

Pirates are taking advantage of the fact that many viewers can't tell the difference between Hollywood's high-definition, higher-priced Blu-ray movie format and a bootleg format—called AVCHD—that's a grade lower: AVCHD uses 720 horizontal lines of resolution instead of Blu-ray's 1,080, but still offers a sharper picture than an ordinary DVD on high-definition television sets.

The movies are pulled off Blu-ray discs using easily available software. Because of the lower resolution, they can be put on ordinary blank DVDs instead of more costly blank Blu-ray discs. That makes them quite profitable for pirates to make, warns the Motion Picture Association, the U.S. industry group that battles piracy on behalf of the studios owned by **Walt Disney** Co., **Viacom** Inc., **Sony** Corp., **News** Corp., **Time Warner** Inc., and **General Electric** Co.

"We are concerned and are assigning priority to this issue," said Mike Ellis, the Asia-Pacific managing director for the MPA.

Some **eBay** Inc. merchants are warning customers to look out for counterfeit Blu-ray discs, or ordinary DVDs passed off as Blu-rays. One tip-off: Real Blu-ray discs attract fingerprints more easily than the pirated discs.

The industry took notice last month when authorities raided a big stash of the new pirated discs in China, which is often at the leading edge of piracy trends. Authorities in the southern Chinese city of Shenzhen unearthed a pirated warehouse collection with 800 discs, with titles ranging from "Harry Potter and the Philosopher's Stone" to "Transformers."

"Pirated DVDs from this region...have been exported all over the world in the last few years. These syndicates are very quick to spot market opportunities," said Mr. Ellis.

While a legitimate Blu-ray discs costs about $30, a pirated Chinese disc goes for as little as $7. The MPA estimates that within the next six months, the faux discs could account for 10% of Chinese piracy. The association has said that overall, its member companies are losing $224 million a year from piracy in China.

The new piracy threat comes as the industry tries to push Blu-ray to compensate for softening sales of regular DVDs. Entertainment companies hope consumers will upgrade their libraries to the newer discs. In the four weeks ended Oct. 26, Blu-ray discs accounted for 6% of the home-video market, according to Nielsen VideoScan. Retailers and electronics companies recently cut prices on Blu-ray players to spur adoption.

The pirate discs haven't yet appeared outside of Asia. But the industry worries they could find a market in places with lower penetration of broadband Internet access. In those markets, downloading high-definition video files—legitimate or illegitimate—can be lengthy and cumbersome.

"When we created the specifications for Blu-ray, we were very serious about trying to stem the tide of pirate discs regardless of where they were in the world," said Andy Parsons, a senior vice president at **Pioneer Electronics** Inc.'s Home Entertainment Group and the U.S. chairman of the Blu-ray Disc Association Promotions Committee.

The association built two layers of copyright protection into their discs. One layer unique to Blu-ray, called BD+, checks to make sure that the disc isn't being played somewhere it shouldn't be. "To make a pirated Blu-ray disc is pretty difficult," said Mr. Parsons.

Pirates use software to pull high-definition video off Blu-ray discs. One software company, **Slysoft** Inc., claims to have cracked Blu-ray's protection software last year and sells a program to extract Blu-ray movies called AnyDVD HD for the equivalent of about $100. Slysoft said in a statement in March that it enabled "backup security copies of Blu-ray discs." The U.S. Digital Millennium Copyright Act bans DVD copying, but Slysoft has said its software is legal in Antigua and Barbuda, the Caribbean nation where it is based.

Mr. Parsons said he was aware of Slysoft's claim but declined to comment on it. Slysoft didn't respond to requests for comment.

The technical protections built into Blu-ray can be changed by encoding a software update onto new Blu-ray discs. But those updates, too, will be cracked, said Peer van Heuen, head of SlySoft's high-definition technologies, in an earlier press release.

—James T. Areddy in Shanghai contributed to this article.

Steelmakers squeeze raw-material suppliers

By Robert Guy Matthews

Steelmakers are suspending and renegotiating contracts with their raw-material suppliers as they grapple with the sudden drop in demand for everything from cars and appliances to bridges and buildings.

Some customers want suppliers to cancel or postpone deliveries. Others are simply refusing deliveries and buying their coal, iron ore and scrap steel on the spot market, where prices have fallen below long-term-contract prices.

The unilateral moves put suppliers in a squeeze. If they don't agree to delay shipments or lower prices, they could be left with no sales at all. At Chinese ports, ships laden with unwanted scrap metal sit stranded while scrap sellers scramble to find new buyers. The alternative, sending the unwanted scrap back to the U.S, is cost-prohibitive.

ArcleorMittal sent a letter to its German scrap-metal suppliers, who essentially are beholden to the world's biggest producer of steel, saying the steelmaker has been forced by the global downturn to suspend contracts with the suppliers as of the end of last month. ArcelorMittal didn't confirm the existence of the letter, which was reviewed by The Wall Street Journal, but said it "has taken voluntary, prudent and responsible steps to align supply with demand....We announced on 5 November we have suspended some raw-material deliveries."

Likewise, India's state owned **Rashtriya Ispat Nigam** Ltd. wrote to several of its metallurgical-coal suppliers this month, asking them to cut prices 68% for the contract year ending next June. The steelmaker said it hadn't received a response as of late last week.

The U.S.-based Institute of Scrap Recycling Industries, which represents 16,000 companies in the U.S. and abroad that collect and resell metals, paper and plastics, met this month with the U.S. Commerce Department to discuss how Washington could protect and enforce contracts. The Institute's main complaint involved Chinese scrap buyers who are canceling orders and insisting on renegotiating prices at ports after deliveries arrived. Institute President Robin Wiener estimated that busted contracts with Chinese buyers are costing his members "hundreds of millions of dollars."

Generally, it is easier—and less expensive—to renegotiate contracts instead of going through the courts to enforce them, which can take years.

Buyers of scrap steel and other raw materials such as iron ore and coal need less of those products because demand for autos, appliances and buildings has decreased sharply. As demand has fallen, so have spot prices, which are frequently less than contract terms. Iron ore, for example, currently sells for about $70 a metric ton on the spot market. The contract price is about $90 a metric ton. That looked like a good deal when the contract was negotiated earlier this year and strong demand put the spot price at about $180 a metric ton. Scrap prices vary according to the metal and the quality. But many contracts for scrap steel were formed when spot prices were triple what they are now.

That means as steelmakers look to cut costs in the face of plunging demand, they prefer to buy ingredients on the spot market. But doing so involves getting out of long-term contracts.

Rather than have some customers walk away from contracts, the world's biggest provider of iron ore, Cia. **Vale do Rio Doce**, said it is trying to renegotiate volumes, but not prices. It did as much with Arcelor-Mittal, CVRD said.

BHP Billiton, another large iron-ore producer, said some of its smaller customers, who are having difficulty obtaining credit, are trying to buy iron ore on the spot market and attempting to alter contract terms. "Many are saying I want to take the tons, [but] please don't ship it in December, ship it in April," said Alberto Calderon, BHP's chief commercial officer. BHP said it is working with those customers and selling the iron ore contracted for December delivery on the spot market—at below-contract prices. BHP said it is generating less revenue than expected on the iron ore but is still making a profit on it.

Australian iron-ore producer **Mount Gibson Iron** Ltd. said earlier this month that three of its customers had defaulted on their contracts and refused shipments. As a result, the company had to find new customers, who agreed to buy the iron ore, but at a lower price.

Hypo posts loss, warns on liquidity

By William Launder

German real-estate financier **Hypo Real Estate Holding** AG confirmed its €3.05 billion ($3.87 billion) net loss for the third quarter and warned that recent measures to restore its liquidity would likely be insufficient to meet its funding needs by year end.

Hypo said its outlook for the fourth quarter and into 2009 remains grim and that further write-downs were likely.

"The unparalleled financial crisis can clearly be seen in the figures for the period," Chief Financial Officer Markus Fell said. "We are predicting an extremely negative consolidated result for the whole of 2008."

The Munich lender said its liquidity requirements for 2008 will likely exceed the €50 billion it has lined up from the German central bank and a consortium of private banks. The company's needs will depend on market behavior, interest rates and foreign-currency effects, it said.

Hypo released provisional third-quarter results last week, and Monday it confirmed the net loss, adding that its pretax loss came in at €3.1 billion, compared with a €237 million pretax profit a year earlier. The company didn't provide an updated comparison figure for last year's third-quarter net profit.

Hypo's loss provisions for the quarter surged to €177 million from €17 million a year earlier, while its core capital ratio declined to 6.8%. Impairments at its Irish public-finance unit, Depfa, reached €2.48 billion, including €2.2 billion in goodwill write-downs.

The company's net trading loss also widened, to €349 million from €73 million a year earlier. Hypo's trading portfolio had a €43 million exposure to Iceland and booked a €175 million impairment charge related to the bankruptcy of Lehman Brothers Holdings Inc.

Hypo said it doesn't plan to pay a dividend for 2008 or in subsequent years, based on the conditions of its participation in the German government's stabilization fund.

In October, Hypo became the first major bank to tap the fund until its previously arranged €50 billion bailout was finalized. The bailout became available Nov. 13, Hypo said, and replaced an initial €35 billion and €15 billion bridge facility.

Chief Executive Axel Wieandt said the company's priority over the medium term was to refinance itself through the capital and money markets, although it needed the emergency rescue facilities to meet its funding needs.

Eight of Hypo's supervisory-board members have resigned and will be replaced with seven new members, including Michael Endres, who is likely to be nominated as supervisory board chairman, the lender said.

UTV to cut broadcast investment

By Romit Guha

BANGALORE, India—**UTV Software Communications** Ltd. plans to cut jobs and slash investment in its broadcasting unit by as much as 30%, or more than two billion rupees ($41 million), to prepare for falling advertising revenue as the economy slows.

The move will help the company trim its estimated losses from UTV Global Broadcasting Ltd. in the fiscal years ending March 31, 2009, and 2010, the parent company said Monday in a notice to the Bombay Stock Exchange.

UTV now expects the unit to break even in fiscal 2011, two years ahead of schedule. The company had planned to spend 6.6 billion rupees to seven billion rupees in broadcasting operations over two to three years. Analysts fear that Indian companies, under pressure to cut costs amid tight liquidity, will lower spending on advertisements. That would hurt broadcasters, who get about 70% of their revenue from ads.

Mumbai-based UTV operates its businesses under three categories: content, which includes television production and production and distribution of movies; new media, which includes gaming and animation; and broadcasting, which runs TV channels.

UTV Chief Executive Ronnie Screwvala in October said he expects the company's ad revenue to fall about 10% to 15% this fiscal year from fiscal 2008.

Walt Disney Co. (Southeast Asia) Pte. Ltd., a subsidiary of U.S.-based **Walt Disney** Co., in February bought a 15% stake in UTV Global Broadcasting for 1.19 billion rupees. UTV Software simultaneously invested 2.4 billion rupees for a 75% stake in the unit.

CORPORATE NEWS

Associated Press

Vijay Mallya, chairman of Kingfisher Airlines

Flying low

Kingfisher Airlines' 52-week share performance on the Bombay Stock Exchange

Monday's close: **28.15 Indian rupees**

52-week change: **down 82%**

Source: Thomson Reuters Datastream

Kingfisher cites interest

Indian airline says foreign carriers may seek to buy stake

By Santanu Choudhury And Nitin Luthra

NEW DELHI—**Kingfisher Airlines** Ltd., which is looking to raise cash, said Monday that several international carriers are interested in buying a stake in the Indian airline but declined to provide details.

Any potential deal remains a far cry, analysts warn, noting that current regulations prohibit overseas airlines from owning a stake in an Indian airline.

Billionaire Vijay Mallya, whose diversified conglomerate, **UB Group**, controls Kingfisher, has asked the federal government to relax the current norms, saying it would help secure the future of India's aviation. The industry is currently reeling under heavy losses.

"I have received several expressions of interest from foreign airlines, as the Kingfisher Airlines network is unparalleled," Mr. Mallya said, without elaborating.

Kingfisher previously said it wanted to sell a stake to an overseas carrier to raise money in the face of high jet-fuel prices and lower passenger traffic.

As high oil prices earlier this year pushed up airline-ticket prices, travelers in India began to shun air travel for rail and road transport. The global economic slowdown also has hit business-class travel, forcing Kingfisher and other carriers to cut flights, defer the delivery of new planes and consolidate among themselves to reduce costs.

While India is viewed as a growth market for air travel, local carriers in the current tough environment are forecast to post a combined loss totaling $1.5 billion for the current fiscal year ending March 31. Indian carriers flew 34.56 million passengers during January-October, down 1.3% from 35 million a year earlier.

Kingfisher, which operates full-service carrier Kingfisher and budget airline Kingfisher Red, had a net loss of 6.41 billion rupees ($131.4 million) in the fiscal first half, ended September, and deferred its overseas expansion plans because of the global economic slowdown. The losses led the airline to form an unexpected cost-cutting alliance on Oct. 13 with rival **Jet Airways (India)** Ltd. Kingfisher operates a fleet of 85 Airbus planes.

A report in Monday's Economic Times said that Kingfisher, formerly known as Deccan Aviation Ltd., is in exploratory talks with international airlines for selling as much as a 25% stake. The report said the discussions involved **Singapore Airlines** Ltd., **Virgin Atlantic Airways** and **British Airways** PLC.

Singapore Airlines and Virgin denied the report. A spokeswoman for British Airways declined to comment but noted that foreign airlines are forbidden from investing in Indian carriers.

Kapil Kaul, who heads the New Delhi office of the Centre for Asia Pacific Aviation, a consultancy based in Sydney, expressed doubts about Kingfisher securing a partner easily. "The policies [against foreign ownership] today are very much set. I don't see them changing soon," he said. "It's a market where every major foreign carrier would love to have a foothold, but for Kingfisher, this is primarily about capital."

Shares of Kingfisher gained as much as 20% on news of the possible stake sale. They closed 6.6% higher at 28.15 rupees on the Bombay Stock Exchange. The carrier's shares are down 90% since January.

—Daniel Michaels in Brussels contributed to this article.

China firm's troubles reveal risks

By Rick Carew

HONG KONG—Troubles at a once-highflying Chinese financial firm show there can be pitfalls as well as promise in private-equity investment in China.

Carlyle Group, **Citigroup** Inc., **General Electric** Co. and the Asian Development Bank in recent years invested a total of more than $100 million in **Credit Orienwise Group** Ltd. Debt investors bought $100 million in bonds of its subsidiary, China Orienwise Ltd., underwritten by Morgan Stanley and traded in Singapore.

U.S. investors were drawn to the growth prospects and business model of Credit Orienwise. Founded in 1999, the company found a niche guaranteeing loans to fast-growing private Chinese companies and in other areas underserved by China's state-run banks. Credit Orienwise was founded by Zhang Kaiyong, the company's chairman.

Now, auditors Deloitte Touche Tohmatsu question the company's ability to continue as a going concern, and Credit Orienwise has acknowledged allegations of fraud within the company. The company posted a loss for the first half of this year. Directors representing the foreign investors have resigned.

"I admit we have some problems, but those problems won't change our corporation fundamentally," said Song Li, a spokeswoman for Credit Orienwise. Ms. Song said Mr. Zhang couldn't be reached.

The U.S. firms and the ADB declined to comment on specifics. GE said it wouldn't comment "since we are no longer on the board" of Credit Orienwise and its subsidiaries. The ADB said it remains a shareholder and treats allegations of fraud "extremely seriously."

Nearly four years ago, the ADB paid about $10 million for a 5.8% stake in Credit Orienwise. A Citigroup-backed private-equity fund, Citigroup Venture Capital International, invested about $25 million in late 2005 for a 14.1% stake. Carlyle's Asia Growth Partners III fund acquired a 13% stake in March 2006 for about $25 million. GE Commercial Finance invested about $50 million in September 2007 for an 8% stake. Mr. Zhang's holding company owns almost 54%.

The first public hint of possible problems came this September. In a filing with the Singapore Exchange, Credit Orienwise said its board had established a committee comprising directors representing the foreign investors to look into fraud allegations at the company. It also said the company had obtained a court injunction freezing the assets of its founder and chairman, Mr. Zhang, up to an undisclosed amount. The company didn't disclose further details and Mr. Zhang hasn't commented.

The four foreign directors resigned in October, according to a company statement to the Singapore Exchange, dissolving the committee looking into the fraud allegations without issuing any findings. In the statement, the company said a general manager of one of its units was suspected of forging documents and illegally granting guarantees for a "significant" amount of loans. It said the manager had resigned, his whereabouts were unknown and the case had been reported to the police.

In the October statement, Credit Orienwise said these issues will have "a serious impact on the company's financial position."

—Gao Sen contributed to this article.

Pepsi, seeking to spur sales, changes ad shops

By Suzanne Vranica

Under pressure to jump-start sales, **PepsiCo** shifted the prestigious U.S. advertising account for its flagship Pepsi brand and Diet Pepsi to **Omnicom Group**'s TBWA/Chiat/Day.

The move is a big blow to the U.S. operations of BBDO, another Omnicom shop, which has handled the Pepsi brand in the U.S. since 1960.

ADVERTISING

BBDO helped the American food-and-beverage giant create some of the most successful campaigns in the industry—from its legendary TV commercial featuring pop star Michael Jackson to its slogan: "Pepsi. The choice of a new generation." In a notorious incident, Mr. Jackson's hair caught fire from special-effects fireworks during the filming of his 1984 Pepsi spot.

Other famous faces that have appeared in Pepsi and Diet Pepsi ads over the years include singers Ray Charles and Britney Spears, actor Michael J. Fox and supermodel Cindy Crawford.

The agency shift is part of a broader effort under way at Pepsi to revitalize its soda business as U.S. sales continue to slide. Colas are the biggest soft-drink category, but cola sales have declined more sharply than they have for the soft-drink market overall. Weak beverage sales were a major factor behind a limp third-quarter profit report from PepsiCo.

Pepsi-Cola volume, a measure of the amount of liquid soda sold, declined 6.6% in the first nine months of this year, and Diet Pepsi volume sank 8.1%, according to Beverage Digest, an industry publication. Rival **Coca-Cola**'s volume slipped 3.5% in the same period and Diet Coke volume fell 4.5%.

"We decided to appoint TBWA/Chiat/Day to refresh Pepsi's communications across multiple consumer touch points and to reinvigorate Pepsi's legacy of leading-edge advertising," said Dave Burwick, chief marketing officer of PepsiCo North America Beverages, in a statement.

PepsiCo spent about $130 million on U.S. ads for Pepsi and Diet Pepsi last year, according to TNS Media Intelligence. The relationship between BBDO New York and Pepsi has been one of the tightest and most prolific on Madison Avenue. BBDO will continue to handle the Pepsi account in other parts of the world, including Asia, Europe and Latin America. The firm also retains U.S. ad duties for several other PepsiCo brands such as Mountain Dew and Pepsi Max.

Pepsi is working on a wide set of initiatives to rejuvenate beverage sales in the U.S. that it plans to roll out over the next several months. They include a new logo for Pepsi-Cola, as well as efforts to tap new low or zero-calorie natural sweeteners.

Sweeping graphics changes are under way for Pepsi bottles and cans to produce a sleeker look, including an adjustment in Pepsi's traditional globe logo to make it look like a smile. PepsiCo tapped Omnicom's Arnell as its design agency for brand identity and packaging innovation.

The account shift comes as Pepsi's reputation for clever advertising has begun to wane, according to branding experts. Moreover, its rival Coca-Cola, which had struggled with its ad messages for years, has begun to reinvigorate its own advertising. Coke has recently won several prizes at the Cannes International Advertising Festival in France, including one this year for a spot featuring the Macy's Thanksgiving Day Parade in which several balloons fight over a Coke but are beaten out by Charlie Brown.

"The Pepsi brand had the edge for a long while with the "Pepsi generation" marketing but it's lost its way over the past few years," says Dean Crutchfield, a branding expert who most recently worked for Omnicom's Wolff-Olins. The brand has become "diluted." Coke, Mr. Crutchfield adds, "has come back" and "rekindled a sense of innovation."

Both Coke and Pepsi are under pressure from bottlers. "For many years one of the biggest wishes on the part of Coke and Pepsi bottlers has been for more and better marketing," says John Sicher, editor and publisher of the New York-based Beverage Digest newsletter. Mr. Sicher adds that the "Coke bottlers believe there has been an improvement recently."

PepsiCo

Supermodel **Cindy Crawford** was among the many celebrities who appeared in BBDO's Pepsi commercials.

PepsiCo, one of Omnicom Group's largest accounts, has been putting pressure on all of its marketing and advertising accounts over the past year. Massimo d'Amore, PepsiCo's U.S. beverage chief, has been shaking up marketing and the company has shuffled around its ad accounts. Dave Burwick, a veteran Pepsi marketer, recently took over marketing for Pepsi's North American beverages, including sodas and Gatorade. The company has also pulled ad duties for Gatorade, Tropicana and its Quaker Oats brands from Element 79, another Omnicom shop. TBWA landed the Gatorade account, while other duties were given to other Omnicom shops.

TBWA/Chiat/Day will place the Pepsi account in the hands of Lee Clow, Chief Creative Officer TBWA Worldwide. One of the country's best-regarded creative talents, Mr. Clow is known for his successful run of Apple ads.

"We are thrilled to have the opportunity to work on a great iconic brand," says Tom Carroll, chief executive of TBWA.

—Betsy McKay contributed to this article.

CORPORATE NEWS

Coca-Cola Amatil rejects Lion Nathan takeover bid

Unsolicited proposal, valued at $5 billion, is criticized as too low

By Susan Murdoch

MELBOURNE, Australia—Soft-drinks company **Coca-Cola Amatil** Ltd. Monday rejected a 7.61 billion Australian dollar (US$5 billion) takeover proposal by Australia's second-biggest brewer, **Lion Nathan** Ltd.

Amatil has terminated talks with Lion Nathan after the proposal failed to win the crucial support of its 30% shareholder, Atlanta-based **Coca-Cola** Co., which believes the offer price is too low. The Sydney-based Coke bottler said the offer is below recent earnings multiples paid for beverage companies.

The proposal values Amatil at 10.8 times analysts' average estimates for earnings before interest, tax depreciation and amortization in the year to Dec. 31, 2008. This compares with the 13 times Japanese brewer Suntory Ltd. paid for Groupe Danone SA's Australian and New Zealand drinks business, Frucor, and the 12.8 times paid for Australian milk group Dairy Farmers by Japan's **Kirin Holdings** Co.—Lion Nathan's biggest shareholder.

Given "a number of material deficiencies in the proposal, and the highly conditional nature of the proposal, the board of Coca-Cola Amatil has decided not to progress any further review of the proposal and has advised Lion accordingly," the company said.

Lion Nathan, which made the proposal Nov. 7, offered A$6.15 and 0.469 Lion Nathan shares per Coca-Cola Amatil share. Based on Lion Nathan's closing share price Friday of A$8.95, the proposal represents A$10.35 a share—a 25% premium to Coca-Cola Amatil's closing share price that day of A$8.25.

Shares in Coca-Cola Amatil shot up as much as 45% on the news, but ended Monday up 13% at A$9.21, falling below the offer price. Shares in Lion Nathan fell 3.4% to A$8.65.

Kirin, which earlier this year earmarked an additional 300 billion yen ($3.10 billion) to spend on expanding outside the stagnant Japanese beer market, has agreed to tip in A$3.76 billion through a placement of Lion Nathan shares — increasing its holding to 47.5% from 46.1%.

DAILY SHARE PRICE

Coca-Cola Amatil

Monday's close: **A$9.31**, up **13%**

Source: Thomson Reuters Datastream

Kirin Managing Director and Chief Financial Officer Masaharu Furumoto said he doesn't "envision a revision to the offer price....We have just entered into talks," he said.

Realizing synergies from distribution costs and overheads would benefit both Amatil and Lion Nathan, which have solid market shares, but are facing low growth.

"It's a positive deal, it's just a question of whether they can get it to happen," said Sean Fenton, a portfolio manager with Tribeca Investment Partners in Sydney.

"Beer is still a good solid market, but it's in decline in terms of volume, the ability to attract some synergies is key," he said, adding the sharp decline in the Australian dollar against the yen also makes the deal more attractive for Kirin.

Lion Nathan said a merged entity would unlock A$100 million to A$130 million in synergy benefits a year.

Combining Lion Nathan with Amatil, which made its first foray into alcohol in 2007 through a small joint venture with U.K. brewing giant **SABMiller** PLC, is also likely to step up the competitive threat to Australian rival **Foster's Group** Ltd.

However, any deal is conditional on clearance from the Australian Competition and Consumer Commission, which is likely to pay particular attention to Kirin's expanding footprint in the Australian food and beverage market.

—Hiroyuki Kachi in Tokyo contributed to this article.

Tiger Brands weighs takeover bid for fellow South African firm AVI

By Robb M. Stewart

JOHANNESBURG—Food company **Tiger Brands** Ltd. of South Africa is considering making an eight billion rand ($799.2 million) cash-and-shares offer for rival **AVI** Ltd., a move that would add brands to its portfolio and give it a stronger base for expansion into the rest of Africa.

The decision to move ahead with a bid is subject to the finalizing of funding and shareholder support, Johannesburg-listed Tiger Brands said Monday. AVI, also based in South Africa, said it hasn't received a formal bid and isn't in negotiations with Tiger Brands. "The board is unconvinced as to the commercial merits" of a tie-up, AVI said, adding that there is a high degree of risk in a merger with Tiger Brands. AVI said its board is unwilling to allow due diligence that would allow its rival access to confidential information.

Tiger Brands, which earlier this year spun off pharmaceuticals unit Adcock, has a stable of brands including Albany baked goods, Fatti's & Moni's pastas and Maynards candies. AVI's branded products range from Five Roses teas and I&J seafood to licenses to market shoes from fashion houses Lacoste, Prada and DKNY.

Tiger Brands said it has proposed offering 24 rand for each AVI share—made up of 14.40 rand in cash plus 6.989 Tiger Brands shares for every 100 AVI shares. The bid would represent a 62% premium to AVI's share price on a 30-day volume-weighted average. Tiger Brands said it already has bought 15.85 million AVI shares, or a stake of about 4.6%.

GLOBAL BUSINESS BRIEFS

IBM

Los Alamos supercomputer remains fastest in the world

A supercomputer at Los Alamos National Laboratory remained the world's fastest, narrowly edging out another massive machine at Oak Ridge National Laboratory, according to a twice-yearly ranking of the 500 largest scientific systems. **International Business Machines** Corp.'s 188 systems accounted for the most computing power on the so-called Top500 list, and it supplied machines rated first, fourth and fifth. **Hewlett-Packard** Co. moved past IBM in terms of total systems on the list, with 209 machines. **Cray** Inc. supplied the No. 2 system and three others in the top 10. **Intel** Corp. chips were used in 379 of the top 500 systems. Rival **Advanced Micro Devices** Inc. supplied chips in 59 machines, including seven of the 10 fastest.

Atos Origin SA

French information-technology services company **Atos Origin** SA ousted Chief Executive Philippe Germond and appointed former French Finance Minister Thierry Breton to succeed him as it seeks to streamline its business by shedding some operations. Atos's supervisory board appointed Mr. Breton "in order to allow the company to accelerate the rollout of its transformation plan, refocus on key businesses and reinforce its market share," the company said. Mr. Germond had previously clashed with some of the company's main shareholders. The appointment of Mr. Breton, a former France Télécom SA CEO, is effective immediately. After posting a 4.6% drop in third-quarter revenue last month, Atos Origin unveiled plans to streamline its operations.

KfW

KfW, the German state-owned development bank, said write-downs and the bailout of **IKB Deutsche Industriebank** AG drove it to a €1.77 billion ($2.25 billion) loss in the first nine months of 2008. KfW said the loss, which was almost unchanged from the €1.78 billion loss it posted a year earlier, was the result of IKB's exposure to the U.S. subprime lending crisis. The IKB bailout cost it about €1.1 billion. KfW's asset portfolio had write-downs that cost it an additional €1.6 billion, along with losses stemming from Iceland's financial collapse. KfW didn't break out third-quarter figures. Last month, KfW transferred its roughly 90.8% holding in IKB to Dallas-based private-equity firm Lone Star Funds. It hasn't released details of the deal.

Alitalia SpA

Several creditors of **Alitalia** SpA are threatening the day-to-day operations of the airline, said Alitalia's government-appointed bankruptcy commissioner, Augusto Fantozzi. During a Sunday interview on Italian television, Mr. Fantozzi said Alitalia has about €2.3 billion ($2.9 billion) in debt. He said creditors including Italian oil company **Eni** SpA are threatening to seize Alitalia airplanes, while others don't want to give Alitalia fuel "because of outstanding invoices." Separately, more than 100 Alitalia flights from Rome and Milan were canceled Monday, the eighth day of a strike, the airport-news agency Telenews reported. Pilots are protesting a takeover deal by investor group Italian Air Company, or CAI, which would involve the loss of 3,250 jobs.

Babcock & Brown Ltd.

Australian investment and advisory firm **Babcock & Brown** Ltd. and its wind-power affiliate said they sold their Enersis portfolio of wind farms in Portugal for around 2.23 billion Australian dollars (US$1.46 billion), including the value of debt. The sale to a consortium of investors led by Iberian private-equity firm Magnum Capital includes 515 megawatts of operating wind farms and some Portuguese wind energy service companies, Babcock & Brown said. The asset sales are part of a restructuring flagged by the embattled global investment group, which includes staff reductions and a winding back of many of the highly geared firm's businesses. Babcock & Brown said net proceeds from the sale will be used to pay down debt secured against other European wind assets.

Telkom SA Ltd.

Telkom SA Ltd., Africa's largest fixed-line operator, Monday said its fiscal first-half net profit fell 2.1% as operating expenses increased. In the six months ended Sept. 30, net profit declined to 3.62 billion rand ($362 million) from 3.7 billion rand a year earlier. Revenue climbed 9.9% to 30.26 billion rand, but the Pretoria-based company said expenses rose almost 17% as employee costs and payments to other operators increased. Operating revenue from Telkom's main fixed-line operations rose 2.8% to 16.57 billion rand. Revenue at **Vodacom Group** Ltd., jointly owned with England's Vodafone Group PLC, increased 14% to 26 billion rand as the operator added subscribers. Net profit at South Africa's largest mobile operator was up 2.7% at 3.69 billion rand. Telkom last week signed an agreement to exit its stake in Vodacom, selling part of it to Vodafone.

United Therapeutics Corp.

United Therapeutics Corp. said a trial for a potential high-blood-pressure treatment failed, in part because some patients weren't able to handle the full dose prescribed. News of the setback with treprostinil pushed United Therapeutics shares down about 35% in midday trading Monday on the Nasdaq stock market. Meanwhile, the biotechnology company agreed to pay $150 million to **Eli Lilly** & Co. to license the U.S. commercial rights for the active ingredient in its flagship erectile-dysfunction drug Cialis. Lilly also will buy $150 million of United Therapeutics' stock under the arrangement. The active ingredient in tadalafil has been studied for potential uses beyond erectile dysfunction. Using tadalafil for high blood pressureis under regulatory review in North America, Japan and the European Union as a treatment for high blood pressure.

Dah Chong Hong Holdings

Trading company **Dah Chong Hong** Holdings Ltd. said Monday that **CITIC Pacific** Ltd., a Beijing-backed conglomerate involved in infrastructure businesses, had terminated a discussion to sell its interest in the company. CITIC Pacific didn't say why it terminated the talks. CITIC Pacific previously said it was in discussion to sell all or part of its 56.67% stake in Dah Chong Hong shortly after it shocked the market by announcing it had incurred losses on soured foreign currency bets on the Australian dollar. Dah Chong Hong is an automobile dealer and distributor of home products.

Hennes & Mauritz AB

Hennes & Mauritz AB said sales at stores open longer than a year fell 2% in October, while total sales were up 9% thanks to store openings. Several analysts said the results were encouraging, underscoring that the fashion retailer's low prices are suited for the current economic environment. "H&M is not immune to the financial crisis, but it's holding up pretty well," Jyske Bank analyst Christian Nagstrup said, noting that the retailer has gained market share in recent months as consumers became increasingly budget-conscious. In Germany, one of H&M's most important markets, clothing sales dropped 5% in October, according to industry journal Textilwirtschaft. In Sweden, H&M's No. 3 market, October clothing sales were down 6.5%, according to the Swedish Trade Federation. H&M had 1,702 stores on Oct. 31, up from 1,490 a year earlier.

Gem Diamonds Ltd.

Gem Diamonds Ltd. Monday warned it could swing to a loss for 2008 as the global financial crisis hurts diamond prices, news that drove its shares down more than 35%. The London-based miner said that so far in the fourth quarter it has experienced a significant reduction in revenue generated from diamond sales, with large-diamond prices in October and November down 24% from the third quarter. In the first half of the year, Gem received on average $2,512 per carat for its diamonds at its tender auctions; that figure has fallen to $1,382 so far this quarter, the company said. Gem reported a $23.2 million net profit for 2007, but posted a $79 million loss for the first half of 2008. The miner also said it would cease exploration in Congo and Central African Republic.

Grupo Tremon SA

Spanish developer **Grupo Tremon** SA said Monday it has filed for creditor protection, becoming the latest casualty of the country's ailing real-estate sector. A lawyer for Tremon said three of the company's 12 units declared themselves insolvent with a Madrid court Friday. The company, which has outstanding debt totaling €1 billion ($1.27 billion), is the second largest real-estate company to default, after Martinsa-Fadesa. In mid-2007, Tremon attempted to launch an initial public offering for 35% of its capital, but it had to ditch the project last December because of the instability of financial markets. According to the prospectus from that attempt to list, Tremon's top creditors were Spanish savings banks Cajasur and Bancaja as well as Banco Pastor SA, a small regional lender.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Geithner poses a dilemma for Obama

New York Fed chief, a candidate to run the Treasury, has plenty of experience, but is tied to messy bailouts

By Sudeep Reddy

WASHINGTON—Federal Reserve Bank of New York President Timothy Geithner, a candidate to be the next Treasury secretary, has been one of the U.S.'s top firemen during the financial crisis—and that presents a dilemma for President-elect Barack Obama.

Picking Mr. Geithner, 47 years old, would give the new administration someone with a deep, personal experience of handling the crisis. He was central to the government-backed sale of **Bear Stearns** Cos. in March, the talks before the failure of **Lehman Brothers Holdings** Inc. in September, and the rescue of **American International Group** Inc. days later. For some, that also may be grounds for criticism.

"With Geithner, it's a doubled-edged sword," said Stephen Stanley, chief economist at RBS Greenwich Capital, a unit of the Royal Bank of Scotland Group that specializes in bond markets. "The reason you may like him is he has experience and he's been right at the table." At the same time, Mr. Stanley said, "he's certainly going to be judged to some degree as to how those things were handled."

The Fed's bid to save troubled insurer AIG underscores the dilemma. The Fed and Treasury jointly agreed to rescue the firm during extreme market stress in mid-September. The government took a majority equity stake in the firm, offering possible profit for taxpayers. But the firm, overseen by Mr. Geithner's New York Fed, continued to sag. A second loan last month proved insufficient. The third attempt last week pushed the total government commitment to $152 billion from $85 billion two months earlier.

Mr. Geithner "was in the room, and he had to make the decision, and I appreciate that," said Christopher Whalen, managing director of Institutional Risk Analytics, a Los Angeles-based consulting firm, a former New York Fed staffer and one of the Fed's sharper critics. But the government's approach to bailouts has confused markets and created more problems, while putting taxpayer money on the line, Mr. Whalen said.

The decision for the Obama administration rests partly on the question of what the new president wants from his Treasury secretary, and also how much the appointment needs to represent the campaign's promised "change." Mr. Geithner, young and relatively little-known, in some ways is a break from the recent past. But his role in this year's bailout complicates that picture.

Reuters

New York Fed President **Timothy Geithner** served in the Clinton Treasury.

Other potential candidates include former Clinton Treasury Secretary Lawrence Summers, former Fed Chairman Paul Volcker and New Jersey Gov. Jon Corzine, a former Goldman Sachs Group Inc. executive and former U.S. senator.

Mr. Geithner is considered a strong candidate, because of his roles throughout the Clinton administration working under Mr. Summers, and his knowledge of markets and the economy from the past five years leading the New York Fed. He also served in a key post at the International Monetary Fund after leaving Treasury at the beginning of the decade.

"Geithner would do wonderfully," said Lyle Gramley, a former Fed governor now at **Stanford Group** Co. in Washington. "He's an extremely thoughtful, very bright guy with a lot of experience in financial markets."

Mr. Geithner is known as one of the most aggressive interventionists within the current group of crisis managers, at times preferring a more forceful government response than some government officials. In the case of Lehman, Mr. Geithner didn't want to rule out a government-financed intervention in the days leading up to the firm's demise, but Treasury officials told Wall Street executives that support was off the table.

His track record with this year's bailouts shouldn't be a disqualifier, said Mr. Gramley, who believes Lehman should have been bailed out. "We're dealing with a situation in which no one has any experience, and we don't always know what to do."

In a sign of what a confirmation hearing could look like, Sen. Jim Bunning (R., Ky.), one of the fiercest critics of the Fed, earlier this year accused Mr. Geithner and other officials of missing "an awful lot of red flags" during the past decade.

"Nobody was watching the store, so it was eventually going to happen," Sen. Bunning said at an April hearing after the Bear Stearns crisis.

Mr. Geithner said at the hearing that regulators have been taking action for years to address the risks that eventually became a crisis, adding that more comprehensive action would be needed to address the problem.

"I'm not claiming that people were wise and all-knowing, or that we did everything that could have been done, but I just want to underscore the fact that we took a series of actions to try to make the system more resilient to these kinds of stress, and those things have made a lot of difference," he said. "The system would have been more fragile without those things."

China's fuel demand plummets

By David Winning
And Shai Oster

BEIJING—In signs of an economic slowdown, China said imports of diesel plunged last month, and its largest oil company warned that a sharp drop in demand is hurting its business.

China also was a net exporter of gasoline for the second month in a row, as budget-conscious drivers used their cars less. Imports of fuel oil used in power plants to generate electricity also dropped.

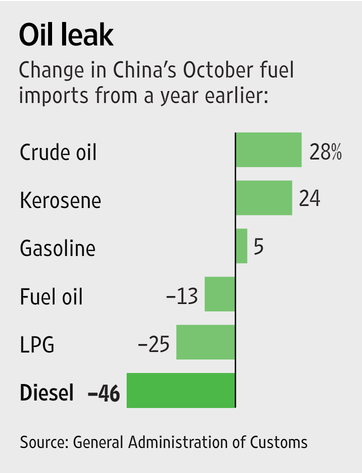
China is the world's second-largest oil consumer, after the U.S. Its rapid increase in imports in recent years helped drive the surge in global oil prices to record highs this summer, and signs of weakness in its demand have been partly responsible for the plunge in prices in the months since.

However, there are early signs that Beijing's four-trillion-yuan ($586 billion) stimulus plan, announced last week, is prompting local governments to start spending on power-hungry infrastructure projects that could bolster demand for fuel and other commodities.

Jiang Jiemin, the head of **China National Petroleum** Corp., said in a statement that demand for fuel has fallen steeply since September, pushing up stockpiles of unsold gasoline and diesel.

"As the global financial crisis and its impact on China's economy deepen, the company's business has also been significantly affected," according to the statement, published on CNPC's Web site over the weekend. CNPC is the parent of PetroChina Co., which lists shares in Hong Kong and New York.

There is mounting pressure for CNPC to lower pump prices at its gas stations below the narrow band set by the government. Price wars have begun between other filling stations in some parts of the country. More loosely regulated wholesale prices also have been falling in some parts of China.



In addition, the price of petrochemicals has fallen sharply as industrial demand withered, Mr. Jiang said.

China's diesel imports dropped to their lowest monthly level in more than a year in October, as the slowing economy ate into demand and traders saw little need to top up already high stockpiles. The country imported 80,000 metric tons of diesel in the month, down 46% from October of last year and well below the 338,838 tons imported during September, according to preliminary data from the General Administration of Customs issued Monday.

China's petroleum data often show big, unexplained short-term swings, and analysts caution against reading too much into a single month's figures. Diesel stockpiles appear to have risen sharply ahead of the Olympics, and part of the sharp drop in imports last month could be the result of that big buildup.

China's government doesn't issue data on inventories of crude or oil products held nationally, but analysts believe diesel stocks in the first nine months of the year were more than twice those in the same period of 2007.

"Many trucks use diesel as fuel, so if economic growth is slowing down, transport demand (for diesel) will drop sharply," said a Singapore-based diesel trader.

Credit Suisse has raised its estimate for China's gross domestic product growth in the fourth-quarter to 6.8% from 5.8%, based on the impact of the stimulus package.

"A wave of local government driven infrastructure investment has just taken off," said Credit Suisse economist Dong Tao in a report. The projects had been ready to go and blocked by Beijing, so started relatively quickly, he said.

A resurgence in construction could prop up demand for oil and other commodities. Diesel is used to power the heavy machinery in building projects, and more building activity would require more electricity, which could also drive up use of fuel oil in power plants.

Despite the fall in the import of refined oil products such as diesel, China's imports of crude oil in October grew at brisk pace, which could mean Chinese oil companies are taking advantage of comparatively cheap global oil prices to rebuild their stockpiles.

Some analysts also say they think that China's government is buying crude for its strategic petroleum reserve.

Tech chiefs in running for key Obama posts

By Amy Schatz
And Shira Ovide

Technology helped Barack Obama get elected president, along with donations from the tech sector, and the industry is now buzzing about whom he might pick for a new cabinet-level chief technology officer post, among other high-profile tech jobs.

Several Obama tech advisers who also raised money for his campaign are thought to be under consideration for either the CTO job or to head the Federal Communications Commission, including Don Gips, chief strategy officer at Level 3 Communications Inc., who was once an adviser to former Vice President Al Gore. Mr. Gips couldn't be reached for comment.

Barack Obama

Julius Genachowski, a venture capitalist and Obama adviser based in Washington who oversaw creation of the voluminous tech plan Mr. Obama released during the campaign, is also expected to join the new administration, possibly as CTO. Mr. Genachowski declined to comment.

Mr. Genachowski was one of Mr. Obama's Harvard Law School classmates, and he worked at the FCC during the Clinton administration under then-Chairman Reed Hundt. Mr. Hundt was recently tapped to lead a policy group that will choose candidates to fill international trade and economic agency jobs.

After leaving government, Mr. Genachowski served in several roles at the media and e-commerce conglomerate IAC/InterActiveCorp, first as general counsel and head of corporate development and later as chief of business operations.

Mr. Genachowski has been an admirer of Mr. Obama's for years. "Literally 12 years ago he said, 'There's a friend of mine you need to know. He's going to be someone someday,' " said Jon Miller, who hired Mr. Genachowski at IAC/InterActiveCorp. Mr. Miller is now a partner at technology-investment firm Velocity Interactive Group and served on the Obama campaign's tech-policy advisory group.

Obama supporter and Google Inc. Chief Executive Eric Schmidt already has quashed speculation he would be interested in the CTO job, but several other Silicon Valley figures are under consideration.

One name in the mix is Charles E. Phillips Jr., president of Oracle Corp. and a former technology specialist in Morgan Stanley's equity-research group. A former captain in the Marine Corps, Mr. Phillips was an early financial supporter of New York Democratic Sen. Hillary Clinton's presidential campaign. This fall, however, he donated about $30,000 to Mr. Obama's victory fund, a joint fund-raising account with the Democratic National Committee, and helped raise money for him in Silicon Valley. Mr. Phillips declined to comment.

Decisions about appointing a CTO or an FCC chairman aren't expected for several weeks, at least, as the campaign fills cabinet-level positions and key jobs at financial-oversight agencies that are involved in the banking-system bailout.

CAPITAL JOURNAL ■ GERALD F. SEIB

Here are picks that could help Obama bridge the partisan divide

BIPARTISANSHIP IS like a hole-in-one in golf: It's a goal often discussed yet rarely achieved.

For President-elect Barack Obama, who has promoted the idea more than most, the quest to find some bipartisanship is only beginning. It started with a meeting he was to hold Monday with his vanquished Republican rival, Sen. John McCain.

Now it moves on to personnel. Picking some Republicans to serve in his administration certainly won't be sufficient to pull the nation's capital out of its partisan rut, but it's an important early step. In his first post-election interview, with CBS's "60 Minutes" Sunday night, Mr. Obama flatly promised to have Republicans in his Cabinet, though he wouldn't say how many.

Finding meaningful Republican representation is important, not just for symbolic reasons but because the right kinds of Republicans can serve as a kind of human bridge across the partisan divide.

But which Republicans, exactly? Despite much campaign talk of moving beyond partisanship, the field isn't as crowded as many imagine. Campaign 2008, though it brought together two presidential candidates carrying the personas of politicians able to reach across traditional divides, ultimately became as partisan as most.

Thus, the list of Republicans who might logically serve in senior Obama administration posts isn't enormously long, though it could be expanded with creative thinking. Here are some leading possibilities:

■ Former Rep. Jim Leach of Iowa. Mr. Leach endorsed Mr. Obama during the campaign and was one of two people named to represent the president-elect at the weekend's Group of 20 international summit to discuss the world economic slump.

A former foreign-service officer, Mr. Leach was a big fan and backer of the first President Bush, but he drifted away from his party in his final years in Congress before losing his seat in 2006. Like many moderate Republicans, he believed he was increasingly on the fringes as his party moved rightward. An intriguing footnote: As Banking Committee chairman in the 1990s, he delivered early warnings about the dangers of underregulating hedge funds and financial derivatives.

■ Retiring Sen. Chuck Hagel of Nebraska. He traveled with Mr. Obama to Iraq earlier this year and has broken openly and thoroughly with his party and his old friend, Sen. McCain, on the war. One question about Sen. Hagel is whether the break has, in fact, been so bitter that it would limit his ability to serve as an ambassador to other Republicans.

In addition, any position Sen. Hagel takes likely would have to be in the security area. His record on economic matters is generally conservative and out of step with Democratic policies there. A job in intelligence or homeland security, perhaps?

■ Former New Jersey Gov. Christine Todd Whitman. She's another moderate Republican and served the current President Bush as administrator of the Environmental Protection Agency before resigning amid conflicts over global-warming policy.

Given her interests in the environment and alternative energy sources, which in many ways parallel those of the incoming administration, she would be a logical fit in those areas. She would also be a logical ambassador to the small group of moderate Republicans remaining in Congress, such as Maine Sens. Olympia Snowe and Susan Collins, whose support would be a boon to the Obama administration.

■ New York Mayor Michael Bloomberg. Well, technically he isn't a Republican any more. He's a political independent with a foot in both parties, and he just stirred controversy by maneuvering around a legal roadblock to allow himself to seek a third term as New York City's mayor next year. Perhaps an administration job would allow him to exit that minefield. He has in many ways become the ultimate post-partisan politician in America, running an administration known for competence rather than ideology.

■ Indiana Sen. Richard Lugar. He's a genuine conservative but also a genuine apostle of bipartisanship in foreign policy and a known Obama fan from their Senate work together. He has disavowed interest in an administration position, but a call from a president-elect is hard to resist. Like Sen. Hagel, the logical place for him would be somewhere in the national-security infrastructure. He has long looked like someone who should be secretary of state for some president, some time.

■ Political strategist Matthew Dowd. He's a longtime Republican political operative and was a top strategist for the Bush reelection campaign in 2004. But he subsequently pulled away from the Bush team and made no secret of his attraction to Mr. Obama. He would be an intriguing choice to reach out to Republicans on the political as well as policy tracks.

■ Colin Powell. As noted, the former Joint Chiefs chairman and secretary of state was the highest-profile Republican to endorse Mr. Obama. He also claims no interest in a job, and he probably means it. But he seems open to some role, and creative thinking may produce one for him.

There are other Republicans who have opened doors. Former Reagan White House chief of staff Kenneth Duberstein, a close Powell friend, also endorsed Mr. Obama, for example. Recruiting such allies would only be a prelude, of course, to the harder and longer job: courting, consulting and cajoling Republicans on matters of substance down the line.

Associated Press (3)

Richard Danzig, at left, James Steinberg and Susan Rice, who all have ties to the Center for a New American Security, are contenders for key positions in the **Obama administration**.

Think tank is talent pool

Obama's advisers from U.S. center are likely to shape policy

BY YOCHI J. DREAZEN

WASHINGTON—The Center for a New American Security, a small think tank here with generally middle-of-the-road policy views, is rapidly emerging as a top farm team for the incoming Obama administration.

When President-elect Barack Obama released a roster of his transition advisers last week, many of the national-security appointments came from the ranks of the center, which was founded by a pair of former Clinton administration officials in February 2007.

The think tank's central role in the transition effort suggests that its positions—which include rejecting a fixed timeline for a withdrawal from Iraq—will get a warm reception within the new administration.

Michele Flournoy, who cofounded the center with Kurt Campbell, a former Clinton National Security Council and Pentagon official, now serves as its president. She is one of two top members of Mr. Obama's defense transition team and is likely to be offered a high-ranking position at the Pentagon. Some Obama advisers say she could eventually be tapped as the nation's first female defense secretary.

Wendy Sherman, co-head of the Obama State Department transition team, also serves on the center's board of advisers and is expected to land a high-ranking post. Richard Danzig, a front-runner for defense secretary, is on the think tank's board of directors. Susan Rice and James Steinberg, both of whom are on Mr. Obama's short list for national security adviser, serve on its board of advisers.

Although most of the center's staffers are Democrats, its boards include prominent Republicans, and its policy proposals have largely sought to find a middle ground between standard Democratic and Republican positions. On Iraq, for instance, Ms. Flournoy helped write a June report that called for reducing the open-ended American military commitment in Iraq and replacing it with a policy of "conditional engagement" there.

Significantly, the paper rejected the idea of withdrawing troops on the sort of a fixed timeline Mr. Obama espoused during the campaign. Mr. Obama has in recent weeks signaled that he was willing to shelve the idea.

At least half a dozen of the think tank's policy experts—including John Nagl, a retired Army colonel and a counterinsurgency specialist—are expected to get tapped for midlevel national security positions.

The potential departures mean that the center could be a victim of its own success. "The challenge will be convincing our board, our funders and our staff that we are a going concern and will remain that way into the future," said Jim Miller, its senior vice president.

Mr. Miller said he is confident the center would weather the departures. Other officials said the center is planning to recruit departing Bush administration officials to fill some vacancies. The center's budget comes mainly from foundations such as the Rockefeller Brothers Fund, and it also gets some government money to study particular issues.

New presidents regularly raid Washington think tanks for experts and policy ideas. The Reagan administration drew heavily from the right-leaning Heritage Foundation after the 1980 election, while the Clinton administration hired from the left-leaning Brookings Institution.

More recently, staffers at the conservative American Enterprise Institute took senior positions in the Bush administration and drafted some of its signature policies, including the "surge" strategy for Iraq.

The success of conservative think tanks sparked the creation of some left-leaning counterparts, most prominently the Center for American Progress. Former Clinton White House Chief of Staff John Podesta started it in 2003 with tens of millions of dollars from wealthy liberals.

"The success of Brookings begat AEI. The success of AEI begat Heritage. And the success of Heritage begat CAP and CNAS," said Murray Weidenbaum, an economics professor at Washington University in St. Louis who wrote a book on Washington think tanks.

Mr. Podesta is now running the Obama transition effort. He also serves on the CNAS board of directors of the Center for a New American Security, which Ms. Flournoy founded along with Mr. Campbell, the former Clinton National Security Council and Pentagon official.

The security center remains a relatively small player, with an annual budget of less than $6 million and about 30 employees including support staff. By comparison, Brookings has more than 200 policy experts, while AEI has nearly 100 scholars and fellows.

Nonetheless, the security center enjoys an outsize public profile here, a function of its media savvy and ability to regularly attract high-profile public figures to its events. In September, it hosted Henry Kissinger, Madeleine Albright, James Baker and two other former secretaries of state at a roundtable event that was carried on CNN. The event made news when all of the officials endorsed talks with Iran, an idea backed by then-candidate Mr. Obama but opposed by Republican challenger Sen. John McCain.

Obama taps White House veterans

BY JONATHAN WEISMAN

Many of President-elect Barack Obama's staff appointees have Clinton White House pedigrees.

Gregory B. Craig, a former State Department official who also served as former President Bill Clinton's impeachment lawyer, will be named White House counsel, serving as Mr. Obama's chief lawyer, Democratic officials said.

Mr. Craig advised Mr. Obama on foreign policy during the presidential campaign and was one of the first prominent aides to Sen. Hillary Clinton to defect from her campaign during the primaries.

The Obama transition team also said Mr. Obama's former Senate chief of staff, Pete Rouse, will serve as a senior White House adviser. Mr. Rouse had previously been Senate Majority Leader Tom Daschle's chief of staff before the South Dakotan's election defeat in 2002.

Mona Sutphen, a former special assistant to Mr. Clinton's national-security adviser, Sandy Berger, was named deputy chief of staff.

Jim Messina, a veteran Senate aide and Mr. Obama's campaign chief of staff, will also serve as White House deputy chief of staff.

ECONOMY & POLITICS

Japanese economy falls into a recession

Weakness in exports spurs spending cuts; on heels of Europe

By Hiroko Tabuchi

TOKYO—Japan has slipped into recession for the first time since 2001, joining Europe in a global economic downturn, as companies cut spending amid weak exports and consumer demand failed to lift the world's second-largest economy.

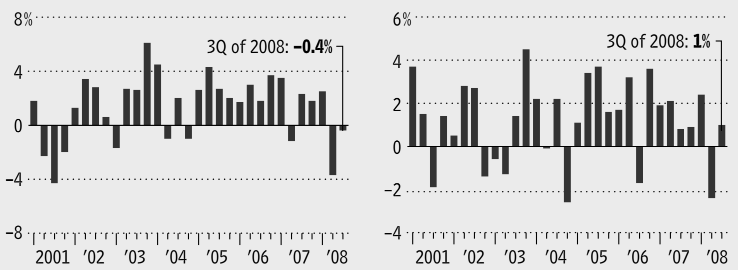
Japan's gross domestic product contracted 0.1% in the July-September period compared with the previous quarter, or 0.4% on an annualized basis, according to preliminary data released Monday. That followed a revised 0.9% contraction in GDP, or an annualized 3.7% in the second quarter.

"The GDP data show that Japan's economy is in a recession," Economy Minister Kaoru Yosano said Monday. Weakening demand, both domestic and foreign, will likely worsen conditions, he said.

Japan's recession follows six years of growth, during which its economy appeared to finally shake off a long slump. The country's financial sector has been relatively unscathed by the unfolding global financial crisis, as its banks had limited exposure to subprime mortgages.

But companies are cutting back sharply on capital investment as exports, the main driver of growth, have increasingly been hit by slowing demand world-wide. Weak growth in exports also failed to offset a sharp increase in imported goods resulting from higher energy and commodities prices. Corporate capital spending knocked 0.3 percentage point off quarterly growth, while trade shaved 0.2 percentage point off.

In recession



Source: Cabinet Office of Japan

Now, with exports expected to remain sluggish, Japan badly needs to prop up consumer demand. But that will be difficult.

Even as the economy has recovered in recent years, incomes have remained stagnant as companies shifted toward lower-cost, part-time workers and concentrated more on boosting capital expenditure and dividends. Consumers have remained extremely cautious during the economic expansion.

"In Japan, people harbor very strong fears about the future. Getting them to spend will be a very, very difficult task," says Yoshiki Shinke, chief economist at Dai-ichi Life Research Institute.

Getting consumers to spend has been a central part of Prime Minister Taro Aso's $51 billion economic stimulus package unveiled earlier this month, which includes a cash handout plan. But economists say Japan's worried consumers may save the handouts, and overall consumption might not rise.

Kaori Inoue, a housewife in western Japan, says her husband's income hasn't grown for the past four years, and shopping for her family gets more expensive as her 2-year-old son gets bigger. So Ms. Inoue, who already uses old bath water to do laundry to save on utility bills, has stepped up her penny-pinching, comparing prices at three supermarkets to make sure she gets the cheapest groceries.

"We do have savings, but I've always pretended that we don't, because you never know what's going to happen," Ms. Inoue says.

The saving mentality is especially strong among Japan's growing legions of the elderly. Spending by older Japanese also has been reduced by the disclosure last year that the state lost millions of pension records. "I feel I can't depend on anybody," says Hiroko Kawata, 57 years old, who's at a social-security office in central Tokyo to inquire about her pension records.

Retailers in Japan are scrambling to offer their goods on the cheap. In a rare move for luxury houses, Bally and Salvatore Ferragamo have offered discounts on their goods sold in Japan since earlier this year. This month, Wal-Mart Stores Inc.'s Japan unit, Seiyu, said it was lowering prices on 1,700 items.

Sluggish consumption coupled with slumping exports means Japan will need to brace for more negative GDP growth. Some economists expect the economy to continue shrinking over the next two to three quarters, with the pace of contraction possibly widening for the current quarter.

In the first 20 days of October, exports tumbled 9.9% from a year earlier, compared with an increase of 1.5% in September. Against this background, companies will continue to make hefty spending cuts.

"It's an export-driven economy being exposed to a huge external shock like this," says Kiichi Murashima, an economist for Nikko Citigroup. "The Japanese economy may be a bit more normal than Europe, but it is still in a very tough condition."

The Organization for Economic Cooperation and Development forecasts that Japan's GDP will fall by 0.1% next year, compared with contractions of 0.9% in the U.S. and 0.5% in the euro zone.

The Japanese government uses a definition for recession based on a downturn of economic indicators such as industrial production and employment, rather than the widely accepted technical definition of two straight quarters of contraction.

The government said in August that the economy had "started weakening," which was interpreted by many economists to mean recession under Japan's definition had started.

—Yuka Hayashi contributed to this article.